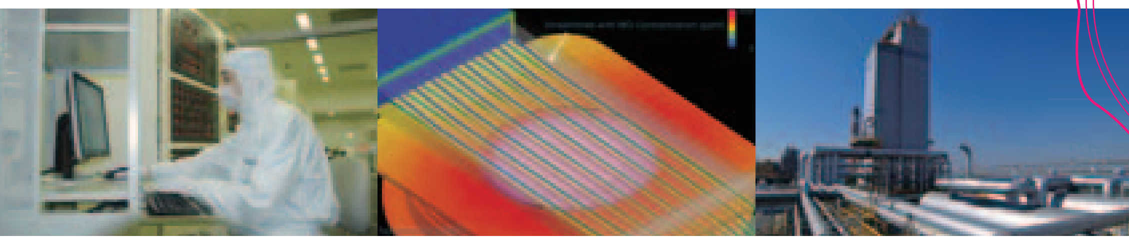
TAIYO NIPPON SANSO
1910-2010
CENTENNIAL



Think Globally, Act Locally:

A Client-Focused, Innovation-Driven Approach

Annual Report

2010

Year Ended March 31, 2010

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, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars*1	Percentage change
	2010	2009	2010	
Operating results				
Net sales	¥433,390	¥495,746	$4,658,104	(12.6)%
Net income	15,748	16,533	169,261	(4.7)%

	Yen		U.S. dollars*1	Percentage change
	2010	2009	2010	
Per share data:				
Net income*2	¥ 39.39	¥ 41.21	$ 0.42	(4.4)%
Cash dividends	12.00	12.00	0.13	—

	Millions of yen		Thousands of U.S. dollars*1	Percentage change
	2010	2009	2010	
Corporate position				
Total assets	¥617,215	¥534,350	$6,633,867	15.5%
Total shareholders' equity	199,078	181,037	2,139,703	10.0%

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥93.04=U.S.$1, the approximate rate of exchange at March 31, 2010.
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.

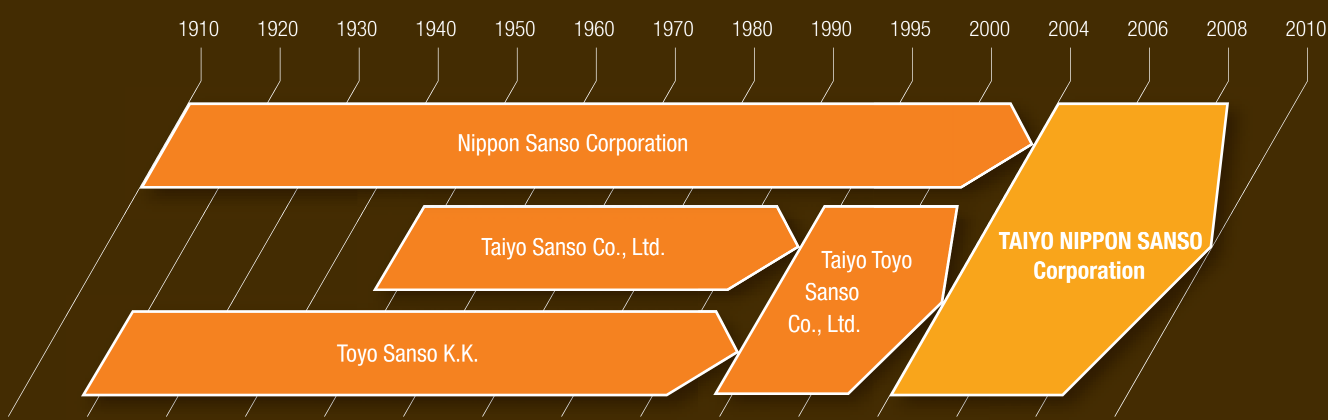
CONTENTS

100 Years of History

Japan's leading provider of industrial gases, Taiyo Nippon Sanso Corporation, is the fruit of the merger in 2004 of Nippon Sanso Corporation (founded in 1910) and Taiyo Toyo Sanso Co., Ltd. (founded in 1946), a move aimed at accelerating global expansion and creating a powerful entity with the potential to be a leading player in Asia and around the world.

Industrial gases play a crucial role in our daily lives. However, unlike such immediately visible products as automobiles, digital home appliances and mobile phones, industrial gases remain behind the scenes, providing essential support on the front lines of production in industries that shape eras.

