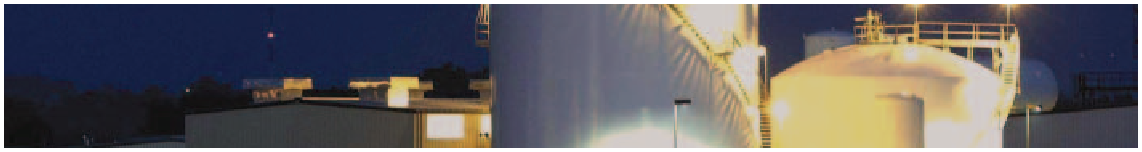


Think Globally, Act Locally:

Expanding Our Presence

in Growing Markets

and Regions

Annual Report

2009

Year Ended March 31, 2009

TAIYO NIPPON SANSO

Profile

Taiyo Nippon Sanso Corporation is the fruit of the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd., on October 1, 2004. The Company is drawing on the capabilities of its two predecessors in its drive to become a leading player in Asia and around the world.

Management Philosophy

"Market-driven collaborative innovation: improving the future through gases"

Financial Highlights

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2009	2008	**2009**	
Operating Results				
Net sales	**¥495,746**	¥507,718	**$5,046,788**	(2.4)%
Net income	**16,533**	21,930	**168,309**	(24.6)

	Yen		U.S. dollars[1]	Percentage change
	2009	2008	**2009**	
Per share data:				
Net income[2]	**¥ 41.21**	¥ 54.48	**$ 0.42**	(24.4)%
Cash dividends	**12.00**	12.00	**0.12**	—

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2009	2008	**2009**	
Corporate Position				
Total assets	**¥534,350**	¥547,237	**$5,439,784**	(2.4)%
Total shareholders' equity	**181,037**	203,696	**1,842,990**	(11.1)

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥98.23=U.S.$1, the approximate rate of exchange at March 31, 2009.
2. Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.

Contents

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding the future plans, strategies, activities and performance of Taiyo Nippon Sanso Corporation. Forward-looking statements reflect management's assumptions and beliefs based on information available as of the date of this document's publication and inherently involve risks and uncertainties. Actual results may thus differ substantially from these statements. Risks and uncertainties include, but are not limited to, changes in general economic and specific market conditions, currency exchange rate fluctuations and evolving trends in demands for the Company's products and services.

Overseas Operations

In fiscal 2009, we made concrete progress in our efforts to implement two of the key strategies outlined in our new medium-term business plan, launched in fiscal 2008, namely, to allocate management resources and strengthen our presence in growing markets and regions, and to promote an active merger and acquisition (M&A) strategy. In March 2009, acting through wholly owned subsidiary Matheson Tri-Gas, Inc., in the United States, we acquired Valley National Gases LLC, the largest independent distributor of industrial gases and welding supplies in the United States. The purchase of Valley National Gases, which has a strong marketing base in the American northeast, will enable us to establish a network of industrial gases sales bases across the contiguous United States, thereby positioning us to dramatically expand our U.S. industrial gases business.

We also look forward to considerable synergies in the areas of production and sales, with Valley National Gases distributing specialty gases and helium provided by Matheson Tri-Gas. We expect these synergies to support an annual increase in earnings of approximately $18 million.

For more information, please see pages 12 and 13.

Domestic Operations

In Japan, we concluded a contract for a joint monosilane production project with Evonik Degussa Japan Co., Ltd. The project involves the integration of monosilane gas production, purification, filling and quality management in a new joint venture. Output from the joint venture will be marketed in Japan and elsewhere in Asia exclusively by the Taiyo Nippon Sanso Group. We currently enjoy a 50% share of the Japanese monosilane gas market. This project will increase our annual production capacity to approximately 1,000 tons, enabling us to capitalize on an anticipated increase in demand for monosilane gas from liquid crystal display (LCD) and solar cell manufacturers by providing a safe and stable supply.

Owing to rising demand for monosilane in the manufacture of semiconductors, LCDs and thin-film solar cells, the annual global market for this gas is expected to reach approximately 4,000 tons in 2011, double the current level. We expect our annual sales to reach between 600 and 700 tons in fiscal 2013, and will thus proceed with the construction of facilities with the aim of launching full-scale production within three years.

For more information, please see pages 10 and 11.

To Our Stakeholders

New Medium-Term Management Plan: Year One in Review

Fiscal 2009, ended March 31, 2009, was the first year of a newly formulated medium-term business plan. During the period, the financial crisis that originated in the United States triggered a global economic downturn, leading to a sharp deterioration of business conditions for the Taiyo Nippon Sanso Group's principal customer industries, particularly from the third quarter on. Despite operating in a harsh environment, we steadfastly maintained our commitment to reinforcing our ability to serve customers in the electronics market and to expand our overseas operations. Preferring to look at the opportunities provided by the current economic situation and with a shared sense of urgency, the companies of the Taiyo Nippon Sanso Group sought to improve earnings and strengthen the Group's financial condition by promoting decisive efforts to reduce costs, thereby transforming the Group into a firmer and fitter organization. At the same time, we radically revised capital investment plans under our new medium-term business plan—initially set at ¥200 billion—and initiated measures aimed at responding to the changes taking place in our operating environment.

Taking a look at conditions in principal industries, the steel industry was hit hard by weak demand for high-end steel materials from automobile and electronic appliance manufacturers, prompting a sharp decline in production volumes that persisted from autumn 2008 forward. In the chemicals industry, manufacturers struggled to contend with higher raw materials prices and diminishing demand for high-performance plastics, which forced sharp cutbacks in the production of ethylene. In the electronics industry, declining demand for digital household electrical appliances and automotive electronics equipment, among others, triggered sharp inventory adjustments, significant production cutbacks, delayed capital investments and the integration and reorganization of production facilities, resulting in the closure of some plants.

In the Gas Business segment, demand for gases declined against a background of falling production in customer industries, with the exception of nitrogen, which continued to benefit from demand for use in eliminating the risk of explosions when operating rates are low. As a consequence, shipments of mainstay oxygen and argon fell 17% and 10%, respectively, from fiscal 2008. In our Plant and Gas Equipment Business segment, sales of air separation plants were level with the previous fiscal year, while the absence of major orders drove down sales of electronics-related machinery and equipment. In the Housewares Business and Others segment, sales of mainstay vacuum insulated sports bottles and insulated mugs were robust. As a result of all these factors, consolidated net sales slipped 2.4%, to ¥495,746 million. Operating income fell 24.8%, to ¥29,164 million and net income declined 24.6%, to ¥16,533 million.

Becoming a Global Player: Implementing Structural Reforms Under Our New Medium-Term Business Plan

While certain areas of the steel and chemicals industries are showing signs of improvement, this is seen as a temporary phase and it is likely to be some time before we see a real recovery from the economic downturn that began in the fiscal 2009 second half.

In this environment, we will continue to push ahead boldly with a variety of measures aimed at ensuring our place as a major global player in line with the four strategic themes of our new medium-term business plan, which are to accelerate growth and achieve a commensurate increase in income, promote further globalization, implement cost-cutting measures and strengthen Group management. Given the uncertain economic outlook, however, we do intend to rethink the numerical goals we have set for the final year of the plan.

We also recognize the need to implement swift structural reforms to overcome the difficulties we currently face and secure sufficient earnings. We began addressing this task in fiscal 2009. In terms of efforts in core businesses, which are responsible for the bulk of our earnings, in the Gas Business our focus is on enhancing operating efficiency and rallying Group strengths to create a solid foundation that will assure our position as a major global player despite adverse conditions. We are also endeavoring to ensure future growth for the Gas Business by focusing on maintaining appropriate sales prices; further improving efficiency; reducing costs; reinforcing management of receivables; expanding Gas Business operations overseas and increasing demand from new sectors.

In the Electronics-Related Business, our emphasis is on expanding into and increasing sales in new growth markets in Japan and overseas; strengthening our earnings structure, an initiative that includes principal affiliated companies; establishing a solid position as a manufacturer of, and formulating an overseas business strategy for, key strategic products; and reinforcing management of receivables.

In the Onsite and Plant Business, efforts are centered on maintaining plant operating rates and expanding target markets; achieving an optimum operating structure that further lowers production costs for semiconductors; stepping up risk management to guarantee stable supplies; and securing onsite plant contracts in overseas markets.

Improving Corporate Governance and Taking On New Challenges

In a harsh operating environment, the challenge of creating an effective and outstanding corporate governance system, thereby enhancing transparency and ensuring accountability, takes on increasing importance.

To date we have modified our corporate governance organization by introducing a corporate officer system to expedite management decision making and by establishing a management team suited to the nature of our businesses that consists of a Board of Directors, which has 16 members, one of whom is an outside director, and a Board of Auditors comprising four standing corporate auditors, including two outside auditors.

In terms of financial reporting and compliance, management is responsible for the entire financial reporting process, including the preparation of financial statements and the creation of a system of related internal controls. The Board of Auditors oversees the independent auditors. The Board of Auditors also maintains close contact with the independent auditors to establish the latter's autonomy from the Board of Directors, convening to hear the independent auditors' annual auditing plans in advance and to hear the results of audits conducted by the independent auditors.

As a part of our effort to establish an effective internal control framework, we have created the Technology Risk Management Committee, recognizing the need for us—as a company engaged primarily in the provision of high-pressure gases—to manage risks in four

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

categories, namely, security, safety, quality assurance and the environment. We have also created the Risk Assessment Subcommittee, which is charged with protecting our interests as an inherent part of our corporate culture by identifying, assessing and debating business risks affecting the Group's businesses.

Aware of the need to incorporate effective corporate governance and compliance into all aspects of corporate activity as the core of a solid foundation for continued survival and prosperity, management pledges to continue reinforcing such efforts. To fulfill our mission as "the Gas Professionals," we will continue striving to earn the confidence of customers in key markets and in doing so to enhance corporate value.

Our forecasts for fiscal 2010 call for consolidated net sales of ¥450,000 million, operating income of ¥27,400 million and net income of ¥13,300 million.

In closing, on behalf of the Board of Directors, we thank stakeholders for their guidance and support to date. We look forward to your continued understanding and confidence in the years ahead.

June 2009

Hiroshi Taguchi
Chairman

Hirosuke Matsueda
President

An Interview with the President

The real keys to future growth are resources, energy and the environment

Q The core strategy set forth in your new medium-term business plan is to focus your investment of management resources in growing markets and regions. Given the tremendous changes that occurred in fiscal 2009, the first year of the plan, what are your thoughts on this now?

A In the domestic market, we have seen a pronounced decline in demand across the board from main customer industries, including electronics, steel, chemicals and automobiles. If you look at it from a medium- to long-term perspective, however, the real keys to future growth are resources, energy and the environment. Our portfolio already encompasses solar cell-, LED- and hydrogen-related materials, but before we can say that we have laid the foundations for future business development we must take further steps to strengthen these businesses.

Another key strategy we are pursuing is to establish ourselves as an upstream manufacturer of helium and electronics materials gases. To this end, it is vital that we ensure stable supply capabilities and reinforce our competitiveness.

Q

What can you tell us about the other aspect of that strategy, that is, focusing investment of management resources in growing regions?

A

In the United States, where the recent financial crisis originates, we recognize that it is unlikely we will be able to avoid the impact of retreating demand. Nevertheless, as indicated by our purchase of Aeris, Inc., of northern California, sluggish market conditions and a strong yen make this a good time for mid-tier acquisitions. We see more opportunities like this arising moving forward.

In Asia, the impact of slowing economic growth is evident, but growth remains strong in China and elsewhere. We intend to further expand the scale of our operations in the region, and will continue to allocate management resources to this effort, seeing it as an important prerequisite to future growth.

Q

What steps are you taking to reinforce the foundation of your global operations?

A

The driving force behind our efforts is our strategy to expand our operations in growing regions. In addition, we are increasing collaboration with R&D organizations overseas, evidenced during the period under review by the start of joint development projects with IBM of the United States in next-generation materials gases and process technologies for semiconductors, and IMEC of Belgium in fabrication technology for high-brightness green LED devices.

To facilitate the optimum allocation of personnel, one of our most important management resources, we are concentrating on implementing training programs around the world for mid- and management-level employees developed to foster globally competent individuals. This reflects our fundamental belief that being a major global player in industrial gases means being a company in which talented individuals have the opportunity to rise to the top of the executive ladder regardless of nationality. As a major global player, our target market will be considerably broader than it is today, as will the scope of our operations. Accordingly, it will be crucial to have executives who are well-versed in business practices and customs in different countries and regions, who have experience working abroad and a solid record of achievement.

Q

Expansion of businesses is of course important, but in the current operating environment—and especially given the precipitous decline in demand from core customer industries—stakeholders will also be interested in what you are doing to enhance profitability. What steps are you taking to lower costs?

A

The entire Taiyo Nippon Sanso Group is accelerating efforts to achieve total cost reductions, including administrative costs. Just to give you a few examples, we are continuing with a project designed to increase the efficiency of distribution. We are also working to increase the efficiency of day-to-day operations at our gas production facilities, lower production costs, expand local procurement and overseas manufacturing capabilities and step up use of telecommunications systems, including teleconferencing.

In fiscal 2009, we also upgraded our backbone system, combining and facilitating integrated management of intra-Group sales, purchasing, production, accounting and personnel systems in an integrated management system. This has greatly enhanced efficiency from the perspective of ensuring the optimal allocation of human resources, physical assets and capital.

Q

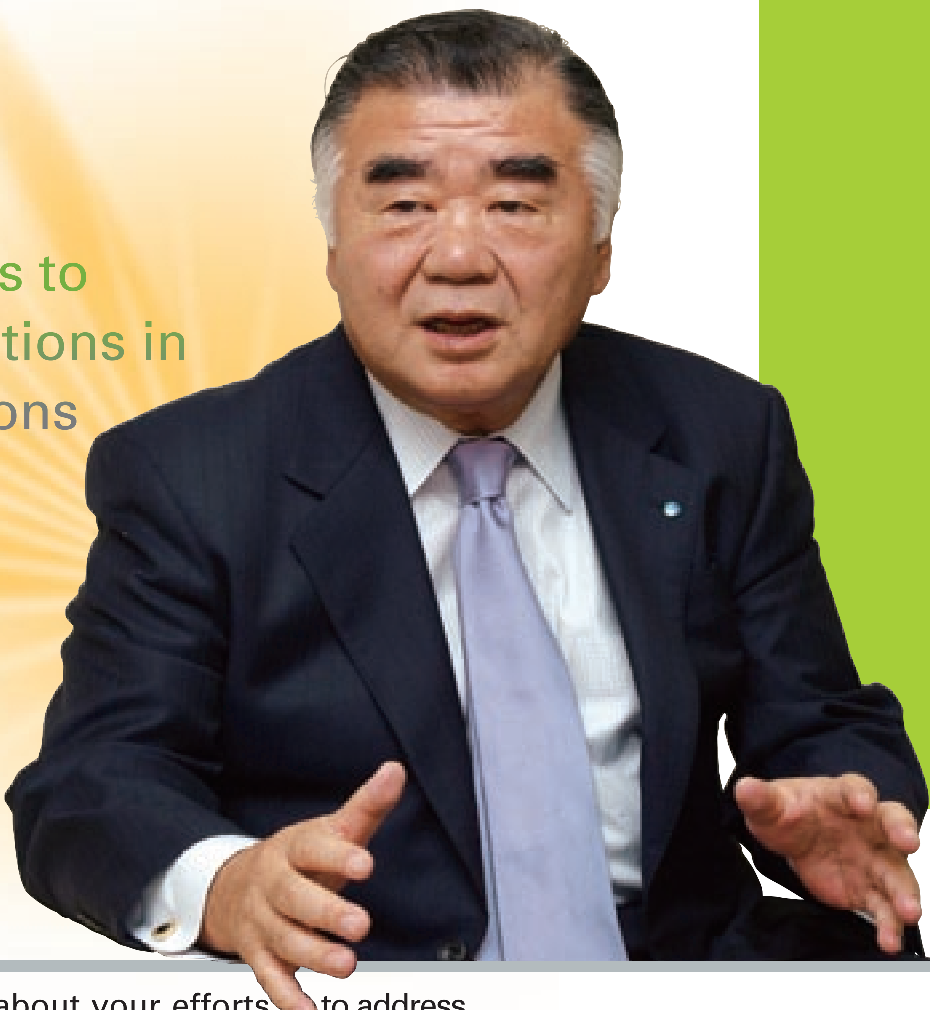
Translating stronger Group management into clearly recognizable increases in corporate value is always a key challenge for management. What are your views on this at present?