Since the dawn of the 20th century, the industrial gases sector has grown at a rapid pace, bolstered by the development of technologies for transforming gases from a gaseous to a liquid state and by innovations in methods of production, supply and transport.

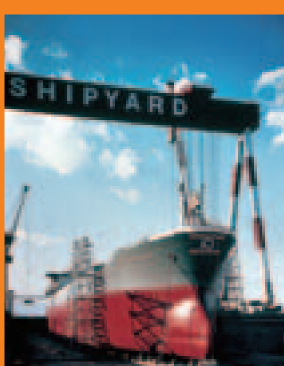


Nippon Sanso Corporation (1910 – 2004)

1910
Established as Nippon Sanso Ltd.

1935
Completed Japan's first air separation plant

1954
Commenced production of liquid oxygen (first in Japan) and high-purity nitrogen and argon



1910 – 1940s

Principal Industrial Gases
Acetylene, oxygen

Industries Used in
Railroad, shipbuilding, military and naval forces

Principal Applications
- Welding, cutting
  Used for welding by shipbuilders

1950s

Principal Industrial Gases
Oxygen

Industries Used in
Steelmaking, shipbuilding

Principal Applications
- Blast furnaces
  Blown into a blast furnace

Toyo Sanso K.K. (1919 –1994)

1918
Established as Toyo Sanso K.K.

1920
Opened the Ebara Plant in Ebara-gun, Tokyo

1953
Commenced operations at the Kawasaki Plant, a comprehensive production facility, in Mizue-cho, Kawasaki

Taiyo Sanso Co., Ltd. (1946 –1994)

1946
Established as Taiyo Sanso Co., Ltd. (Completed first production facility and commenced sales in 1947)

1953
Diversified into the dissolved acetylene business; built the Osaka Plant (acetylene production facility)

1968
Established Kashima Sanso Co., Ltd., to supply industrial gases to industrial complex (petrochemicals) in Kashima, Ibaraki Prefecture, a joint venture with Mitsubishi Petrochemical Co., Ltd. (currently Mitsubishi Chemical Corporation)

1964
Opened first onsite plant (Shunan Plant; currently Shunan Sanso Co., Ltd.)

Launched production of semiconductor materials gases (neon) at Kawasaki Plant

Began full-scale imports and sales of helium gas

1971
Completed the world's first air separation plant employing liquefied natural gas (LNG) as refrigerant at Tokyo Liquefied Oxygen Co., Ltd.

1981
Commenced full-scale production and sales of stainless steel insulated bottles

Opened Iwate Gas Center, its first onsite total gas center (TGC) supplying gases for use in semiconductor fabrication

1967
Completed and delivered Japan's first food refrigerator "Magic Freeze" employing liquid nitrogen

1980
Established Japan Oxygen, Inc., in the United States

1982
Established National Oxygen Pte. Ltd. in Singapore in a joint venture with three local companies, notably National Iron and Steel Mills Ltd., Singapore's only government-owned steelmaker

1960s

Principal Industrial Gases
Oxygen, nitrogen (inert gas)

Industries Used in
Petrochemicals industry
Electronics

Principal Applications
- Refining
  Used in the production of a wide range of petrochemicals
- Prevention of oxidation
- Prevention of contamination

1970 – 1980s

Principal Industrial Gases
Oxygen, nitrogen, argon
Xenon, krypton, neon, monosilane gas, others

Industries Used in
Semiconductors
Nonferrous metals, metals
Aerospace, aircraft

Principal Applications
- Various production processes
- Smelting
- Emission spectrometry
- Plasma cutting
- Deoxidation
- Rocket fuel

1955
Commenced operations at the Takasaki Plant, the first dedicated liquefied gas storage and filling facility in Japan, which featured state-of-the-art equipment

1971
Established Shinyo Sanso Co., Ltd.; commenced operations at the Nitta Plant, a liquefied gas production facility

1975
Began supplying specialty gases to Mitsubishi Electric Corporation's Kumamoto Plant, diversifying into industrial gases for the electronics industry

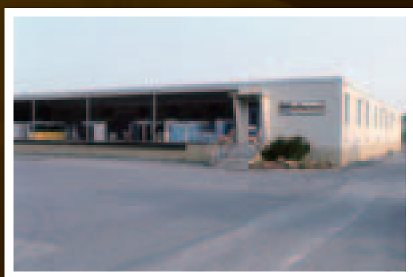
1987
Designated general supplier of specialty materials gases by Taiwan Semiconductor Manufacturing Company Limited (TSMC), marking the launch of full-scale supply of gases for semiconductor-related applications overseas

Established Kawaguchi Sogo Gas Center in joint venture with Showa Denko K.K., integrating the acetylene production and general-purpose gas filling operations of the two partners and forming Japan's largest gas filling company

1994
Signed merger agreement with Toyo Sanso K.K.

1983
Acquired Matheson Gas Products, Inc. of the United States; combination of Matheson Gas Products' specialty gas production technologies and Nippon Sanso's refining and separating technologies reinforced position in specialty gases business

Developed and commercialized total metal organic vapor deposition (MOCVD) system based in proprietary technologies



1989
Acquired the Thermos Group, a manufacturer of housewares

1992
Acquired industrial gases manufacturer Tri-Gas, Inc., in the United States

1994
Took an equity stake in industrial gases manufacturer Ingasco, Inc., in the Philippines

1996
Established Nippon Sanso Taiwan Inc. (currently Taiyo Nippon Sanso Taiwan, Inc.) to market specialty and high-purity gases and equipment and provide engineering services, in Taiwan

1999
Merged Matheson and Tri-Gas in the United States to create Matheson Tri-Gas, Inc.

1990s

Principal Industrial Gases

Oxygen, nitrogen, semiconductor gases, hydrogen

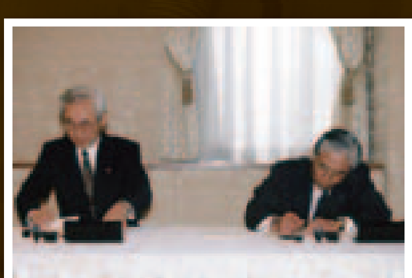
Industries Used in

Automobiles
Energy
Medicine
Engineering

Principal Applications

- Hydrogen fuel cells
- Medical equipment
- Linear motor cars

Taiyo Toyo Sanso Co., Ltd. (1995 –2004)



1995
Began operations

1996
Established Fu Yang Gas Co., Ltd., a production and sales company for industrial gases and semiconductor materials gases, in Hsinchu, Taiwan

1998
Acquired management rights to Nichigo Acetylene Co., Ltd.

2000
Transformed Nippon Tansan Co., Ltd., into a wholly owned subsidiary through share swap

2001
Established Japan Fine Products Co., Ltd., a supplier of specialty gases for semiconductor-related applications, in a joint venture with Nippon Sanso Corporation

2001
Established Japan Fine Products Co., Ltd., a supplier of specialty gases for semiconductor-related applications, in a joint venture with Taiyo Toyo Sanso Corporation

2003
Established Shanghai Nippon Sanso Gas Co., Ltd. (currently Shanghai Taiyo Nippon Sanso Gas Co., Ltd.) an industrial gases manufacturing and marketing company, in China

TAIYO NIPPON SANSO Corporation (2004 –)

2004
Merged to form Taiyo Nippon Sanso Corporation (October 1)

2006
Matheson Tri-Gas acquired Linweld Inc., a U.S. industrial gases production and marketing company

2007
Launched helium production project at joint venture established with Air Products and Chemicals, Inc., in the U.S. state of Wyoming

2000 – present

Principal Industrial Gases
Oxygen, nitrogen, semiconductor gases, helium

Industries Used in
Electronics, semiconductors

Principal Applications
- Production of light-emitting diodes (LEDs)

2003
Established Taiyo Toyo Trading (Shanghai) Co., Ltd., an importer of equipment and gases for semiconductor-related applications

Integrated Mitsubishi Chemical's separator gas business (Kurosaki, Mizushima and Yokkaichi plants) into TM Air Co., Ltd. (formerly Kashima Sanso)

2008
Established Taiyo Nippon Sanso (China) Investment Co., Ltd., and Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd., in China

2009
Matheson Tri-Gas acquired Valley National Gases LLC, the largest independent distributor of industrial gases in the United States

2009
Launched joint monosilane production project with Evonik Degussa Japan Co., Ltd.

2010
Matheson Tri-Gas acquired Western International Gas and Cylinders, Inc., a leading U.S. wholesale supplier of acetylene

Perception of the Business Climate in Key Markets

Japan

The steel, chemicals and electronics industries—the principal customer industries for piped gases continue to recover strongly, bolstered primarily by export demand from other parts of Asia.