A

To date, we have focused on enhancing the performance of Group companies by reassessing their strengths and reorganizing and integrating them with the aim of enhancing coordination. Our ability to overcome the challenges of an operating environment characterized by sharply deteriorating economic conditions depends to a large degree on our own efforts to enhance our efficiency and capabilities, so I prefer to look at the current situation as a good opportunity for us to accelerate these efforts.

Of course, in a rapidly changing economic environment there is also the danger of getting too caught up in Group optimization and the need to reduce costs, and as a result losing sight of the basics of manufacturing, namely, ensuring the safety, reliability and quality of our products. The road is littered with cases of companies that have fallen into this trap and as a result lost the confidence of customers. The Taiyo Nippon Sanso Group pledges to rally its strengths and reinforce compliance, thereby earning the trust of the market and increasing corporate value—results that give a solid sense of having reinforced management—as swiftly as possible. We are confident that this will enable us to overcome the current crisis and push forward with efforts to achieve our goal of becoming a major global player.

Our strategy is to expand our operations in growing regions



Q

In closing, can you tell us about your efforts to address environmental issues—an important factor in increasing brand value?

A

We are engaged in a variety of efforts aimed at addressing the issue of global warming. In particular, we have taken steps to reduce energy consumed at gas manufacturing plants and installed load indicators (LIs) in our tanker trucks to reduce energy consumed in logistics.

Among our various operations, the most energy intensive is the production of industrial gases, such as oxygen, nitrogen and argon, which use a significant amount of electric power. CO_2 emissions from these operations account for 98% of total CO_2 emissions for the Group. We have established the Energy Conservation Subcommittee, a subset of our Environment Committee, the purpose of which is to reduce energy use per unit of production at our gas manufacturing plants (lower volume of electric power used, higher volume of gases produced).

With the aim of reducing energy consumption in logistics, we have installed liquefied gas LIs in approximately 90% of our tanker trucks in a bid to improve the efficiency of logistics practices. Eventually, we plan to install LIs in all of our tanker trucks not only to reduce distances traveled and fuel consumed, but also to facilitate energy-efficient driving, multidrop deliveries and other environment-friendly practices.

Special Feature

Rising to the Challenge:

Expanding Our Presence in Growing Markets and Regions

With the aim of establishing itself as an Asian-born major player in the global industrial gases industry, Taiyo Nippon Sanso continues to address new challenges as it embarks upon the second year of its new medium-term business plan.

The central strategy of our new medium-term business plan is to focus allocation of management resources in growing markets and regions. The major growth market we are targeting is electronics, and principal growth regions include the United States and Asia. In this year's special feature, we take a look at our progress to date and our outlook for fiscal 2010.

Three Core Strategies of Our New Medium-Term Business Plan

(Fiscal 2009–Fiscal 2011)

- Focus allocation of management resources in growing markets and regions
- Expand upstream businesses
- Promote an ambitious M&A strategy

Theme 1
Focus allocation of management resources in growing markets:
Electronics

- Noteworthy electronics industry trends
- Accelerating efforts to expand electronics-related businesses
- Strengths in compound semiconductor fabrication equipment business
- R&D aimed at differentiating products and services
- Expanding our business foundation to support future growth

Theme 2
Focus allocation of management resources in growing markets:
Advancing our U.S. industrial gases business

- Our U.S. industrial gases business today
- Our history in the U.S. industrial gases market
- Market position and key achievements
- Reinforcing our business foundation in the promising U.S. market

Theme 3
Focus allocation of management resources in growing markets:
China and Asia

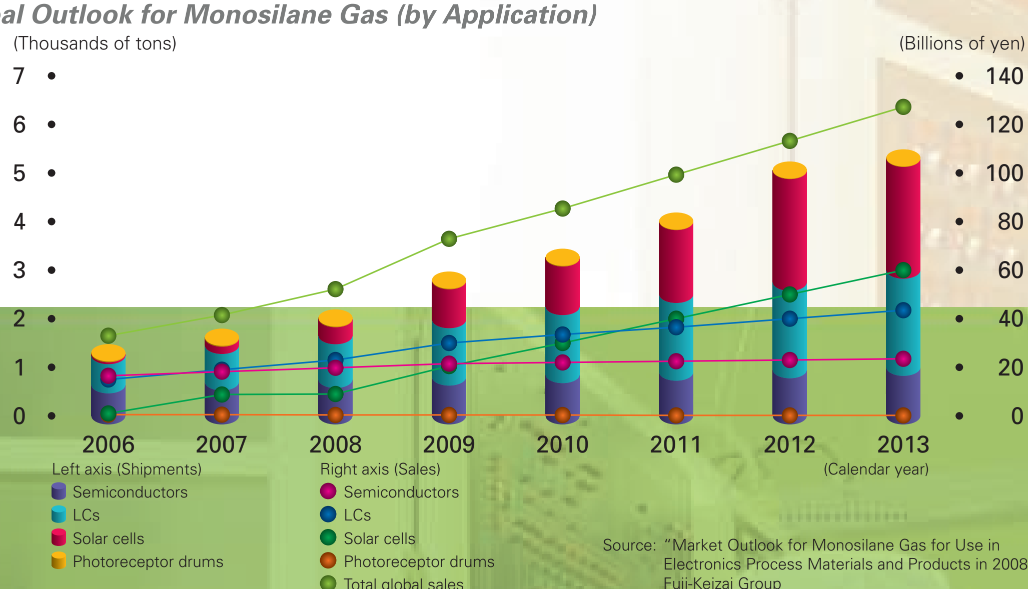
- Position of our Chinese industrial gases business
- Our history in China's industrial gases market
- Efforts to respond to customer needs in the Korean market
- Efforts to respond to customer needs in the Taiwanese market
- Operations in Southeast Asia (Singapore, Malaysia, the Philippines)
- Industrial gases market potential in other parts of Asia

Theme 1
Focus allocation of management resources in growing markets:
Electronics

Noteworthy electronics industry trends

- Advances in integration bode well for semiconductor demand, while for LCDs the trend toward ever-bigger panels offers promise.
- Global initiatives aimed at conserving energy and addressing environmental issues are expected to further bolster demand for solar cell- and LED-related materials.
- Demand continues to rise for monosilane gas, a specialty gas used in the manufacture of thin-film solar cells (the global market for monosilane gas is estimated at approximately 2,000 tons).

Global Outlook for Monosilane Gas (by Application)



Source: "Market Outlook for Monosilane Gas for Use in Electronics Process Materials and Products in 2008," Fuji-Keizai Group

Accelerating efforts to expand electronics-related businesses

- We continue to promote the focused allocation of investments in the United States, east Asia and Southeast Asia, and to accelerate efforts to secure a solid position in the market for electronics materials-related gases. Additionally, we will expand our production capacity for specialty gases to ensure stable supply capabilities.
- We are developing a comprehensive lineup encompassing specialty gases, metal organic chemical vapor deposition (MOCVD) equipment, devices, compact nitrogen generators, safe delivery sources (SDSs) and waste gas processing equipment, thereby enabling us to offer comprehensive solutions.
- We are reinforcing our supply capabilities for monosilane gas, demand for which is expected to grow for applications in thin-film transistors (TFTs), key process materials in chemical vapor deposition (CVD).
- Taiyo Nippon Sanso's sales of specialty gases for use in solar cells were approximately 230 tons in fiscal 2009. In fiscal 2012, we will launch production of these promising gases, thereby positioning us to take advantage of expanding demand.

Strengths in compound semiconductor manufacturing equipment business

- Trends in the market for compound semiconductors
  - Rising demand for LCD backlights, white LEDs for ordinary lighting and semiconductor lasers, among others, are spurring interest in large-scale mass production equipment.
  - Demand is particularly strong for use in electronic devices, notably LED backlights, which have replaced cold cathode tube backlights.

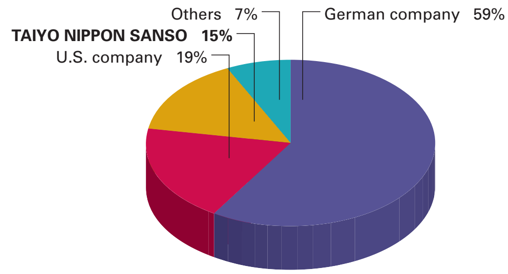
Efforts to Reinforce Compound Semiconductor Manufacturing Equipment Business

Acquired MOCVD equipment business of competitors.

Enhanced product lineup

Share of domestic market: 80%–90%

Global Market for MOCVD Equipment in 2006: Approximately ¥25 billion



Source: MLSI materials for 2006

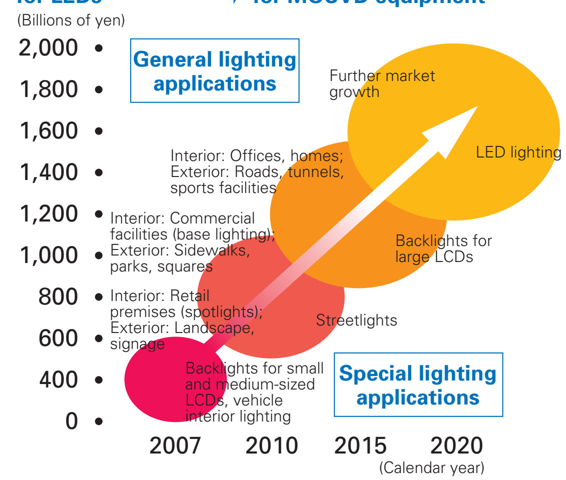
- Competitive advantages of our MOCVD equipment
  - Thanks to our outstanding gas supply technologies, our MOCVD equipment enables precise control over CVD and pressure.
  - This equipment facilitates epitaxial growth not only in decompressed, but also in high-pressure, ambient environments.

R&D aimed at differentiating products and services

- In October 2008, we commenced joint R&D with Interuniversitair Micro-Electronica Centrum vzw (IMEC) in the area of manufacturing (film fabrication) technology for high-efficiency LED devices. Realization of this goal will enhance the precision of our MOCVD equipment.
- We are also promoting the development of MOCVD equipment with 2–3 times the processing speed and outstanding throughput of existing models (in the area of compound semiconductors, we are focusing on the fabrication of blue LEDs, white LEDs and gallium nitride (GaN) devices using purple lasers).
- In the area of cutting-edge semiconductor process development, in April 2008 we signed an agreement with International Business Machines Corporation (IBM) to develop next-generation semiconductor materials and process technologies for 32 nm node devices and later DRAMs, while in October we initiated a project with Albany NanoTech Center, at the University of Albany in the United States.

Global Outlook for LEDs

Increase in demand for LEDs → Anticipated increase in demand for MOCVD equipment



Expanding our business foundation to support future growth

- At Sakai Gas Center Co., Ltd.—established in November 2007 as part of a "21st Century Industrial Complex" in the city of Sakai, in Osaka—we are currently constructing core gas production and supply facilities for a new LCD panel plant slated to open in the complex in October 2009.
- We recently launched a joint monosilane production project with Evonik Degussa Japan Co., Ltd., an affiliate of Evonik Industries AG of Germany. Production is scheduled to get underway in early 2011, with annual production capacity of 1,000 tons. Output from the project will enable us to expand monosilane gas sales in Japan and elsewhere in Asia.
- In June 2008, subsidiaries NS Engineering Corporation and Saan Engineering Corporation were merged under the name Taiyo Nippon Sanso Engineering Corporation. The new company has taken over its predecessors' semiconductor-related engineering operations, including gas equipment sales, installation and maintenance. The aims of this integration include enhancing the efficiency and competitiveness of our semiconductor equipment and engineering business, facilitating the effective allocation of management resources, leveraging synergies, rallying technological and engineering capabilities, and enhancing product quality and safety assurance, as well as cost reductions.
- In the area of specialty gases, in 2009 subsidiary Matheson Tri-Gas commenced production of hydrogen selenide (H_2Se) for use in copper indium gallium selenide (CIGS) solar cells, for which demand is expected to increase.

Theme 2
Focus allocation of management resources in growing markets:
Advancing our U.S. industrial gases business

Our U.S. industrial gases business today

- The United States is the world's largest consumer of industrial gases; growth in the U.S. market is essential for us in our bid to become a major global player. We have thus positioned the United States as one of our most important markets.
- In line with our current medium-term business plan, which came into effect in April 2008, we are seeking out promising M&A opportunities in the United States with the aim of acquiring capable regional distributors, thereby reinforcing our supply capabilities.
- We have established a production and sales network that essentially covers the entire United States.

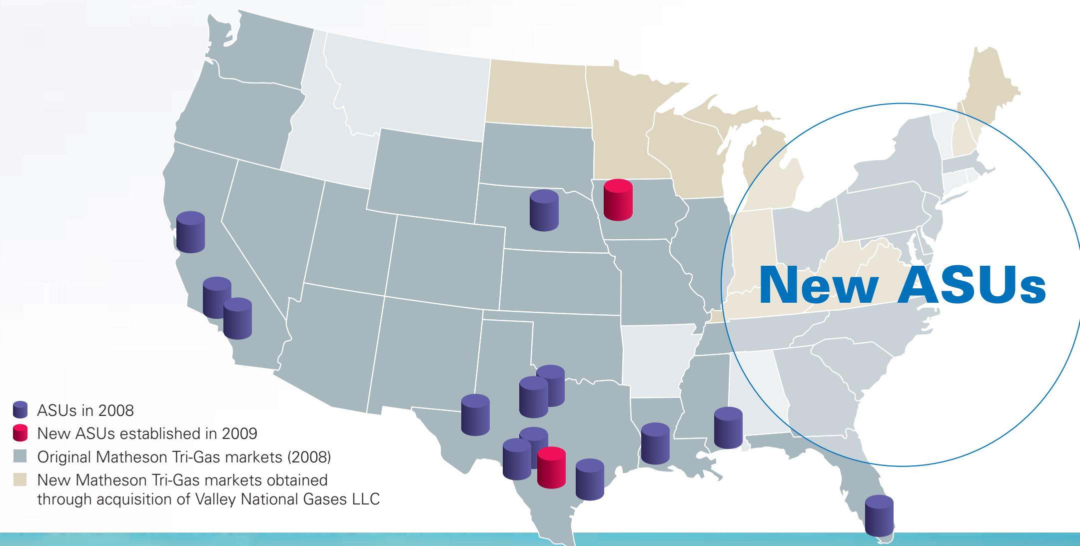
Our history in the U.S. industrial gases market

- We have viewed the United States as a promising market for our industrial gases business, which comprised general-purpose and specialty gases, since establishing Japan Oxygen Co. Ltd. in 1980.
- In 1999, we merged industrial gas manufacturer subsidiaries Matheson Gas Products Inc. and Tri-gas Inc., to create New Jersey-based Matheson Tri-Gas, Inc. Since then, we have continued to reinforce our U.S. operations as the Taiyo Nippon Sanso Group by conducting our ambitious U.S. M&A strategy through Matheson Tri-Gas.
- We have expanded our presence in the U.S. market through strategic M&A deals that have seen us acquire capable industrial gas distributors in the central-southeast, western and Pacific regions.