In the area of piped gases for the steel industry, one of the primary users of piped gases, export demand, particularly from customers in the Republic of Korea and China, remains robust and steel exports at present are outpacing the previous peak (fiscal year 2008, when steel exports from Japan totaled 38.4 million tons), as a consequence of which domestic blast furnaces continue to operate at full capacity.

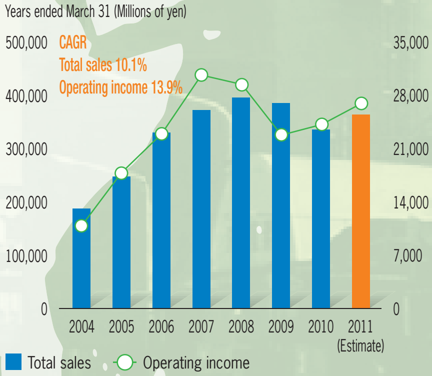
In piped gases for the chemicals industry, there is a likelihood that over the long term the supply–demand balance will weaken, owing to falling prices for the raw material naphtha accompanied by a slump in the markets for ethylene and other petrochemicals products, combined with the start of full-scale production at large-scale facilities in the Middle East and China. However, demand from China and other parts of Asia is recovering strongly, while sales to industrial complexes in Japan remain brisk.

Although demand for bulk gases for small and medium-sized customers appears to be recovering, the pace of improvement is moderate, underlined by a lack of drive in domestic consumption, capital investment and construction-related demand.

In the area of specialty materials gases for the electronics industry, market conditions are recovering steadily, reflecting improved production levels for semiconductors and liquid crystal displays (LCDs), together with the commencement of production of large LCDs at the Green Front Sakai in Osaka in October 2009 and the emergence of new demand for use in solar cells. Of particular note, with demand for light-emitting diodes (LEDs) for PCs, televisions, signage and lighting applications and power semiconductors rising rapidly, we are benefiting from firm orders from domestic and overseas customers as Japan's top manufacturer of gallium nitride (GaN) metal organic chemical vapor deposition (MOCVD) equipment. To better respond to customer needs, we are installing a new UR25K, a large-scale mass-production testing facility at our Tsukuba Laboratory, which conducts evaluations for customers, alongside the facility's existing testing line.

Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2010 and estimates for the year ending March 31, 2011.

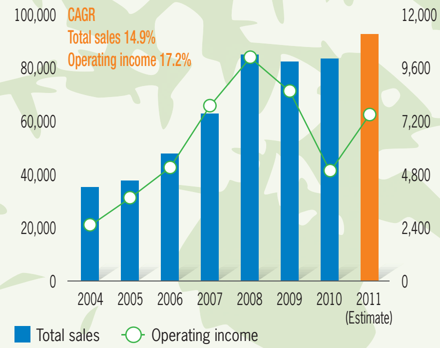
North America

Although economic conditions in the United States continue to recover at a leisurely pace, we continue to expand the nature of our local operations, having long positioned North America as a stable growth market.

In the six years since the merger that created Taiyo Nippon Sanso in 2004, we have invested approximately \$1.6 billion, both in M&A deals and in capital expenditures. In fiscal year 2011, the compound annual growth rate (CAGR) for sales is expected to reach 14.9% and we have begun to realize significant synergies. We are also seeing substantial growth in operating income, in line with initial projections. The sharp deterioration of economic conditions in fiscal year 2010 had a significant negative impact on our performance, but discounting this transitory episode our investments in the United States are yielding steady results. Looking ahead, we will work to enhance the efficiency of our U.S. operations and implement measures, including building a new gas production facility, while also seeking out attractive M&A opportunities, as part of a strategy aimed at ensuring sustainable expansion and growth.

Total Sales and Operating Income in North America

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2010 and estimates for the year ending March 31, 2011.

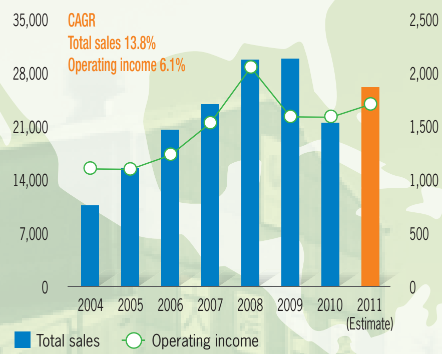
Asia

Despite a temporary interruption due to the collapse of Lehman Brothers, the economy of Asia, including China, and the region's industrial gases market were quick to bounce back and resume rapid growth. Recognizing the strategic importance of Asia as the driving force behind global economic growth, we continue to place a high priority on our operations in the region. While the market for industrial gases in Asia is still small in comparison with that of Japan or the United States, we have invested strategically in this tremendous growth potential market, approximately ¥25 billion over the past six years, particularly in gas production facilities.

To date, our ongoing investments in Asia have focused on capital expenditures designed to capitalize on growth in the market for general industrial gases, as well as other strategic efforts, shown in the list below. In recent years, we have focused on growing markets such as steel, petrochemicals and other heavy industry markets, solar cells, and on electronics markets, including LCDs and LEDs, building on our established base to seek out major investment opportunities in a bid to drive the further expansion and growth of our Asian operations.

Total Sales and Operating Income in Asia

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2010 and estimates for the year ending March 31, 2011.

Major recent investments in Asia

Singapore:	Built third air separation plant
Philippines:	Built second air separation plant
China:	Built air separation plant for Shanghai Taiyo Nippon Sanso Gas Co., Ltd.
	Acquired Yangzhou Taiyo Nippon Sanso Semiconductor Gases Co., Ltd.
	Invested in Taiyo Nippon Sanso Shenwei (Shanghai) Medical Gas Co., Ltd.
	Took an equity stake in Shanghai Shenwei Gas Filling Co., Ltd.
South Korea:	Established SKC Airgas Inc., joint venture with SKC

Projected investments in Asia in the near future

Vietnam:	Build air separation plant pursuant to agreement to supply industrial gases to a major steel maker (Ba Ria-Vung Tau, in southern Vietnam)
	Build air separation plant for joint venture with local gas company (Hanoi, northern Vietnam)
Philippines:	Build air separation plant (Mindanao)
	Build facility for specialty gases (Luzon)
China:	Complete air separation plant for Dalian Changxing Island Harbor Industrial Zone

To Our Stakeholders

Hirosuke Matsueda
Chairman

Yasunobu Kawaguchi
President

Early in fiscal year 2010, ended March 31, 2010, the global economic downturn—triggered by the financial and economic crisis that originated in the fall of 2008—continued to exert a negative impact on Japan's economy. The period began on a gloomy note as the unprecedented severity of the operating environment made it difficult for many beleaguered manufacturers to formulate plans for the period, forcing many to reduce capital investments significantly below their initial targets.

Subsequent months brought better news as the economies of China and other key emerging markets rebounded sharply, and stimulus measures implemented by various countries began to yield results. In Japan, signs of an improvement in performance were visible, particularly in major manufacturing industries, including electronics, chemicals, steel and automobiles. Other encouraging trends for Taiyo Nippon Sanso also emerged, including rising demand for solar cells and the increasing popularity of light-emitting diodes (LEDs) for use in PCs, televisions, lighting and other applications.

In the period under review, our efforts to achieve the targets set forth in our current medium-term management plan, which began in fiscal year 2009, were also hindered by the impact of global economic upheaval, which drove down domestic demand, causing our reality to diverge widely from the assumptions underlying the plan. As a consequence, we were unfortunately forced to shelve the initial targets we had set for the period. We did, however, make decisive moves aimed at responding to harsh economic conditions. Our principal emphasis was on shoring up income by further reducing costs. We also proceeded with ambitious efforts to accelerate the growth of our businesses—in line with the central strategies of our business plan, which are to focus allocation of management resources in growing markets and regions and to enhance the efficiency of Group management—and with preparations for repositioning ourselves on a growth trajectory.

Fiscal year 2011 marks the centennial of Taiyo Nippon Sanso's founding. The year will also be important in that it will lay the foundation for our next medium-term business plan. Having taken the helm in June 2010, we look forward to guiding Taiyo Nippon Sanso's drive to achieve sustainable growth. In addition to ensuring a stable, safe supply of industrial gases, we pledge to continue leveraging our unique gas technologies to contribute to both industry and society. As always, we look forward to the ongoing trust and support of stakeholders in the years ahead.

August 2010

Hirosuke Matsueda, Chairman

Yasunobu Kawaguchi, President

Q Can you give us a status update on your current medium-term business plan?

Mr. Matsueda

We embarked on our current medium-term business plan in fiscal year 2009. Since then, our efforts have been greatly impeded by the global economic downturn, which has driven down domestic demand, causing reality to diverge widely from the assumptions underlying the plan. At the end of fiscal year 2009, we made the difficult decision to shelve the plan's initial targets.