Market position and key achievements

- In March 2009, we acquired Valley National Gases LLC, the largest independent distributor of industrial gases in the United States, through Matheson Tri-Gas.
- This latest acquisition has given us a marketing base in the northeastern United States.
- We will expand Valley National Gases' business domain to encompass the integrated production and sale of general-purpose industrial gases by building an ASU at the company's site.
- Matheson Tri-Gas spearheaded the acquisition of Five Star Gas & Gear, Inc., which enjoys a strong marketing base in southern California, in March 2008, and Aeris, Inc., the largest distributor of industrial gases in northern California, in October 2008.
- In September 2008, we commenced operation of a helium filling station in southern California. This began with the purchase in 2006 of the helium business of the former BOC Group plc of the United Kingdom.
- In spring 2011, we plan to begin production of helium at a joint venture with a U.S. firm. Global demand for helium is centered in the United States, Europe and Asia and is expected to increase for electronics applications in all three markets.

Impact of Valley National Gases Acquisition on U.S. Business Development



Reinforcing our business foundation in the promising U.S. market

- We will continue expanding our R&D, production and sales activities in the U.S. market, and to use our U.S. business foundation as a springboard from which to accelerate efforts to cultivate operations in other markets around the world, in line with our goal of transforming the Taiyo Nippon Sanso Group into a major global player.
- Expansion efforts will encompass general-purpose industrial and specialty gases and helium. These efforts will focus on optimizing our global production network, including related facilities, seeking higher levels of efficiency and realizing synergies with other businesses.
- Against a background of rising demand for specialty gases for the electronics industry, we will launch full-scale production of H_2Se for use in CIGS solar cells.
- With the aim of accelerating decision making, we will introduce a teleconferencing system to link key bases in Japan with those overseas, including Matheson Tri-Gas's five bases.

Theme 3
Focus allocation of management resources in growing markets:
China and Asia

- As the center of the global electronics industry, Asia has emerged as a particularly promising growth market for the industrial gases sector. To take advantage of opportunities in this market, we are stepping up efforts to ensure a stable supply of products by securing sales channels, as well as by establishing new production bases and expanding facilities.
- With the number of manufacturers of solar cells entering the market expected to increase, demand for monosilane gas, a specialty gas, is expected to grow markedly in Asia.
- Moving forward, we will continue to actively foster the expansion of our operations in China and other parts of east Asia, as well as in Southeast Asia, including Singapore, Malaysia and the Philippines.

Position of our Chinese industrial gases business

- In June 2008, we established Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd., to supply industrial gases to the Dalian Changxing Island Harbor Industrial Zone, which will primarily house shipbuilding and related firms. A large-scale air separation facility with a capacity of 8,000 m^3/h, which is scheduled to come on line in 2010, is currently under construction.
- In May 2008, we acquired monosilane gas filling company Yangzhou Zhongyuan Semiconductor Gas Co. Ltd., which began operations the following month under the name Yangzhou Taiyo Nippon Sanso Semiconductor Gas Co., Ltd.

Our history in the Chinese industrial gases market

- We first set up operations in the Chinese market in 1993 with the establishment of industrial gases manufacturing and sales company Dalian Nippon Sanso Gas Co., Ltd., which was renamed Dalian Taiyo Nippon Sanso Gas Co., Ltd., in May 2005. Since then, we have actively expanded our presence to capitalize on growth in the promising Chinese market.
- Having received an order to supply industrial gases to an LCD manufacturer in Shanghai in May 2003 we established Shanghai Taiyo Nippon Sanso Gas Co., Ltd., to supply industrial gases. The following May, Shanghai Taiyo Nippon Sanso Gas began supplying industrial gases by pipeline and in October 2004 brought its main plant on line and began to offer bulk gas services.

Efforts to respond to customer needs in the Korean market

- Looking to capitalize on expected growth in demand for specialty gases from semiconductor, LED and solar cell manufacturers, in September 2006 we built a new industrial gases production facility focusing on specialty gases at an industrial estate in Asan.
- In June 2007, we established SKC Airgas Inc., in a joint venture with Korean conglomerate SKC.

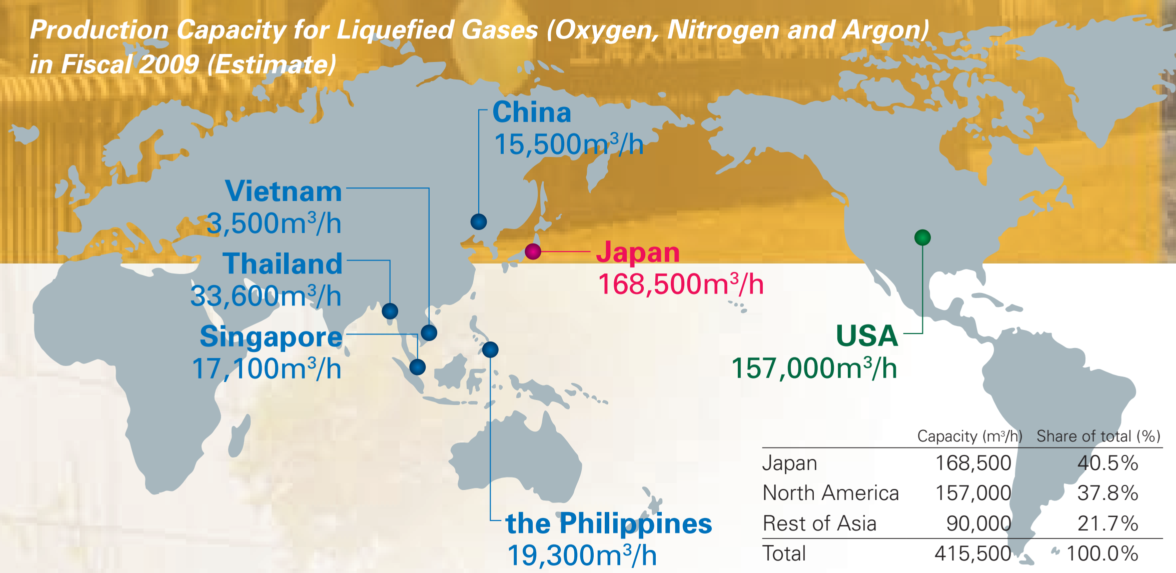
Efforts to respond to customer needs in the Taiwanese market

- Taiyo Nippon Sanso Taiwan, Inc., is currently ranked No. 2 in the Taiwanese specialty gases market. The company is pushing forward with our business into foundry, Dram, Lcd markets, in Taiwan furthermore by using our industrial gas supply technologies to meet the relevant needs of customers.

Operations in Southeast Asia (Singapore, Malaysia, the Philippines)

- Singapore industrial gases affiliate National Oxygen Pte. Ltd. (NOX) is currently expanding its storage and filling facilities for specialty gases for use in semiconductor fabrication.
- In 2008, acting through NOX's wholly owned Malaysian subsidiary Nippon Oxygen Sdn. Bhd., we built a new onsite plant in the state of Terengganu to supply industrial gases to steelmakers and petrochemicals manufacturers.
- In the Philippines, we have continuously invested in our local operations for many years and in 2008 increased our production capacity by, among others, expanding our industrial gases production facility. As this indicates, we expect demand for industrial gases to remain firm in the Philippines for the foreseeable future.

Production Capacity for Liquefied Gases (Oxygen, Nitrogen and Argon) in Fiscal 2009 (Estimate)



	Capacity (m^3/h)	Share of total (%)
Japan	168,500	40.5%
North America	157,000	37.8%
Rest of Asia	90,000	21.7%
Total	415,500	100.0%

Industrial gases market potential in other parts of Asia

- With demand for industrial gases expected to increase in the years ahead, Vietnam and Thailand are particularly promising markets.
- In Vietnam, we responded to the launch of several major steel and petrochemicals projects by expanding our industrial gases production facility and endeavored to consolidate our operating foundation in the north of the country, recently a favored destination for investments.
- Political unrest prompted a temporary lull in investment in Thailand, but the situation has improved and we are preparing to resume.
- Owing to the global financial crisis that began in the United States, growth in the markets for industrial gases in other parts of Asia has been generally sluggish in recent months. Demand from the electronics industry, particularly for specialty gases, remains on an uptrend, however, and is expected to sustain steady growth.

Segment Overview

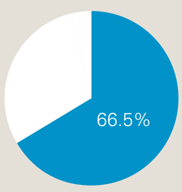
Gas Business

In fiscal 2009, shipments and sales of mainstay oxygen and argon were down from the previous period. The decline occurred despite robust results in Japan and overseas in the first half, including the positive impact of M&A activities, and was due largely to a steep decline in demand in the second half as the financial and economic crises sweeping world markets spread into a global economic downturn. The drop in domestic demand was particularly abrupt and reflected production cuts by customers in the wake of inventory adjustments.

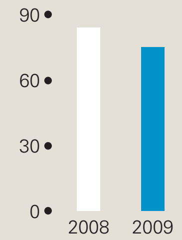
The decline in shipments and sales of oxygen reflected a sharp drop in demand from major customer industries, including steel and chemicals. Shipments and sales of nitrogen were level with the previous fiscal year, as demand remained firm, particularly from the chemicals and electronics industries, where applications include ensuring product safety, purging and enhancing product quality. Shipments and sales of argon fell, reflecting plummeting demand for stainless steel smelting and welding applications, as well as for use in production of silicon crystals, among others.

Owing to these and other factors, sales to outside customers in the Gas Business segment slipped 2.5%, to ¥329,813 million, and operating income declined 27.5%, to ¥22,449 million.

Segment Sales as Percentage of Consolidated Net Sales
Year ended March 31
¥329,813 million



Net Sales per Employee
Years ended March 31
(Millions of yen)



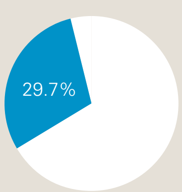
Plant and Gas Equipment Business

Despite favorable gains in orders for major projects in the domestic market, sales of electronics-related equipment fell substantially below the fiscal 2008 level. This trend reflected the sharp deterioration of economic conditions in the second half, which pushed down demand both in Japan and overseas from manufacturers of digital household electronic appliances and of the semiconductors and liquid crystals used therein.

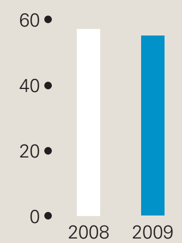
Sales of compound semiconductor fabrication equipment remained firm, although demand from manufacturers of white light-emitting diodes (LEDs) used in LCD backlights and standard lighting equipment—seen as a growth market—flagged. Inquiries regarding this equipment for major mass-production applications have since picked up again, however, and expectations remain high that orders will increase once the economy has bottomed out.

As a consequence, sales to outside customers in the Plant and Gas Equipment Business segment dipped 2.8%, to ¥147,445 million, while operating income rose 11.4%, to ¥11,587 million.

Segment Sales as Percentage of Consolidated Net Sales
Year ended March 31
¥147,445 million



Net Sales per Employee
Years ended March 31
(Millions of yen)

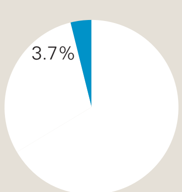


Housewares Business and Others

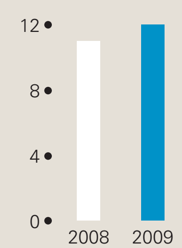
Thermos K.K. spearheads the manufacture and sale of housewares. In fiscal 2009, sales of these products were up from the previous fiscal year, reflecting brisk sales of new products and firm shipments of mainstay vacuum insulated sports bottles, personal-sized insulated mugs and thermal cookers.

As a result of such factors, the Housewares Business and Others segment reported a 4.7% increase in sales, to ¥18,488 million. Segment operating income rose 15.5%, to ¥2,232 million.

Segment Sales as Percentage of Consolidated Net Sales
Year ended March 31
¥18,488 million



Net Sales per Employee
Years ended March 31
(Millions of yen)



Note: Taiyo Nippon Sanso had a total of 8,471 employees. Of these, 528 employees in administrative and technical departments that are not assigned to a specific segment are not included in the calculations for sales per employee in each segment.

Main Products
- Oxygen
- Nitrogen
- Argon
- Medical gases
- Specialty gases
- Electronic materials gases
- Stable isotopes

Topics
- Reinforced electronic materials gases business
- Increased investments in Asia
- Completed Kawaguchi Sogo Gas Center, Japan's largest gas filling plant
- Acquired Valley National Gases LLC, the largest independent distributor of industrial gases in the United States, thereby facilitating expansion of operations across the country

R&D Highlights
- Commenced production of hydrogen selenide, used in compound solar cells
- Launched four-year joint program with IBM to develop next-generation semiconductor materials, including materials gases, and semiconductor process technologies

Main Products
- Large-scale air separation plants
- Compact nitrogen generators
- High-purity gas production equipment
- Exhaust gas processing equipment
- Metal organic vapor deposition (MOCVD) equipment
- Cutting and welding equipment

Topics
- Sought to cultivate new markets in the semiconductor fabrication field by focusing on usefulness of products in responding to environmental concerns
- In the area of electronics, promoted investment in new production facility-related project with our major customer
- Entered alliance with Koike Sanso Kogyo Co., Ltd., with the aim of establishing a development and production joint venture in the area of cutting and welding equipment
- Proceeded with construction of large-scale air separation plant in China's Dalian Changxing Island Harbor Industrial Zone with the aim of commencing production of industrial gases by the end of 2009

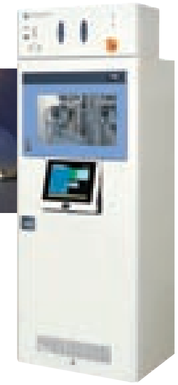
R&D Highlights
- Endeavored to materialize a large-sized refrigeration unit using neon as refrigerant
- Developed and successfully completed performance tests for new biogas concentrator developed jointly with Japan's Research Institute of Innovative Technology for the Earth (RITE), commercialization of which is slated for fiscal 2010
- Commenced joint development of high-brightness green LED device with IMEC of Belgium

Main Products
- Stainless steel vacuum bottles
- Cooking implements
- Professional-use cooking implements

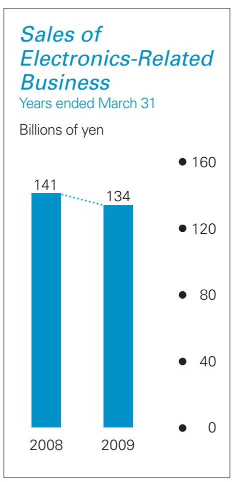
Topics
- Introduced five new designs to its lineup of highly popular insulated, vacuum sports bottles
- Launched two new insulated lunchboxes for Japanese-style boxed lunches with outstanding thermal-insulating properties
- Unveiled two new ultralight, compact models in the *Keitai Mug* line of insulated mugs
- Introduced two insulated shopping bags with high cold-insulating properties

R&D Highlight
- Continued to capitalize on proprietary thermal insulation and metal processing technologies to develop innovative products

Electronics-Related Business



Amidst advances in device integration and the use of thin films in semiconductors and the increasing size of LCD panels, and with rising demand for photovoltaic power generation as a viable alternative energy and LEDs to reduce energy consumption, electronics-related firms face growing pressure to achieve higher quality and production efficiency. Taiyo Nippon Sanso helps such firms by supplying, via pipeline, high-purity nitrogen, an inert gas that is essential to semiconductor device, LCD and other manufacturing processes. We also deliver stable supplies of electronic materials gases used in film deposition and other processes.



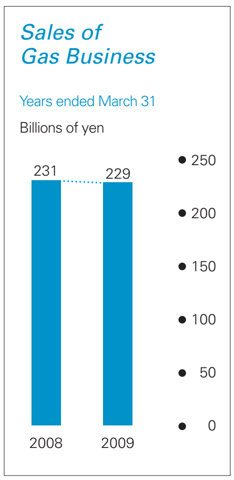
In constructing special piping, we draw on our industrial gas supply technologies to facilitate the installation of environment-friendly gas purification and abatement systems in optimal locations. We also provide remote monitoring of safety levels and design alarm systems as part of our broad range of solutions for semiconductor and LDC manufacturing processes.

We operate in Japan and around the world as a partner to electronics manufacturers. We produce and sell high-purity industrial gases, electronic materials gases and electronics-related equipment to customers in the United States, Taiwan, China, Singapore and the Philippines.

Fiscal 2009 sales	Approximately ***¥134,100 million***
Principal products and operations	High-purity nitrogen and argon Electronic materials gases, including Safe Delivery Source (SDS) MOCVD equipment Gas purification, abatement and other systems High-purity gas supply facility installation and construction
Market needs	Comprehensive gas supplies Total gas and equipment solutions
Competitive advantages	Strong ties with domestic electronics manufacturers • Close relationships with users who employ advanced technologies • Superior marketing strength through the provision of total solutions for gas and equipment • Comprehensive, world-class technologies • Engineering operations and gas center network • Supply structure covering key world markets—Japan, East Asia (South Korea, China and Taiwan), Southeast Asia, the United States and Europe
Fiscal 2009 highlights	• Commenced joint development of next-generation semiconductor process technologies with IBM • Released UR25K, a state-of-the-art large-scale MOCVD system • Commenced joint development of manufacturing technology for high-brightness green LED device with IMEC, a Belgian research organization specializing in next-generation chemical compound semiconductor technologies • Launched joint monosilane production project with Evonik Degussa Japan Co., Ltd. • Reinforced semiconductor specialty gases supply capabilities of Nippon Oxygen Sdn Bhd, a subsidiary of our subsidiary National Oxygen Pte Ltd.

Gas Business

Taiyo Nippon Sanso supplies oxygen, nitrogen, argon and a host of other industrial gases that are indispensable to advanced production activities of modern industry, including cutting, welding, combusting, melting, chilling and freezing. We supply these gases in safe forms, including via pipeline, tanker truck and cylinder.



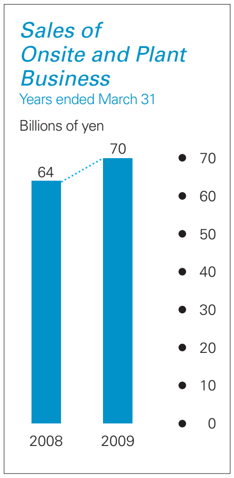
We have built a strong technological base over many years, gaining particular expertise in low-temperature, high-pressure, separation, vacuum and gas control technologies.

Drawing on these capabilities, we provide a diverse range of equipment for the manufacture, supply, transport and storage of various types of gases. In these ways, we help industrial customers enhance their productivity and quality while supporting efforts to improve the environment. In addition to maintaining the largest industrial gas supply network in Japan, we are expanding our manufacturing and supply bases in the United States as well as in China and other parts of Asia.

Fiscal 2009 sales	Approximately ***¥228,800 million***
Principal products and operations	Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium and other industrial gases Gas supply (filling, transport, storage) equipment, facilities installation and construction Gas equipment (including for cutting, welding, combustion and freezing)
Market needs	Use of gases to raise productivity, enhance quality, save energy and enhance the environment Optimal, stable, economic supply of gases
Competitive advantages	Japan's largest and strongest industrial gas producer, offering increased cost advantages and price competitiveness • Production and sales capabilities Balanced, nationwide network of production bases Liquid gas production capacity equivalent to 30% of the domestic market • Logistics capabilities Approximately 500 filling stations capable of serving approximately 40% of the domestic market Tanker truck fleet and extensive network of shipping bases Growing marketing network, including around 250 sales agents Further strengthening of operations in China and other parts of Asia, as well as in the United States • Currently involved in project to manufacture industrial gases in China's Dalian Chanxing Island Harbor Industrial Zone • Established unassailable market positions in the Philippines, Vietnam and Singapore • Promoting M&A activities and construction of gas production facilities in the United States High market shares for other industrial gases • In Japan, number 1 in carbon dioxide, number 1 in helium and number 2 in acetylene
Fiscal 2009 highlights	• Acquired Valley National Gases LLC, the largest independent distributor of industrial gases in the United States • Acquired Aeris, Inc., the largest gas manufacturer in northern California • Completed Kawaguchi Sogo Gas Center, Japan's largest gas filling plant

Onsite and Plant Business

In the onsite business, Taiyo Nippon Sanso constructs large cryogenic air separation plants on the premises of major industrial gas users, notably steel mills and chemical complexes. The largest of our plants can produce up to 65,000 Nm^3 of gas per hour. We also provide stable supplies of oxygen and nitrogen through our pipelines. Our onsite business operates around the clock every day of the year, ensuring consistent supplies of large volumes of industrial gases and earning us the trust of steelmakers and chemical manufacturers.



In our plant business, we build a wide range of air separation plants, which form the foundation of the industrial gases business. We draw on our expertise in industrial gas production and supply not only to serve industrial gas producers but also to build a strong track record in manufacturing air separation plants, many of which we export around the globe. In addition, we supply many different types of experimental equipment, including space simulation chambers, which replicate the conditions of outer space. We also supply equipment for exploring basic physics and discovering new functional materials.

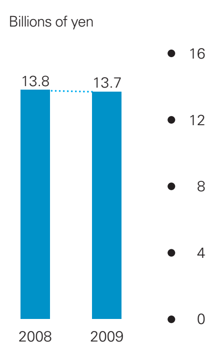
Fiscal 2009 sales	Approximately ***¥70,100 million***
Principal operations	Onsite: Supplies of oxygen, nitrogen, argon and other gases by pipeline Plant: Cryogenic air separation plants, pressure swing adsorption (PSA) air separation plants/cryogenic vacuum equipment and other chemical equipment
Market needs	Onsite: Large, stable supply systems Plant: Production and installation of high-performance facilities
Competitive advantages	With onsite and plant businesses, Taiyo Nippon Sanso can provide support for both plants and engineering on a global scale, drawing on its capabilities as a manufacturer of industrial gases • Ability to optimize facilities and operating efficiency
Fiscal 2009 highlights	• Completing two air separation plants with capacity of 18,000 m^3 per hour in the American states of Iowa and Texas, both of which will go into operation by the end of 2009 • Completing air separation plant with capacity of 8,000 m^3 per hour in China's Dalian Chanxing Island Harbor Industrial Zone • Focused on securing new demand for gases and expanding sales in overseas markets; endeavored to expand scale by reducing plant costs per unit of production

Medical-Related Business

We build special filling facilities for medical gases within our industrial gas production and sales networks to ensure stable supplies of medical oxygen and other high-quality gases used by medical institutions. We help improve the safety and reliability of medical treatment by developing pure air supply systems and other medical support equipment, as well as devices for home oxygen therapy (HOT), and through such services as regular inspection of equipment and operation of remote monitoring systems.

Applying our advanced gas-related technologies, we also make and sell stable isotopes for advanced diagnostics and treatment, as well as specialty gases.

Sales of Medical-Related Business
Years ended March 31

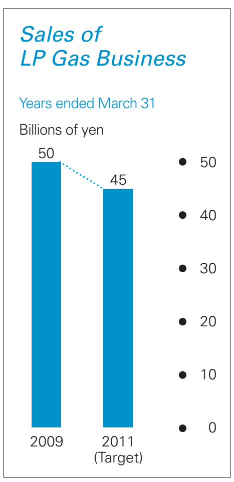


Fiscal 2009 sales	Approximately ***¥13,700 million***
Principal products	Medical-related oxygen and other gases Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors Stable isotopes
Market needs	Quality control and assurance for medical-use gases Mass production and ongoing supply of stable isotopes used in cancer diagnostic agents
Competitive advantages	Production and sale of pharmaceutical ingredients for positron emission tomography (PET) diagnostics • Strong position as manufacturer of Water–180, a pharmaceutical ingredient for reagents used in PET diagnostics, with a 70% domestic market share • Have commenced shipments of world-class pharmaceutical ingredients to leading manufacturers of fluorodeoxyglucose (FDG) PET reagents in Europe and the United States Reliable systems for manufacture and sale of pharmaceutical products • Continue to gather safety information and data
Fiscal 2009 highlights	• Established T-I Medical Co., Ltd., with the aim of strengthening home health care business in the Kansai area • Brought TN-Medical Inc. and SEEDVEST Co., Ltd., into the Group; began offering installation and inspection and maintenance services for gas piping in hospitals • Commenced sterilizing services together with Konoike Medical Co., Ltd. • Expanded sales of stable isotopes and sought out M&A opportunities with the aim of strengthening medical gas and equipment businesses • Developed Cryolibrary, a cryopreservation system for bioresources with automatic storage/retrieval function

LP Gas Business

LP gas is highly valued as a clean energy source, with applications ranging from industrial to home power generation. An environment-friendly alternative to chlorofluorocarbons, LP gas is also used as an aerosol gas and as fuel for taxi fleets.

Taiyo Nippon Sanso wholesales LP gas to plants and for other industrial applications, supplies taxi fueling stations and a wide range of customers, from restaurants and other commercial users to residential users. Our energy business also sells LP gas for household use to 96,000 homes throughout Japan through direct sales outlets.



With residential-use fuel cells expected to achieve increased market penetration, LP gas—which is used to fuel cells—is attracting increasing attention as an environment-friendly energy.

Fiscal 2009 sales	Approximately ***¥45,100 million***
Principal products and operations	Propane, butane and other liquid gases Related equipment and devices (air conditioners, hot water heaters) Construction of LP gas supply facilities, air-conditioning facilities
Market needs	Stable supply of LP gas to 25 million households in areas not served by town gas services
Competitive advantages	400,000-ton LP gas supply capacity nationwide (ranked seventh in Japan)
Fiscal 2009 highlights	• Subsidiary Saan Gas Co., Ltd., introduced raw materials price adjustment system, enhancing transparency of pricing to customers • Integrated sales companies in the Kanto region • Strove to achieve goal of 100,000 direct sales outlets through M&As and other initiatives

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

Executive Vice President
Yasunobu Kawaguchi

Executive Director/Advisor
Konosuke Ose

Senior Managing Directors
Ken-ichiro Ebisawa
Fumio Hara
Toyoo Go
Masashi Yamashita
Ken-ichi Kasuya

Managing Directors
Toshio Sato
Akira Ito
Shinji Tanabe
Kunishi Hazama
Tadashige Maruyama

Executive Directors
Ryuichi Tomizawa *1
William J. Kroll

Corporate Auditors

Shigeto Umatani
Kiyoshi Fujita
Keiichi Kiyota *2
Shigeru Koyama *2

Corporate Officers

Corporate Executive Officers
Yoshikazu Yamano
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shin-ichiro Hiramine
Akihiko Umekawa

Corporate Officers
Masakazu Naruo
Akira Nishimoto
Keiki Ariga
Masahiro Imagawa
Tetsuya Nakayama
Masami Sakaguchi
Yoichi Washizu
Susumu Naka
Yoshihide Kenmochi
Yuki Hajikano
Shigenobu Somaya
Jun Ishikawa
Takashi Tatsumi
Masahiro Sakamoto
Takashi Fukano
Masahiko Kitabatake
Mikio Yamaguchi
Hiroyuki Tanizawa

(As of June 26, 2009)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Management's Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

As of March 31, 2009, the Taiyo Nippon Sanso Group consisted of Taiyo Nippon Sanso Corporation (the parent company); 71 consolidated subsidiaries (43 based in Japan and 28 based overseas); and 29 equity-method affiliates (nine based in Japan and 20 based overseas).

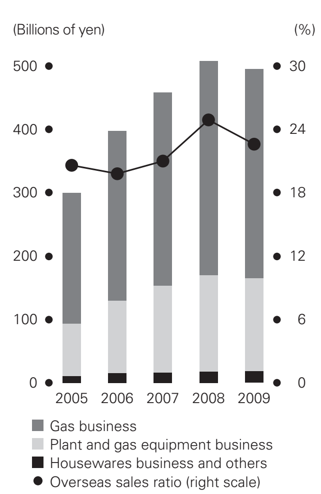
A total of 59 consolidated subsidiaries and 21 equity-method affiliates are accounted for in the Gas Business segment. The Plant and Gas Equipment Business segment comprises six consolidated subsidiaries, while the Housewares Business and Others segment encompasses six consolidated subsidiaries and eight equity-method affiliates.

Operating Results

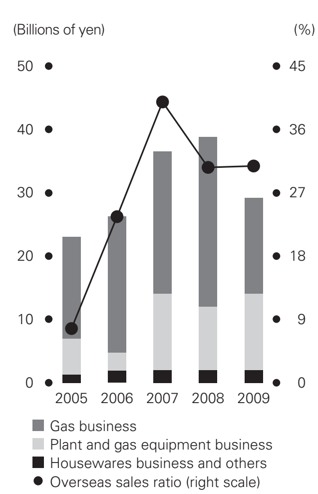
In fiscal 2009, consolidated net sales slipped 2.4% from fiscal 2008, to ¥495,746 million. Cost of sales rose 2.3%, to ¥343,905 million, and selling, general and administrative expenses advanced 4.7%, to ¥122,676 million, the latter due primarily to increases in depreciation and amortization, and in research and development costs. Owing to such factors, operating income declined 24.8%, to ¥29,164 million, and the operating margin, at 5.9%, was down 4.7 percentage points.

Other income, a net figure, fell 67.2%, to ¥655 million. The Company also posted a special loss of ¥2,765 million. As a consequence, net income amounted to ¥16,503 million, down 24.6%. Net income per share was ¥41.21, while return on equity (ROE) was 8.6%, 2.2 percentage points less than in the previous fiscal year.