Nevertheless, in fiscal year 2010, we continued to press ahead with efforts to respond to the economic upheaval. In particular, we sought to shore up income through increasingly rigorous cost-cutting measures and—in line with the central strategies of our business plan—to accelerate the growth of our businesses by focusing the allocation of management resources in growing markets and regions, expand upstream businesses and promote an ambitious mergers and acquisitions (M&A) strategy. Thanks to these efforts, I am confident that we are well prepared to reposition Taiyo Nippon Sanso on a growth trajectory.

The period brought a number of key achievements in the area of products and services for the electronics industry, which includes such high-growth fields as semiconductors, liquid crystal displays (LCDs), solar cells and light-emitting diodes (LEDs). For example, we completed and brought on line a new Total Gas Center to supply the largest LCD manufacturing complex in Japan. We also introduced new mass-produced, large-scale metal organic chemical vapor deposition (MOCVD) equipment for LED manufacturing processes, which met with

We're pressing ahead with efforts to accelerate expansion in high-growth markets

positive reviews from customers in this particularly fast-growing sector, underscoring our efforts to expand both our electronics materials gases and MOCVD equipment businesses. In addition, with the aim of establishing a strong foundation for the expansion of our supply capabilities for monosilane gas, demand for which is expected to grow sharply for applications in the manufacture of solar cells and LCDs, we are embarking on an exciting upstream manufacturing project.

Another key focus for us is to capitalize on the growth potential of key geographic markets. Since the merger that resulted in the creation of Taiyo Nippon Sanso, we have allocated considerable management resources to efforts aimed at strengthening our North American gas manufacturing and supply network through the acquisition of regional gas distributors and the purchase of helium assets. In fiscal year 2011, we expect the compound annual growth rate (CAGR) for sales in our North American gas business to reach 14.9%, based on actual total sales for fiscal years 2005 through 2010 and our estimate for fiscal 2011, underscoring the business' rapid expansion and increasingly strong market position. High-growth Asian markets, including China, also remain crucial, and we continue to take steps aimed at significantly increasing our manufacturing capabilities, thereby positioning us to leverage market growth to bolster the performance of our gas business. These include expanding our liquefied gas manufacturing capacity, securing orders for large-scale onsite gas supply systems and enhancing our production and supply facilities for specialty gases.

In Japan, we continue to forecast stable growth for the foreseeable future. To ensure our ability to benefit from domestic market growth, we are implementing a variety of measures aimed at enhancing operating efficiency, including consolidating Taiyo Nippon Sanso Group companies and upgrading key facilities.

We continue to take steps aimed at increasing our manufacturing capabilities

What will the change in management mean for the Company?

Mr. Matsueda

Since the merger that resulted in the creation of Taiyo Nippon Sanso, our stated goals have been to become a major player in Asia and worldwide. To these ends, we have pursued an ambitious program of business expansion, while at the same time promoting measures to enhance operating efficiency. Although we felt the impact of the global economic downturn keenly, the worst is past and we are now seeing definite signs of improvement. I am confident that the strong foundation we have built will stand in our stead as we endeavor to capitalize on the opportunities that recovery will bring. Fiscal year 2011 will be a particularly important year for Taiyo Nippon Sanso, as we will launch a new medium-term business plan. We felt that a new management team with a fresh face at the top would be particularly conducive to the development and implementation of a new plan, and so the decision was made to appoint a new president.

Mr. Kawaguchi

Fiscal year 2011 will be an especially critical juncture for Taiyo Nippon Sanso. We will also be celebrating our centenary, so I definitely feel the weight of responsibility taking over the helm at this time. I intend to continue on the strategic course established under Mr. Matsueda's capable leadership, while keeping vigilant watch over market trends and changes in the global industrial structure, thereby ensuring the flexibility necessary to respond effectively, and accelerate our march forward.

As always, the fundamental goal of our new medium-term business plan will be to map out strategies aimed at securing sustainable growth. Our efforts in three key fields—namely, the environment, energy and resources—will be crucial

Our fundamental goal is to map out strategies aimed at securing sustainable growth

to achieving this goal in the years ahead. Accordingly, we will leverage our technological capabilities to reduce consumption of electric power at our gas manufacturing plants and of fuel in logistics, thereby reducing emissions and contributing to efforts to reverse global warming. We will also apply our gas technologies in this effort, developing high-efficiency oxygen burners and promoting the use of MG Shield, a high-SF6 cover gas with a low global warming potential (GWP), together with our effective SF6 recovery system, which help users to reduce their emissions of greenhouse gases. In the energy and resources fields, we will not only pursue further efforts in our mainstay electronics market to broaden the use of solar cells, increase manufacturing efficiency and cultivate new applications for LEDs, but also participate in initiatives designed to increase energy efficiency through the production and supply of biogas and the development of highly superconductive cooling equipment.