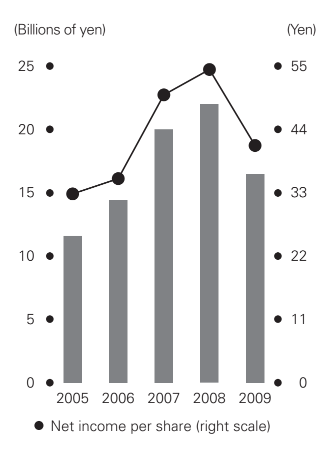
Net Sales



Operating Income



Net Income



Note: Since the merger of Nippon Sanso and Taiyo Toyo Sanso took place October 1, 2004, consolidated figures for fiscal 2005, ended March 31, 2005, exclude the figures for the former Taiyo Toyo Sanso for the six months ended September 30, 2004. Taiyo Nippon Sanso's results for fiscal 2005 are compared to the fiscal 2004 totals of the former Nippon Sanso.

Financial Position

As of March 31, 2009, total assets amounted to ¥534,350 million, down 2.4% from the fiscal 2008 year-end. This result was due largely to a decline in unrealized gains on short-term investments brought on by falling share prices, which pushed short-term investments down to ¥16,191 million. The current ratio was 125%, level with the previous fiscal year.

Property, plant and equipment, net, rose 9.5%, to ¥233,831 million. Total investments and other assets fell 20.3%, to ¥63,664 million, reflecting sluggish conditions in the stock market.

Owing to increases in notes and accounts payable—trade and short-term loans payable, total current liabilities declined 2.2%, to ¥164,965 million. Total noncurrent liabilities rose 8.9%, to ¥42,952 million, primarily reflecting an increase in long-term loans payable. Interest-bearing debt rose ¥31,333 million, to ¥191,074 million.

Total net assets decreased ¥23,563 million, to ¥194,250 million. As a consequence, the net assets ratio slipped 3.3 percentage points, to 33.9%, and net assets per share dropped ¥53.35, to ¥452.67.

Cash Flow Analysis

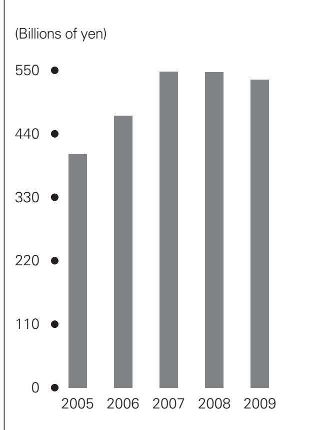
In fiscal 2009, net cash provided by operating activities amounted to ¥51,912 million, up ¥17,238 million from fiscal 2008. Principal factors contributing to this result were a ¥24,580 million decrease in notes and accounts receivable—trade. The interest coverage ratio was 14.7 times, up 4.4 points.

Net cash used in investing activities amounted to ¥25,956 million, down ¥701 million. This change primarily reflected ¥24,712 million in payments for purchases of property, plant and equipment, up from fiscal 2008, and an increase in purchases of investment securities.

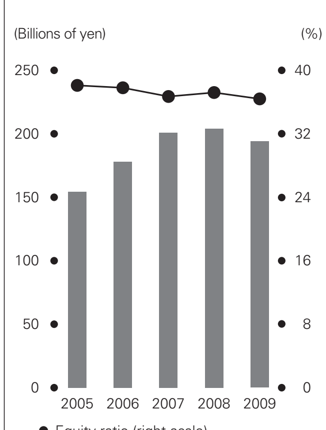
Net cash provided by financing activities, at ¥30,363 million, was up ¥3,960 million from the previous period. The factor behind this change included a rise in interest-bearing debt.

Owing to the Company's operating, investing and financing activities in fiscal 2009, cash and cash equivalents at the end of the year totaled ¥28,776 million, ¥16,067 million higher than at the fiscal 2008 year-end.

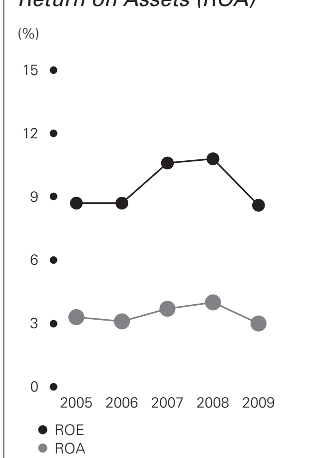
Total Assets



Equity



Return on Equity (ROE) and Return on Assets (ROA)



Business Risks

Management Policies, Business-Related Risks

Purchase of Property, Plant and Equipment

The Company maintains large-scale gas supply facilities for major customers and needs to spend heavily to maintain and upgrade these facilities. Accordingly, interest rate trends could have a material impact on the Company's business performance.

Reliance on Specific Industries

The Company supplies gases to a wide range of industries and its exposure to risks from reliance on specific industries is thus low. Nevertheless, changes in key electronics markets (semiconductors, liquid crystals, solar cells) could have a significant impact on the Company's business performance.

Manufacturing Costs

Electricity is the major component of the cost of manufacturing such core products as oxygen, nitrogen and argon. Accordingly, a sharp increase in the price of crude oil could result in a substantial increase in electricity charges, which the Company may be unable to reflect in the pricing of its products.

Overseas Factors

The Company maintains operations overseas, particularly in the United States and in other parts of Asia, including China, where the Company has substantial gas operations. Political and economic changes in countries where the Company has operations may have an adverse impact on its business performance.

Technical and Safety Factors

Technological Development

The creation of new products and technologies entails various uncertainties, owing to the Company's reliance on technological development in such areas as compound semiconductors, the environment and energy.

Intellectual Property

The Company's business depends on proprietary technological development. The Company endeavors to obtain intellectual property rights as necessary for its proprietary technological development activities. However, there are no guarantees that its technologies are completely protected.

Product Defects

The Company sells high-pressure gas-related products and handles toxic and flammable gases used in electronics manufacturing (semiconductors, liquid crystals, solar cells). While the Company strives to ensure the effective management of related risks, it cannot guarantee that all of its products are free of defects.

Financial Risks and Other Factors

Foreign Exchange Risk

The Company exports products for sale outside of Japan. The Company strives to hedge foreign exchange risks by entering into forward exchange contracts and other derivatives transactions. However, the Company may not be able to respond to sudden fluctuations in currency rates, which therefore may have an adverse impact on its business performance.

Retirement Benefit Liabilities

A sudden deterioration in retirement plan returns resulting in an increase in retirement benefit costs may have an adverse impact on its business performance.

Natural Disasters

The occurrence of earthquakes or other natural disasters in areas where the Company has manufacturing facilities may damage facilities. In particular, damage to the Company's large-scale manufacturing facilities may lead to a significant decline in production capacity and incur major recovery costs. Such factors may adversely affect the Company's business performance.

Legal Issues

Unanticipated changes to existing laws, the introduction of new laws, particularly in countries overseas where the Company maintains operations, may adversely affect the Company's business performance. Revisions to environmental laws that result in a tightening of restrictions may result in an increase in costs to ensure compliance, which may also adversely affect the Company's business performance.

Medium-Term Business Plan

In April 2008, the Company formulated a new medium-term business plan. The Company is currently devoting its best efforts toward achieving the quantitative targets of this plan. Based on the information available to management at the time the plan was formulated, these targets are judged to be appropriate. However, a number of factors—including changes in the operating environment—could render the achievement of these targets impossible.

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2009**	2008	2007	2006	2005	2004
Net sales	**¥495,746**	¥507,718	¥458,587	¥397,308	¥300,055	¥230,272
Operating income	**29,164**	38,783	36,488	26,788	20,727	14,317
Net income	**16,533**	21,930	20,094	14,444	11,568	4,541
Selling, general and administrative expenses/Net sales (%)	**24.7%**	23.1%	23.2%	24.0%	24.5%	24.1%
Return on equity (%)	**8.6%**	10.8%	10.6%	8.7%	8.7%[2]	4.9%
Return on assets (%)	**3.1%**	4.0%	3.6%	3.1%	3.3%[2]	1.8%
Capital expenditure	**66,010**	36,260	35,891	22,176	38,092	7,413
Depreciation and amortization	**28,339**	25,506	21,210	18,982	14,592	11,627
Research and development expenses	**3,936**	2,903	2,713	2,223	2,056	2,296
Interest-bearing debt	**191,074**	159,500	152,232	122,196	122,089	86,325
Total net assets	**194,250**	217,813	216,068	178,055	154,207	94,802
Total assets	**534,350**	547,237	547,791	471,602	404,668	263,595

	Yen					
Per share data:						
Net income[1]	**¥41.21**	¥54.48	¥49.93	¥35.45	¥32.76	¥15.38
Cash dividends	**12.00**	12.00	12.00	10.00	9.00	6.00

	Times					
Price earnings ratio	**15.55**	14.65	21.31	24.54	19.17	31.21

Notes: 1. Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.

2. ROE and ROA for fiscal 2005 are computed based on the combined net incomes of Taiyo Nippon Sanso for fiscal 2005 and the former Taiyo Toyo Sanso for the six months ended September 30, 2004.

3. Since the merger of Nippon Sanso and Taiyo Toyo Sanso took place October 1, 2004, consolidated figures for fiscal 2005 exclude the figures for the former Taiyo Toyo Sanso for the six months ended September 30, 2004. Taiyo Nippon Sanso's results for fiscal 2005 are compared to the fiscal 2003 and 2004 totals of the former Nippon Sanso.

4. Figures given for total net assets prior to fiscal 2007 are for total shareholders' equity.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

March 31	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 3) 2009
Assets			
Current assets:			
Cash and deposits (Note 4)	**¥ 29,208**	¥ 12,971	**$ 297,343**
Notes and accounts receivable—trade (Note 6)	**116,977**	139,331	**1,190,848**
Merchandise and finished goods	**18,108**	21,187	**184,343**
Work in process	**17,803**	14,596	**181,238**
Raw materials and supplies	**8,597**	5,689	**87,519**
Deferred tax assets (Note 10)	**6,012**	7,213	**61,203**
Other	**10,966**	11,624	**111,636**
Allowance for doubtful accounts	**(1,771)**	(979)	**(18,029)**
Total current assets	**205,904**	211,633	**2,096,142**
Property, plant and equipment (Notes 8, 9 and 18)	**572,328**	542,900	**5,826,407**
Accumulated depreciation	**(338,497)**	(329,396)	**(3,445,964)**
Property, plant and equipment, net	**233,831**	213,504	**2,380,444**
Investments and other assets:			
Investment securities (Note 5)	**43,930**	58,764	**447,216**
Long-term loans receivable	**651**	1,685	**6,627**
Total intangible assets	**30,950**	42,242	**315,077**
Prepaid pension cost (Note 13)	**12,518**	13,189	**127,436**
Deferred tax assets (Note 10)	**2,501**	2,149	**25,461**
Other	**6,753**	6,083	**68,747**
Valuation allowance for investments	**(1,430)**	(980)	**(14,558)**
Allowance for doubtful accounts	**(1,258)**	(1,033)	**(12,807)**
Total investments and other assets	**94,615**	122,099	**963,199**
Total assets	**¥534,350**	¥547,237	**$5,439,784**

See notes to consolidated financial statements.

March 31	Millions of yen 2009	2008	Thousands of U.S. dollars (Note 3) 2009
Liabilities and net assets			
Current liabilities:			
Short-term loans payable (Note 7)	**¥ 49,495**	¥ 39,105	**$ 503,868**
Notes and accounts payable—trade	**81,236**	87,167	**826,998**
Income taxes payable (Note 10)	**6,162**	8,139	**62,730**
Other	**28,090**	34,314	**285,962**
Total current liabilities	**164,985**	168,727	**1,679,579**
Noncurrent liabilities:			
Long-term loans payable (Note 7)	**135,659**	107,707	**1,381,034**
Pension and severance indemnities (Note 13)	**5,306**	4,719	**54,016**
Deferred tax liabilities (Note 10)	**18,639**	32,785	**189,749**
Negative goodwill	**1,718**	2,256	**17,490**
Lease obligations (Note 7)	**8,556**	8,231	**87,102**
Other	**5,234**	4,994	**53,283**
Total noncurrent liabilities	**175,115**	160,695	**1,782,704**
Contingent liabilities (Note 14)			
Net assets (Notes 11 and 21):			
Shareholders' equity:			
Capital stock:			
Authorized—1,600,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**275,262**
Capital surplus	**44,910**	44,911	**457,192**
Retained earnings	**131,478**	124,392	**1,338,471**
Treasury stock, at cost— 3,159,559 shares in 2009 and 550,612 shares in 2008	**(2,181)**	(362)	**(22,203)**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**3,076**	12,839	**31,314**
Deferred losses on hedges	**(111)**	(194)	**(1,130)**
Foreign currency translation adjustment	**(23,011)**	(4,769)	**(234,256)**
Accumulated other comprehensive loss	**(163)**	(161)	**(1,659)**
Minority interests	**13,212**	14,117	**134,501**
Total net assets	**194,250**	217,813	**1,977,502**
Total liabilities and net assets	**¥534,350**	¥547,237	**$5,439,784**

Consolidated Statements of Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
Years ended March 31	**2009**	2008	**2009**
Net sales	**¥495,746**	¥507,718	**$5,046,788**
Cost of sales (Note 16)	**343,905**	351,789	**3,501,018**
Gross profit	**151,841**	155,928	**1,545,770**
Selling, general and administrative expenses (Note 16)	**122,676**	117,145	**1,248,865**
Operating income	**29,164**	38,783	**296,895**
Other income (expenses):			
Interest and dividend income	**1,313**	1,391	**13,367**
Interest expenses	**(3,504)**	(3,453)	**(35,671)**
Amortization of negative goodwill	**667**	571	**6,790**
Gain on sales of noncurrent assets (Note 17)	**354**	1,334	**3,604**
Loss on sale and retirement of noncurrent assets (Note 17)	**(916)**	(785)	**(9,325)**
Foreign exchange losses	**(824)**	(102)	**(8,388)**
Gain on sales of investment securities	**9**	277	**92**
Loss on sales of investment securities	**—**	(29)	**—**
Loss on valuation of investment securities	**(209)**	(105)	**(2,128)**
Loss on valuation of golf club memberships	**(81)**	(88)	**(825)**
Gain on sales of golf club memberships	**2**	—	**20**
Loss on sales of golf club memberships	**—**	(14)	**—**
Gain on sales of subsidiaries and affiliates' stocks	**9**	—	**92**
Equity in earnings of affiliates	**1,333**	1,305	**13,570**
Impairment loss (Note 18)	**(141)**	(49)	**(1,435)**
Loss on liquidation of subsidiaries and affiliates	**—**	(1,001)	**—**
Loss on revaluation of investments	**(450)**	(50)	**(4,581)**
Merger expense	**—**	(295)	**—**
Gain on revaluation of investments	**—**	352	**—**
Compensation for transfer	**—**	35	**—**
Reversal of allowance for doubtful accounts	**278**	—	**2,830**
Provision of allowance for doubtful accounts	**(722)**	—	**(7,350)**
Loss on revision of retirement benefit plan	**(333)**	—	**(3,390)**
Early extra retirement payments	**(311)**	—	**(3,166)**
Expenses for integration	**—**	(42)	**—**
Other	**200**	467	**2,036**
	(3,325)	(281)	**(33,849)**
Income before income taxes and minority interests	**25,839**	38,502	**263,046**
Income taxes (Note 10):			
Current	**12,332**	16,205	**125,542**
Deferred	**(4,089)**	(1,047)	**(41,627)**
	8,243	15,157	**83,915**
Minority interests in income	**1,062**	1,413	**10,811**
Net income	**¥ 16,533**	¥ 21,930	**$ 168,309**