These and other of the Group's technologies will thus play a key role in our pursuit of flexibility and sustainable growth going forward.

Q *In closing, can you give us your views on Taiyo Nippon Sanso's management vision?*

Mr. Matsueda

With an unshakable commitment to our management philosophy—"Market-driven collaborative innovation: Improving the future through gases," we will press forward with efforts to cultivate new markets, assure sustainable growth and broaden the potential of industrial gases, proudly bearing our slogan, "The gas professionals." As members of society, we also recognize that we have an obligation to conduct our operations in accordance with accepted values and ethical norms, thereby driven to manage the Company in a manner that is both fair and appropriate, to exist in harmony with society and achieve innovation-driven growth.

Mr. Kawaguchi

I would just like to add to what Mr. Matsueda has said by reiterating our conviction that the verification of the safety, security and quality of all of our products and services is the cornerstone of good management. In line with this conviction, we seek constantly to improve and strengthen our product safety inspections and operational safety audits and to reinforce our quality assurance systems. Going forward, we will continue working to earn the trust of our customers and of society, establish and maintain a sound operating foundation and contribute to the advancement of industry and society.

Message from Keiichi Kiyota, Independent Outside Corporate Auditor

1. Background to the appointment of independent outside corporate auditors in Japan

To protect the interests of general (i.e., minority) shareholders, the Tokyo Stock Exchange requires companies listed on the exchange to secure independent directors and/or auditors who have no conflict of interest with general shareholders. I was appointed as an independent outside corporate auditor by Taiyo Nippon Sanso to fulfill this requirement.

2. The role of corporate auditors in Japan

Under Japan's Companies Act, for companies having adopted the Company with Board of Auditors model, the execution of duties by directors is monitored and supervised by the Board of Directors and simultaneously audited by corporate auditors. While this system is often criticized for limiting the ability of corporate auditors to fulfill their responsibilities because it does not accord them voting rights on the Board of Directors, it is also greatly valued because it facilitates both effective supervision of decision making by directors other than those directly involved in the process, and objective auditing by corporate auditors who are independent and thus have no conflict of interest.

While the term "auditor" is commonly used in English for corporate auditors in Japan, this does not capture the full extent of the auditor's role. Corporate auditors not only audit the financial statements prepared by the directors, but also monitor the decision-making process—accomplished through resolution of the Board of Directors or the ringi system, a system for proposal ratification common in Japan; supervise the discharge of duties by individual directors and inspect documentation pertaining to resolutions and decisions made by directors, thus enabling them to comprehensively oversee the execution of duties by directors.*

3. Taiyo Nippon Sanso's auditing system

Taiyo Nippon Sanso has four corporate auditors, all of whom are full time, which affords them adequate access to internal information, the ability to interview/question directors and employees whenever necessary and otherwise aids their ability to fulfill their roles. Taiyo Nippon Sanso's corporate auditors are also in a position to work closely with the Company's Technological Affairs Division, which is responsible for managing technology risks; the Corporate Audit office, which is responsible for internal audits and reports directly to the president; and the General Administration Division and Corporate Administration Division, which have established and administer the Company's system of internal controls.

In addition to safeguarding and further enhancing this open atmosphere, I will continue to value my independence from the directors and to reinforce my capacity to work with the independent public accountants in auditing the Company's accounts, and to monitor, supervise and express opinions, as necessary, at important meetings, including those of the Board of Directors.

4. Future goals

By capitalizing on the skills, knowledge and experience gained as a corporate auditor over seven years, as a graduate of New York University School of Law and as an officer in American, British and Japanese corporations, I pledge to continue devoting my best efforts to helping Taiyo Nippon Sanso meet the expectations of its general shareholders and other stakeholders. To this end, I will continue to support the Company, a globally active organization, in its endeavors to increase corporate value through appropriate management and sound expansion.