	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net assets	**¥452.67**	¥506.02	**$4.61**
Net income	**41.21**	54.48	**0.42**
Cash dividends	**12.00**	12.00	**0.12**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

Millions of yen

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
Balance at March 31, 2007	403,092,837	¥27,039	¥44,746	¥107,495	¥ (376)	¥24,982	¥ 56	¥ (2,535)	¥(111)	¥14,770	¥216,068
Disposal of treasury stock	—	—	164	—	211	—	—	—	—	—	375
Change of scope of consolidation (increase)	—	—	—	81	—	—	—	—	—	—	81
Change of scope of equity method	—	—	—	136	—	—	—	—	—	—	136
Dividends from surplus	—	—	—	(5,233)	—	—	—	—	—	—	(5,233)
Other	—	—	—	(18)	—	—	—	—	—	—	(18)
Net income	—	—	—	21,930	—	—	—	—	—	—	21,930
Purchase of treasury stock	—	—	—	—	(196)	—	—	—	—	—	(196)
Net changes of items other than shareholders' equity	—	—	—	—	—	(12,143)	(251)	(2,233)	(49)	(653)	(15,329)
Balance at March 31, 2008	403,092,837	¥27,039	¥44,911	¥124,392	¥ (362)	¥12,839	¥(194)	¥ (4,769)	¥(161)	¥14,117	¥217,813
Disposal of treasury stock	**—**	**—**	**(0)**	**—**	**35**	**—**	**—**	**—**	**—**	**—**	**34**
Change of scope of consolidation (decrease)	**—**	**—**	**—**	**(99)**	**—**	**—**	**—**	**—**	**—**	**—**	**(99)**
Decrease due to merger	**—**	**—**	**—**	**(10)**	**—**	**—**	**—**	**—**	**—**	**—**	**(10)**
Effect of changes in accounting policies applied to foreign subsidiaries	**—**	**—**	**—**	**(4,506)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,506)**
Dividends from surplus	**—**	**—**	**—**	**(4,830)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,830)**
Net income	**—**	**—**	**—**	**16,533**	**—**	**—**	**—**	**—**	**—**	**—**	**16,533**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(1,854)**	**—**	**—**	**—**	**—**	**—**	**(1,854)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(9,762)**	**83**	**(18,242)**	**(2)**	**(904)**	**(28,828)**
Balance at March 31, 2009	**403,092,837**	**¥27,039**	**¥44,910**	**¥131,478**	**¥(2,181)**	**¥ 3,076**	**¥(111)**	**¥(23,011)**	**¥(163)**	**¥13,212**	**¥194,250**

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
Balance at March 31, 2008	$275,262	$457,202	$1,266,334	$ (3,685)	$130,703	$(1,975)	$ (48,549)	$(1,639)	$143,714	$2,217,378
Disposal of treasury stock	**—**	**(0)**	**—**	**356**	**—**	**—**	**—**	**—**	**—**	**346**
Change of scope of consolidation (increase)	**—**	**—**	**(1,008)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,008)**
Decrease due to merger	**—**	**—**	**(102)**	**—**	**—**	**—**	**—**	**—**	**—**	**(102)**
Effect of changes in accounting policies applied to foreign subsidiaries	**—**	**—**	**(45,872)**	**—**	**—**	**—**	**—**	**—**	**—**	**(45,872)**
Dividends from surplus	**—**	**—**	**(49,170)**	**—**	**—**	**—**	**—**	**—**	**—**	**(49,170)**
Net income	**—**	**—**	**168,309**	**—**	**—**	**—**	**—**	**—**	**—**	**168,309**
Purchase of treasury stock	**—**	**—**	**—**	**(18,874)**	**—**	**—**	**—**	**—**	**—**	**(18,874)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**(99,379)**	**845**	**(185,707)**	**(20)**	**(9,203)**	**(293,474)**
Balance at March 31, 2009	**$275,262**	**$499,949**	**$1,338,471**	**$(22,203)**	**$ 31,314**	**$(1,130)**	**$(234,256)**	**$(1,659)**	**$134,501**	**$1,977,502**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
Years ended March 31	**2009**	2008	**2009**
Operating activities			
Income before income taxes and minority interests	**¥25,839**	¥38,502	**$263,046**
Depreciation and amortization	**28,339**	25,506	**288,496**
Impairment loss	**141**	49	**1,435**
Amortization of goodwill	**1,961**	283	**19,963**
Interest and dividends income	**(1,313)**	(1,392)	**(13,367)**
Interest expense	**3,504**	3,453	**35,671**
Equity in earnings of affiliates	**(1,333)**	(1,305)	**(13,570)**
Gain (loss) on sales and retirement of noncurrent assets	**527**	(619)	**5,365**
Gain on sales of investment securities	**(19)**	(248)	**(193)**
Decrease in accounts receivable—other	**470**	293	**4,785**
Decrease (increase) in notes and accounts receivable—trade	**18,962**	(5,618)	**193,037**
Decrease (increase) in advance payments	**1,006**	(1,513)	**10,241**
Increase in inventories	**(4,970)**	(1,567)	**(50,596)**
Decrease in notes and accounts payable—trade	**(6,225)**	(9,272)	**(63,372)**
(Decrease) increase in accrued expenses	**(1,519)**	3,547	**(15,464)**
Increase in advances received	**503**	830	**5,121**
Decrease (increase) in prepaid pension costs	**670**	(204)	**6,821**
Increase in provision for retirement benefits	**273**	76	**2,779**
Other, net	**2,011**	(630)	**20,472**
	68,828	50,170	**700,682**
Interest and dividends income received	**1,767**	2,895	**17,988**
Interest expenses paid	**(3,541)**	(3,368)	**(36,048)**
Income taxes paid	**(15,141)**	(15,023)	**(154,138)**
Net cash provided by operating activities	**51,912**	34,674	**528,474**
Investing activities			
Increase in short-term investments	**168**	671	**1,710**
Purchases of property, plant and equipment	**(58,703)**	(33,991)	**(597,608)**
Proceeds from sales of property, plant and equipment	**1,000**	1,892	**10,180**
Purchases of intangible assets	**(1,426)**	(2,340)	**(14,517)**
Purchases of investment securities	**(5,833)**	(2,710)	**(59,381)**
Proceeds from sales of investment securities	**102**	1,720	**1,038**
Payments for assets purchase	**(5,425)**	—	**(55,228)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(3,261)	**—**
Payments of loans receivable	**(30)**	(2,287)	**(305)**
Other, net	**48**	(23)	**489**
Net cash used in investing activities	**(70,100)**	(40,330)	**(713,631)**
Financing activities			
Net increase in short-term loans payable	**10,136**	8,159	**103,186**
Net decrease in commercial papers	**(4,000)**	(1,000)	**(40,721)**
Proceeds from long-term loans payable	**57,875**	18,980	**589,178**
Repayment of long-term loans payable	**(22,172)**	(16,560)	**(225,715)**
Proceeds from issuance of common stock	**—**	241	**—**
Proceeds from issuance of bonds	**—**	10,000	**—**
Redemption of bonds	**—**	(10,000)	**—**
Repayments of lease obligations	**(990)**	(602)	**(10,078)**
Cash dividends paid	**(4,831)**	(5,233)	**(49,180)**
Cash dividends paid to minority shareholders	**(280)**	(208)	**(2,850)**
Purchase of treasury stock	**(1,852)**	(194)	**(18,854)**
Proceeds from sales of treasury stock	**74**	16	**753**
Net cash provided by financing activities	**33,960**	3,597	**345,719**
Effect of exchange rate change on cash and cash equivalents	**(499)**	(33)	**(5,080)**
Net increase (decrease) in cash and cash equivalents	**15,273**	(2,091)	**155,482**
Cash and cash equivalents at beginning of period	**12,709**	14,404	**129,380**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**777**	396	**7,910**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**15**	—	**153**
Cash and cash equivalents at end of period (Note 4)	**¥28,776**	¥12,709	**$292,945**

See notes to consolidated financial statements.

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of TAIYO NIPPON SANSO CORPORATION (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year presentation.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 71 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In accordance with the regulations for the preparation of consolidated financial statements under the Financial Instruments and Exchange Law of Japan, investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method of accounting.

The differences at the dates of acquisition between the cost and the underlying net equity in investments in consolidated subsidiaries and the companies accounted for by the equity method are amortized equally over the years for which their effect are reasonably estimated.

Investments in unconsolidated subsidiaries and affiliates other than those which are accounted for by the equity method are principally stated at cost.

Effective from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). As a result, the balance of consolidated retained earnings for the year ended March 31, 2009 decreased by ¥4,506 million ($45,872 thousand). In addition, operating income and income before income taxes for the year ended March 31, 2009 decreased by ¥1,420 million ($14,456 thousand), compared with the amounts that would have been reported under the previous accounting method. The effect of the adoption of this accounting standard on the segment information is described in the relevant section.

(b) Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with maturity of three months or less when purchased to be cash equivalents.

(c) Marketable and investment securities

Marketable securities and investments in securities are classified into three categories: trading securities, held-to-maturity securities and other securities. The Company and certain of its subsidiaries have marketable securities classified as other securities, which are carried at fair value with any changes in valuation difference on available-for-sale securities, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Under the Corporate Law of Japan, unrealized gain or loss on other securities, net of the applicable income taxes, is not available for distribution as dividends.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost, determined by the weighted-average method, specific identification method or the moving-average method (lower than book value due to a decline in profitability).

As for overseas consolidated subsidiaries, inventories are stated at the lower of cost or market, cost being determined by the first-in first-out method.

(Change in accounting policy)
Effective from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Accounting Standard for Measurement of Inventories" (Financial Accounting Standard No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006), and the method of measurement of inventories held for the purpose of ordinary sales has been changed to the cost, determined by the average method, the specific identification method, or the moving-average method. Net book value of inventories in the consolidated balance sheets is written down when their net realizable values decline. The effect of this change on the consolidated statement of income for the year ended March 31, 2009 was immaterial.

The effect of the adoption of this accounting standard on the segment information is described in the relevant section.

(e) Property, plant and equipment (except for leased assets)

Property, plant and equipment is stated at cost, and for the Company and its domestic subsidiaries, depreciation is computed by the straight-line method for buildings and leased equipment and by the declining balance method for other equipment based on the estimated useful lives of the respective assets. As for overseas consolidated subsidiaries, depreciation is principally computed by the straight-line method based on the estimated useful lives of the respective assets.

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 15 years

(Supplementary information)
Effective from the beginning of the fiscal year, April 1, 2008, the Company and its domestic subsidiaries have changed the estimates for useful lives of machinery pursuant to the revision to the Corporate Tax Law. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 decreased by ¥1,907 million ($19,414 thousand), compared with the amounts that would have been reported under the previous estimates.

The effect of the adoption of this accounting change on the segment information is described in the relevant section.

(f) Leases

Leased assets are initially accounted for at their acquisition costs and depreciated over the lease term by the straight-line method with no residual value.

(Changes in accounting policy)
Previously, finance lease transactions that do not transfer ownership of the leased assets to the lessee followed methods applicable to ordinary operating lease transactions. Effective from the beginning of the fiscal year, April 1, 2008, however, the Company has adopted "Accounting Standard for Lease Transactions" (Financial Accounting Standard No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the Accounting Standards Board of Japan on March 30, 2007) and "Implementation Guidelines for Accounting Standards for Lease Transactions" (Financial Accounting Standard Implementation Guidelines No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the Accounting Standards Board of Japan on March 30, 2007), and such transactions are now accounted for as ordinary sale and purchase transactions. Finance leases contracted on or before March 31, 2008 that do not deem to transfer ownership of the leased asset to the lessee are accounted for as operating lease transactions. As a result of the change, total assets increased by ¥3,900 million ($39,703 thousand) compared with the amounts that would have been reported under the previous accounting method. The effect on operating income and income before income taxes and minority interests was immaterial.

The effect of the adoption of this accounting standard on the segment information is described in the relevant section.

(g) Translation of foreign currency transactions

All monetary assets and liabilities, regardless of short-term or long-term, denominated in foreign currencies other than receivables and payables hedged by qualified foreign exchange forward contracts, are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

The accounts of the overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, except for net assets, which are translated at historical rates, and income statement items are translated into yen at average exchange rates during the year. Differences arising from the translations are stated under "Foreign currency translation adjustments" and minority interests in consolidated subsidiaries in the accompanying consolidated balance sheets.

(h) Pension and severance indemnities
Allowance for employees' retirement benefits is recognized at the net total of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains (less any actuarial losses) not yet recognized, minus the fair value of plan assets (if any) at the balance sheet date out of which the obligations are to be settled directly. If the amount determined above is negative (an asset), such asset should be recorded as prepaid pension expenses.

Net retirement benefit expense or income is recognized at the net total of current service cost and interest cost, minus the expected return on any plan assets, minus any actuarial gains (less any actuarial losses) and past service cost recognized during the year, plus any retirement benefits paid at a lump sum.

To determine the present value of a defined benefit obligation and the related current service cost and, where applicable, the past service cost, the project unit credit method are used.

Actuarial gains or losses and past service cost are recognized for each defined benefit plan over a period not exceeding the expected average remaining service years of the employees participating in the plan. The Company and its domestic subsidiaries recognize actuarial gains or losses evenly over 12 to 16 years following the respective fiscal years when such gains or losses are identified. Past service cost is amortized using the straight-line method over 13 to 16 years.

The Company recognized the amount of unrecognized past service cost due to the revision of the retirement rule at April 1, 2003.

For transition benefit liability, the Company established the pension and severance indemnity trust by contribution of shares owned by the Company, and the remaining transition benefit liability is being recognized over a period of 15 years.

(i) Allowance for directors' and corporate auditors' retirement benefits
The allowance for directors' and corporate auditors' retirement benefits of the Company and certain of its domestic subsidiaries is provided at the amount which would have been required to be paid if all directors and corporate auditors had voluntarily terminated their services as of the balance sheet date. This amount has been determined in accordance with the internal rules of the respective companies.

The allowance included ¥410 million ($4,174 thousand) and ¥323 million for corporate officers at March 31, 2009 and 2008, respectively.

(j) Research and development expenses
Research and development expenses are charged to operations as incurred.

(k) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(l) Amounts per share
Presentation of diluted net income per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2009 and 2008.

(m) Allowance for doubtful accounts
To cover possible losses on collection of receivables, the Company and its domestic subsidiaries provided for an allowance with respect to specific debts of which recovery is doubtful, based on estimated write-off amounts, after considering the likelihood of recovery on an individual basis.

(n) Valuation allowance for investments
To state the investment amount fairly, the allowance is provided by considering the related parties' assets and other factors.

(o) Derivative and hedging transactions
The Company and certain of its subsidiaries have used foreign exchange forward contracts solely in order to hedge against risks of fluctuations in foreign currency exchange rates relating to its receivables and payables denominated in foreign currencies, and have used interest-rate swap agreements solely to hedge against risks of fluctuations in interest rates relating to its long-term loans payable. Also, currency exchange swap agreements have been used solely to hedge against risks of fluctuations in foreign exchange of long-term loans payable denominated in foreign currencies, in compliance with the internal rules of respective companies.

Under the "Accounting Standard for Financial Instruments, (No.10 issued by the Accounting Standards Board of Japan)" derivative transactions are valued at market prices, except for hedging transactions whose gains or losses are deferred and recorded in the balance sheet until the hedged transactions are settled. Moreover, if interest-rate swaps in Japan are specifically tied to the hedged loan transactions, unrealized gains or losses on those swaps are not recognized in the consolidated financial statements as such gains or losses are to be offset with those on the hedged transactions. Deferred hedge accounting is applied to currency swaps.

Receivables and payables hedged by qualified foreign exchange forward contracts are translated at the corresponding foreign exchange forward contract rates.

3. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥98.23 = U.S.$1, the approximate rate of exchange at March 31, 2009. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

4. Cash and Cash Equivalents

The components of cash and cash equivalents at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Cash and deposits	**¥29,208**	¥12,971	**$297,343**
Time deposits with maturities of more than three months	**(432)**	(261)	**(4,398)**
	¥28,776	¥12,709	**$292,945**

5. Marketable and Investment Securities

At March 31, 2009 and 2008, information with respect to other securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2009			**2009**		
	Cost	Balance sheet amount	Unrecognized gain (loss)	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:						
Stock	**¥19,479**	**¥24,818**	**¥5,339**	**$198,300**	**$252,652**	**$54,352**
Unrecognized loss items:						
Stock	**567**	**423**	**(144)**	**5,772**	**4,306**	**(1,466)**
Total	**¥20,046**	**¥25,241**	**¥5,195**	**$204,072**	**$256,958**	**$52,886**

	Millions of yen		
	2008		
	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:			
Stock	¥15,185	¥37,076	¥21,890
Unrecognized loss items:			
Stock	803	645	(158)
Total	¥15,988	¥37,721	¥21,732

Proceeds from sales of securities classified as other securities amounted to ¥62 million ($631 thousand) and ¥782 million with an aggregate gain on sales of ¥19 million ($193 thousand) and ¥277 million for the years ended March 31, 2009 and 2008, respectively, and an aggregate loss on sales of nil and ¥29 million for the years ended March 31, 2009 and 2008, respectively.

Balance sheet amounts of non-marketable securities classified as other securities at March 31, 2009 and 2008 were as follows:

Other securities:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Unlisted securities (except for OTC securities)	**¥2,796**	¥2,358	**$28,464**
Preferred securities	**—**	—	**—**
Preferred stock	**1,000**	1,000	**10,180**
Money market fund	**—**	—	**—**

There are no securities with maturity dates classified as other securities at March 31, 2009.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Accounts receivable transferred by liquidation	**¥10,280**	¥11,771	**$104,652**
Notes receivable transferred by liquidation	**7,726**	9,087	**78,652**

(b) Notes receivable discounted at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Notes receivable discounted	**¥20**	¥166	**$204**

7. Short-Term Borrowings, Long-Term Loans Payable and Lease Obligations

At March 31, 2009 and 2008, short-term borrowings and the current portion of long-term loans payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Bank loans	**¥24,581**	¥16,593	**$250,239**
Current portion of long-term loans payable	**9,914**	22,512	**100,926**
0.95% unsecured bonds, payable in yen, due 2009	**15,000**	—	**152,703**
Total	**¥49,495**	¥39,105	**$503,869**

The average interest rates applicable to short-term loans payable outstanding at March 31, 2009 and 2008 were 2.93% and 3.75%, respectively.

Long-term loans payable at March 31, 2009 and 2008 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Loans from banks due through 2017 at average interest rates of 1.93% in 2009 and 2.29% in 2008	**¥110,659**	¥ 67,707	**$1,126,530**
0.95% unsecured bonds, payable in yen, due 2009	**—**	15,000	**—**
1.81% unsecured bonds, payable in yen, due 2011	**15,000**	15,000	**152,703**
1.58% unsecured bonds, payable in yen, due 2012	**10,000**	10,000	**101,802**
	¥135,659	¥107,707	**$1,381,034**

At March 31, 2009, commercial paper (¥1,000 million ($10,180 thousand)) with a borrowing rate of 0.54% and at March 31, 2008 commercial paper (¥5,000 million) with a borrowing rate of 0.68% were included in other current liabilities. Short-term lease obligations of ¥966 ($9,834 thousand) were included in other current liabilities.

The annual maturities of long-term loans payable subsequent to March 31, 2009 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 9,914	$ 100,926
2011	22,215	226,153
2012	17,668	179,864
2013	20,209	205,731
2014	33,608	342,136
2015 and thereafter	16,959	172,646
	¥120,573	$1,227,456

The annual maturities of lease obligations subsequent to March 31, 2009 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 966	$ 9,834
2011	1,092	11,117
2012	2,913	29,655
2013	1,035	10,537
2014	1,200	12,216
2015 and thereafter	2,316	23,577
	¥9,522	$96,936

8. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥72 million ($733 thousand) and ¥235 million, long-term loans payable of ¥697 million ($7,096 thousand) and ¥780 million, and other liabilities of ¥136 million ($1,385 thousand) and ¥308 million at March 31, 2009 and 2008, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property, plant and equipment, at net book value	**¥3,176**	¥4,578	**$32,332**

9. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Property, plant and equipment	**¥411**	¥411	**$4,184**

10. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of 40.69% for the years ended March 31, 2009 and 2008.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥2,000**	¥2,415	**$20,360**
Loss from valuation of inventory	**310**	272	**3,156**
Accrued expenses	**1,346**	1,708	**13,703**
Other	**2,538**	3,030	**25,837**
Deferred tax assets—subtotal	**6,196**	7,427	**63,076**
Valuation allowance	**(184)**	(212)	**(1,873)**
Deferred tax assets—net	**6,012**	7,215	**61,203**
Deferred tax liabilities	**—**	(1)	**—**
Net deferred tax assets	**¥6,012**	¥7,213	**$61,203**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (24)**	¥ (1)	**$ (244)**
Deferred tax liabilities—subtotal	**(24)**	(1)	**(244)**
Offset by deferred tax assets	**—**	1	—
Net deferred tax liabilities	**¥ (24)**	¥ —	**$ (244)**

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,579**	¥ 1,059	**$ 16,075**
Reserve for retirement benefits	**1,533**	1,312	**15,606**
Net operating loss carryforward for tax purposes	**86**	100	**875**
Other	**8,145**	7,368	**82,918**
Deferred tax assets—subtotal	**11,343**	9,841	**115,474**
Valuation allowance	**(4,763)**	(4,095)	**(48,488)**
Deferred tax assets—net	**6,580**	5,745	**66,986**
Deferred tax liabilities	**(4,079)**	(3,596)	**(41,525)**
Net deferred tax assets	**¥ 2,501**	¥ 2,149	**$ 25,461**
Deferred tax liabilities:			
Valuation difference on other securities	**¥ (2,230)**	¥ (8,959)	**$ (22,702)**
Reserve for replacement of fixed assets	**(6,731)**	(7,852)	**(68,523)**
Reserve for special depreciation	**(182)**	—	**(1,853)**
Reserve for replacement of fixed assets—special	**(142)**	(415)	**(1,446)**
Depreciation	**(5,542)**	(7,546)	**(56,419)**
Other	**(7,889)**	(11,608)	**(80,312)**
Deferred tax liabilities—subtotal	**(22,718)**	(36,381)	**(231,274)**
Offset by deferred tax assets	**4,079**	3,596	**41,525**
Net deferred tax liabilities	**¥(18,639)**	¥(32,785)	**$(189,749)**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2009 is as follows:

	2009
Statutory tax rate	**40.69%**
Non-deductible entertainment expenses	**1.57**
Dividends received and others	**(2.55)**
Valuation allowance for deferred tax assets	**2.47**
Undistributed earnings of overseas affiliates	**(9.70)**
Other	**(0.58)**
Effective tax rate	**31.90%**

The reconciliation was omitted for the year ended March 31, 2008 because the difference was less than 5% of the statutory tax rate.

11. Shareholder's Equity

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

12. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets at March 31, 2009 and 2008, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Acquisition costs:			
Property, plant and equipment	**¥9,578**	¥10,055	**$ 97,506**
Other assets	**408**	549	**4,154**
	¥9,987	¥10,604	**$101,670**
Accumulated depreciation:			
Property, plant and equipment	**¥6,058**	¥ 5,410	**$ 61,672**
Other assets	**248**	285	**2,525**
	¥6,307	¥ 5,696	**$ 64,206**
Net book value:			
Property, plant and equipment	**¥3,519**	¥ 4,644	**$ 35,824**
Other assets	**160**	263	**1,629**
	¥3,680	¥ 4,908	**$ 37,463**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,621 million ($16,502 thousand) and ¥1,788 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2009 and 2008, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 and 2008 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009		
2010	**¥1,400**	**$14,252**
2011 and thereafter	**2,279**	**23,201**
Total	**¥3,680**	**$37,463**
2008		
2009	¥1,585	
2010 and thereafter	3,322	
Total	¥4,908	

(b) Future minimum lease payments subsequent to March 31, 2009 and 2008 or non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009		
2010	**¥ 1,809**	**$18,416**
2011 and thereafter	**6,572**	**66,904**
Total	**¥ 8,381**	**$85,320**
2008		
2009	¥ 1,991	
2010 and thereafter	8,540	
Total	¥10,532	

13. Pension and Severance Indemnities

The Company has the cash balance plan (market rate-linked pension plan) and the defined contribution benefit plan.

The Company's domestic subsidiaries have, jointly or severally, defined benefit plans, including funded non-contributory tax-qualified retirement pension plans and a lump-sum retirement benefits plan, which together cover substantially all full-time employees who meet certain eligibility requirements.

Certain overseas subsidiaries have a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2008 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥ 33,865**	¥ 34,008	**$ 344,752**
Plan assets at fair market value	**(27,975)**	(35,115)	**(284,791)**
Unfunded retirement benefit liabilities	**5,890**	(1,107)	**59,961**
Net unrecognized actuarial losses	**(14,043)**	(7,896)	**(142,960)**
Difference at change of accounting standard	**(2,777)**	(3,302)	**(28,270)**
Unrecognized prior service cost	**2,372**	2,614	**24,147**
Prepaid pension cost	**12,518**	13,189	**127,436**
Allowance for employees' retirement benefits	**(3,960)**	(3,497)	**(40,314)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Current service cost	**¥1,360**	¥1,531	**$13,845**
Interest cost	**594**	581	**6,047**
Expected return on plan assets	**(786)**	(858)	**(8,002)**
Expense of actuarial loss	**707**	292	**7,197**
Net loss on change in accounting standard for employees' retirement benefits	**466**	466	**4,744**
Adjustment for prior service cost	**(241)**	(241)	**(2,453)**
Total of retirement benefit expenses	**¥2,100**	¥1,772	**$21,378**
Other	**745**	785	**7,584**
Total	**¥2,846**	¥2,557	**$28,973**

(c) The principal assumption used in determining retirement benefit obligations and other components for the Company and certain of its domestic subsidiaries plans are shown below:

	2009	2008
Discount rate	**Mainly 2.0%**	Mainly 2.0 %
Rate of return on assets	**Mainly 3.0%**	Mainly 3.0 %
Period of recognition of actuarial gains or losses	**Mainly 12 to 16 years**	Mainly 12 to 16 years
Period of recognition of transition gains or losses	**Mainly 15 years**	Mainly 15 years
Period of recognition of prior service cost	**13 to 16 years**	13 to 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

14. Contingent Liabilities

At March 31, 2009 and 2008, the Company and certain of its subsidiaries had contingent liabilities as guarantors of indebtedness, amounting to ¥9,214 million ($93,800 thousand) and ¥8,701 million, which included reguarantees by joint investors amounting to ¥785 million ($7,991 thousand) and ¥743 million and commitments to guarantees amounting to ¥1,058 million ($10,771 thousand) and ¥1,244 million, respectively.

15. Derivative and Hedging Activities

(a) Outline of transactions and conditions

The Company and certain of its subsidiaries have used foreign exchange forward contracts and interest-rate swap agreements and currency swap agreements to hedge against the risk of fluctuations in interest and currency exchange rates relating to their short-term receivables and payables and long-term loans payable.

No market risk is anticipated as such derivatives have been entered into to offset or mitigate gains or losses resulting from the hedged loan and other transactions.

The Company and these subsidiaries do not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are leading financial institutions which are deemed highly creditworthy.

The Company and these subsidiaries have established rules for the authorization of derivative transactions and related risk management rules which stipulate the limits on derivative transactions for each contract amount. All derivative transactions have been entered into in compliance with these rules.

Risk management for derivative transactions has been under the control of the Finance Department of the Company which reports regularly or as necessary to the responsible officer.

(b) Interest-related derivatives

There were no interest-related derivatives at March 31, 2009 and 2008.

(c) Currency-related derivatives

Market value information at March 31, 2009 and 2008 is not required as all of the Company and these subsidiaries' derivative transactions are accounted for as hedging transactions.

16. Research and Development Costs

Research and development costs, included in cost of sales and selling, general and administrative expenses, for the years ended March 31, 2009 and 2008 totaled ¥3,936 million ($40,069 thousand) and ¥2,903 million, respectively.

17. Gain and Loss on Sale and Retirement of Noncurrent Assets

Significant components of the gain on sale of noncurrent assets of ¥354 million ($3,604 thousand) and ¥1,334 million for the years ended March 31, 2009 and 2008, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Land	**¥354**	¥1,334	**$3,604**

Significant components of the loss on sale and retirement of noncurrent assets of ¥916 million ($9,325 thousand) and ¥785 million for the years ended March 31, 2009 and 2008, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land	**¥118**	¥114	**$1,201**
Machinery	**398**	218	**4,052**

18. Impairment Loss

The Company and its subsidiaries categorize business assets by business segmentation and idle assets without a specific future use are categorized separately. For idle assets affected by a decrease of fair market value of land, the book values are written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥141 million ($1,435 thousand) (of which land accounted for ¥99 million ($1,008 thousand) and buildings accounted for ¥41 million ($417 thousand)) and ¥49 million (all of which was land) for the years ended March 31, 2009 and 2008, respectively, due to the lack of recovery probability of market value or projected recovery probability in the near future. Recoverable amounts for relevant assets are the net selling price (selling price is based on contract, valuation by property tax or valuation by inheritance tax).

19. Segment Information

The business, geographical and overseas segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2009 and 2008 is summarized as follows:

(a) Business Segments

	Millions of yen					
Year ended or as of March 31, 2009	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥329,813**	**¥147,445**	**¥18,488**	**¥495,746**	**¥ —**	**¥495,746**
(2) Intersegment sales	**20**	**23,362**	**57**	**23,441**	**(23,441)**	**—**
Total sales	**329,834**	**170,807**	**18,546**	**519,187**	**(23,441)**	**495,746**
Operating costs and expenses	**307,384**	**159,219**	**16,313**	**482,917**	**(16,335)**	**466,582**
Operating income	**¥ 22,449**	**¥ 11,587**	**¥ 2,232**	**¥ 36,269**	**¥ (7,105)**	**¥ 29,164**
II. Assets, depreciation expenses and capital expenditure:						
Assets	**¥390,458**	**¥79,757**	**¥19,405**	**¥489,621**	**¥44,729**	**¥534,350**
Depreciation expenses	**¥ 25,141**	**¥ 2,454**	**¥ 767**	**¥ 28,363**	**¥ (23)**	**¥ 28,339**
Impairment loss	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ 141**	**¥141**
Capital expenditure	**¥ 58,862**	**¥ 7,939**	**¥ 667**	**¥ 67,469**	**¥ (1,459)**	**¥ 66,010**

	Millions of yen					
Year ended or as of March 31, 2008	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	¥338,347	¥151,717	¥17,653	¥507,718	¥ —	¥507,718
(2) Intersegment sales	19	11,720	150	11,890	(11,890)	—
Total sales	338,366	163,438	17,804	519,608	(11,890)	507,718
Operating costs and expenses	307,421	153,037	15,871	476,331	(7,396)	468,934
Operating income	¥ 30,945	¥ 10,400	¥ 1,932	¥ 43,277	¥ (4,494)	¥ 38,783
II. Assets, depreciation expenses and capital expenditure:						
Assets	¥394,125	¥75,178	¥19,322	¥488,626	¥58,611	¥547,237
Depreciation expenses	¥ 22,507	¥ 2,121	¥ 647	¥ 25,276	¥ 230	¥ 25,506
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ 49	¥ 49
Capital expenditure	¥ 33,312	¥ 2,081	¥ 826	¥ 36,220	¥ 40	¥ 36,260

	Thousands of U.S. dollars					
Year ended or as of March 31, 2009	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**$3,357,559**	**$1,501,018**	**$188,211**	**$5,046,788**	**$ —**	**$5,046,788**
(2) Intersegment sales	**204**	**237,830**	**580**	**238,634**	**(238,634)**	**—**
Total sales	**3,357,773**	**1,738,848**	**188,802**	**5,285,422**	**(238,634)**	**5,046,788**
Operating costs and expenses	**3,129,227**	**1,620,880**	**166,069**	**4,916,187**	**(166,293)**	**4,749,893**
Operating income	**$ 228,535**	**$ 117,958**	**$ 22,722**	**$ 369,225**	**$ (72,330)**	**$ 296,895**
II. Assets, depreciation expenses and capital expenditure:						
Assets	**$3,974,936**	**$ 811,941**	**$197,547**	**$4,984,434**	**$ 455,350**	**$5,439,784**
Depreciation expenses	**$ 255,940**	**$ 24,982**	**$ 7,808**	**$ 288,741**	**$ (234)**	**$ 288,496**
Impairment loss	**$ —**	**$ —**	**$ —**	**$ —**	**$ 1,435**	**$ 1,435**
Capital expenditure	**$ 599,226**	**$ 80,821**	**$ 6,790**	**$ 686,847**	**$ (14,853)**	**$ 671,994**

Notes: 1. The business segments are classified into "Gas business," "Plant and gas equipment business" and "Housewares business and others" on the basis of the kind and character of products and merchandise.

2. The amounts of the operating costs and expenses included in the column "Eliminations or corporate" for the fiscal year ending March 31, 2009 and 2008 were ¥3,645 million ($37,107 thousand) and ¥2,387 million, respectively, which mainly consisted of expenses in the business administration department.

3. The amounts of the corporate assets included in the column "Eliminations or corporate" for the fiscal years ended March 31, 2009 and 2008 were ¥75,135 million ($764,889 thousand) and ¥76,309 million, respectively, which mainly consisted of surplus working funds, investment securities and the assets in the business administration department.
4. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Accounting Standard for Measurement of Inventories" (Financial Accounting Standard No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006). The effect of this change on the consolidated statement of income for the year ended March 31, 2009 was immaterial.
5. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). As a result, operating income and income before income taxes for the year ended March 31, 2009 decreased by ¥1,420 million ($14,456 thousand) in Gas business segment compared with the amounts that would have been reported under the previous accounting method.
6. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted "Accounting Standard for Lease Transactions" (Financial Accounting Standard No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the Accounting Standards Board of Japan on March 30, 2007) and "Implementation Guidelines for Accounting Standard for Lease Transactions" (Financial Accounting Standard Implementation Guidelines No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the Accounting Standards Board of Japan on March 30, 2007). As a result of the change, total assets increased by ¥3,461 million ($35,234 thousand) in the Gas business segment, ¥411 million ($4,184 thousand) in the Plant and gas equipment business segment and ¥27 million ($275 thousand) in the Housewares business and others segment compared with the amounts that would have been reported under the previous accounting method. The effect of this change on the consolidated statement of income for the year ended March 31, 2009 was immaterial.
7. Supplementary information
   As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company and its domestic subsidiaries have changed the estimates for useful lives of machinery pursuant to the revision to the Corporation Tax Law. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 decreased by ¥1,840 million ($18,732 thousand) in the Gas business segment, ¥50 million ($509 thousand) in the Plant and gas equipment business and ¥16 million ($163 thousand) in the Housewares business and others segment, respectively, compared with the amounts that would have been reported under the previous estimates.

(b) Geographical Segments

	Millions of yen					
Year ended or as of March 31, 2009	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
Sales:						
Sales to third parties	**¥383,936**	**¥ 82,006**	**¥29,802**	**¥495,746**	**¥ —**	**¥495,746**
Intersegment sales	**7,177**	**9,985**	**3,298**	**20,461**	**(20,461)**	**—**
Total sales	**391,114**	**91,992**	**33,101**	**516,208**	**(20,461)**	**495,746**
Operating costs and expenses	**368,386**	**83,462**	**31,513**	**483,362**	**(16,779)**	**466,582**
Operating income	**¥ 22,728**	**¥ 8,529**	**¥ 1,587**	**¥ 32,846**	**¥ (3,682)**	**¥ 29,164**
Assets	**¥324,729**	**¥102,332**	**¥34,653**	**¥461,715**	**¥ 72,635**	**¥534,350**

	Millions of yen					
Year ended or as of March 31, 2008	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
Sales:						
Sales to third parties	¥393,227	¥ 84,833	¥29,656	¥507,718	¥ —	¥507,718
Intersegment sales	5,762	13,128	3,178	22,069	(22,069)	—
Total sales	398,990	97,962	32,834	529,787	(22,069)	507,718
Operating costs and expenses	369,542	87,940	30,778	488,261	(19,326)	468,934
Operating income	¥ 29,447	¥ 10,021	¥ 2,056	¥ 41,525	¥ (2,742)	¥ 38,783
Assets	¥311,037	¥121,374	¥40,479	¥472,890	¥ 74,346	¥547,237

Year ended or as of March 31, 2009	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
Sales:						
Sales to third parties	**$3,908,541**	**$ 834,837**	**$303,390**	**$5,046,788**	**$ —**	**$5,046,788**
Intersegment sales	**73,063**	**101,649**	**33,574**	**208,297**	**(208,297)**	**—**
Total sales	**3,981,615**	**936,496**	**336,974**	**5,255,095**	**(208,297)**	**5,046,788**
Operating costs and expenses	**3,750,239**	**849,659**	**320,808**	**4,920,717**	**(170,813)**	**4,749,893**
Operating income	**$ 231,375**	**$ 86,827**	**$ 16,156**	**$ 334,379**	**$ (37,483)**	**$ 296,895**
Assets	**$3,305,803**	**$1,041,759**	**$352,774**	**$4,700,346**	**$ 739,438**	**$5,439,784**

Notes: 1. Main countries or areas other than Japan
North America: the United States
Other countries: Singapore, Malaysia, Philippines, China, Taiwan, etc.
2. The amounts of the operating costs and expenses included in the column "Eliminations or corporate" for the fiscal year ending March 31, 2009 and 2008 were ¥ 3,645 million ($37,107 thousand) and ¥2,387 million, respectively, which mainly consist of the expenses in business administration department.
3. The amounts of the corporate assets included in the column "Eliminations or corporate" for the fiscal years ended March 31, 2009 and 2008 were ¥75,135 million ($764,889 thousand) and ¥76,309 million, respectively, which mainly consist of surplus working funds, investment securities and the assets in business administration department.
4. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Accounting Standard for Measurement of Inventories" (Financial Accounting Standard No. 9, issued by the Accounting Standards Board of Japan on July 5, 2006). The effect of this change on the consolidated statements of income for the year ended March 31, 2009 was immaterial.
5. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan on May 17, 2006). As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2009 decreased by ¥1,420 million ($14,456 thousand) in North America segment, compared with the amounts that would have been reported under the previous accounting method.
6. As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company has adopted "Accounting Standard for Lease Transactions" (Financial Accounting Standard No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the Accounting Standards Board of Japan on March 30, 2007) and "Implementation Guidelines for Accounting Standard for Lease Transactions" (Financial Accounting Standard Implementation Guidelines No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the Accounting Standards Board of Japan on March 30, 2007). As a result of the change, total assets increased by ¥3,900 million ($39,703 thousand) in the Japan segment compared with the amounts that would have been reported under the previous accounting method. The effect of this change on the consolidated statements of income for the year ended March 31, 2009 was immaterial.
7. Supplementary information
As shown in the Summary of Significant Accounting Policies, from the beginning of the fiscal year, April 1, 2008, the Company and its domestic subsidiaries have changed the estimates for useful lives of machinery pursuant to the revision to the Corporation Tax Law. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2009 decreased by ¥1,907 million ($19,414 thousand) in the Japan segment compared with the amounts that would have been reported under the previous estimates.

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its overseas consolidated subsidiaries, for the years ended March 31, 2009 and 2008 are summarized as follows:

Year ended or as of March 31, 2009	North America	Other	Total	North America	Other	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	**¥69,124**	**¥48,406**	**¥117,531**	**$703,695**	**$492,782**	**$1,196,488**
Consolidated net sales			**495,746**			**$5,046,788**
Ratio of overseas sales to consolidated net sales	**13.9%**	**9.8%**	**23.7%**			

Year ended or as of March 31, 2008	Millions of yen North America	 Other	 Total
Overseas sales	¥71,448	¥55,140	¥126,589
Consolidated net sales			507,718
Ratio of overseas sales to consolidated net sales	14.1%	10.8%	24.9%

Notes: 1. Main countries or areas
North America: the United States
Other countries: Singapore, Malaysia, Philippines, China, Taiwan, etc.
2. "Overseas sales" are sales outside of Japan by the Company and its consolidated subsidiaries.

20. Assets and Liabilities Acquired through Asset Purchase

The acquisition cost and net payments for assets and liabilities of Aeris and Advanced Gas Technologies, acquired through an asset purchase by Matheson Tri-Gas ("MTG"), Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2009 was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 858**	**$ 8,735**
Property, plant and equipment	**2,110**	**21,480**
Goodwill	**2,086**	**21,236**
Other assets	**986**	**10,038**
Total assets	**¥ 6,042**	**$ 61,509**
Current liabilities	**¥ 164**	**$ 1,670**
Noncurrent liabilities	**269**	**2,738**
Total liabilities	**¥ 434**	**$ 4,418**
Acquisition cost of assets	**¥(5,459)**	**$(55,574)**
Cash and cash equivalents	**33**	**336**
Payments for asset purchase	**¥(5,425)**	**$(55,228)**

21. Subsequent Events

(1) The Company completed the acquisition of Valley National Gases LLC ("VNG") through asset purchase by MTG on April 20, 2009.

(a) Purpose of acquisition
Through the acquisition of VNG, which demonstrates a strong competitiveness in industrial gas business in the U.S. mid-west to northeast regions, the Company intends to expand its industrial gas business and establish more robust business functions in those regions.

(b) Name of counter party
CI Capital Partners LLC

(c) Name, business and total assets of the company acquired
Name: Valley National Gases LLC
Business: Sales of industrial gases and gas-related equipment
Total assets: $514 million

(d) Acquisition date
April 20, 2009

(e) Percentage of shares owned after acquisition
100% shares of VNG owned by MTG

(f) Source of financing and payment plan
MTG funded $572.5 million by bank loan for this acquisition and the Company provided a guarantee for MTG by the same amount.

(2) Appropriation of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009, were approved at the shareholders' meeting held on June 26, 2009:

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.061) per share	**¥2,400**	**$24,432**

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Report of Independent Auditors

The Board of Directors
TAIYO NIPPON SANSO CORPORATION

We have audited the accompanying consolidated balance sheets of TAIYO NIPPON SANSO CORPORATION and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO NIPPON SANSO CORPORATION and consolidated subsidiaries at March 31, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

(Supplemental Information)

As described in Note 2, "Summary of Significant Accounting Policies," the Company has adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18, issued by the Accounting Standards Board of Japan on May 17, 2006) effective April 1, 2008.

As described in Note 21, "Subsequent Events," the Company completed the acquisition of Valley National Gases LLC through an asset purchase by Matheson Tri-Gas, Inc. on April 20, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young Shin Nihon LLC

June 26, 2009

A member firm of Ernst & Young Global Limited

Investor Information

(At March 31, 2009)

Head Office:
Toyo Building, 1-3-26, Koyama, Shinagawa-ku, Tokyo 142-8558, Japan

Number of Employees:
9,074

Date of Incorporation:
October 1910

Number of Shares:
Authorized—800,000,000 Issued—403,092,837

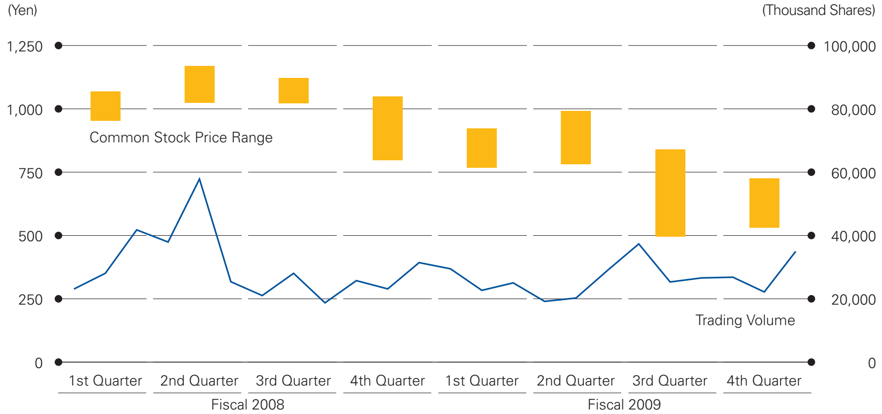
Minimum Trading Unit:
1,000 shares

Number of Stockholders:
24,710

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	53,591	13.30%
JFE Steel Corporation	25,254	6.27
Taiyo Nippon Sanso Client Shareholding Society	18,102	4.49
Meiji Yasuda Life Insurance Company	16,491	4.09
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	15,291	3.79
Mizuho Corporate Bank, Ltd.	14,484	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	13,498	3.35
Dai-ichi Mutual Life Insurance Company	10,037	2.49
The Norinchukin Bank	10,000	2.48
State Street Bank and Trust Company (Account 505225)	8,638	2.14
	185,390	45.99%

Common Stock Price Range and Trading Volume:



TAIYO NIPPON SANSO
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