K. Kiyota

Keiichi Kiyota
Independent Outside Corporate Auditor

* Corporate auditors are thus the last bastion of responsibility in ensuring the effective execution of duties by directors. The Tokyo Stock Exchange's recently added provision that listed companies appoint independent outside corporate auditors is a change that will further strengthen this role.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hirosuke Matsueda

President
Yasunobu Kawaguchi

Executive Vice President
Fumio Hara

Executive Directors/Advisors
Konosuke Ose
Hiroshi Taguchi

Senior Managing Directors
Masashi Yamashita
Ken-ichi Kasuya
Toshio Sato
Shinji Tanabe
Kunishi Hazama
Tadashige Maruyama

Managing Directors
Akira Ito
Yoshikazu Yamano
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada

Executive Directors
Ryuichi Tomizawa *1
William J. Kroll

Corporate Auditors

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

Corporate Officers

Executive Corporate Officers
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shin-ichiro Hiramine
Akihiko Umekawa
Keiki Ariga

Corporate Officers
Masakazu Naruo
Masahiro Imagawa
Tetsuya Nakayama
Masami Sakaguchi
Susumu Naka
Yoshihide Kenmochi
Yuki Hajikano
Shigenobu Somaya
Jun Ishikawa
Takashi Tatsumi
Masahiro Sakamoto
Takashi Fukano
Masahiko Kitabatake
Mikio Yamaguchi
Hiroyuki Tanizawa
Tadashi Higashino
Atsuhiro Fujita
Toshiaki Yamazaki
Hiroshi Nagae

(As of June 29, 2010)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Special Feature

Putting Strategies into Action: Laying a Foundation for Future Growth

Taiyo Nippon Sanso continues to promote ambitious strategies in line with four key goals:

- **Accelerate profitable growth**
- **Promote globalization**
- **Pursue cost reductions**
- **Strengthen Group management**

Taiyo Nippon Sanso has positioned fiscal year 2011 as a year for further reinforcing its operating foundation in preparation for the launch of its next medium-term business plan. In this year's special feature, we look at three themes that will guide us as we endeavor to transform Taiyo Nippon Sanso into an entity capable of sustainable, profitable growth, as well as how these themes fit with our basic business strategies.

Theme 1

Concentrate resources in growth markets

- Expand sales of MOCVD equipment
- Press ahead with monosilane gas production project
- Pursue helium gas production projects

Theme 2

Enhance our position in promising geographic markets

- Step up expansion of our North American gases business
- Decisively build up our operations in Asia

Theme 3

Advance our environment, resource and energy businesses

- Develop biogas refining units
- Perfect new technologies for highly oriented carbon nanotubes
- Foster hydroenergy businesses
- Develop cryogenic systems for superconductive devices

Theme 1

Concentrate resources in growth markets

Expand Sales of Gallium Nitride (GaN) MOCVD Equipment

The increasing popularity of white LEDs in lighting is spurring demand for LEDs and, in turn, for gases used in LED manufacturing. In response to rising demand from LED manufacturers, who are investing actively to expand production capacity, we are capitalizing on our supply capabilities for these gases and our vertically integrated production system—which encompasses all aspects of production, from refining through to adsorption—and allocating management resources to efforts aimed at reinforcing our electronic materials business, which includes metal organic chemical vapor deposition (MOCVD) equipment for use in LED and power semiconductor manufacturing.

With the aim of increasing diode brightness without increasing power requirements, LED manufacturers are working to develop chip technologies that facilitate the efficient conversion of power into light, as well as to keep manufacturing costs down.

To manufacture high-brightness chips, we are focusing on controlling the volume and speed of gas injection and use a three-layered gas flow system, minimizing defect rates and making it possible to ensure high quality. We are also responding to the trend toward larger-diameter wafers and high-throughput manufacturing systems, which increase the number of LEDs per batch and shorten the time required, thereby reducing manufacturing costs.

Our share of the Japanese market for MOCVD equipment is currently in the area of 80%, and our MOCVD business boasts annual sales of approximately ¥3.3 billion. In addition to sales in Japan, we also accept major orders for MOCVD equipment from the Republic of Korea, Taiwan and other overseas markets. We do not forecast a strong increase in sales overseas in fiscal year 2011, but we do expect overseas sales to increase to 40% of total MOCVD sales by fiscal year 2012 and anticipate annual sales rising to ¥10 billion in the near future. In late 2010, we expect to complete a state-of-the-art, large-scale mass production system for six- and eight-inch wafers—the first such system in the world.

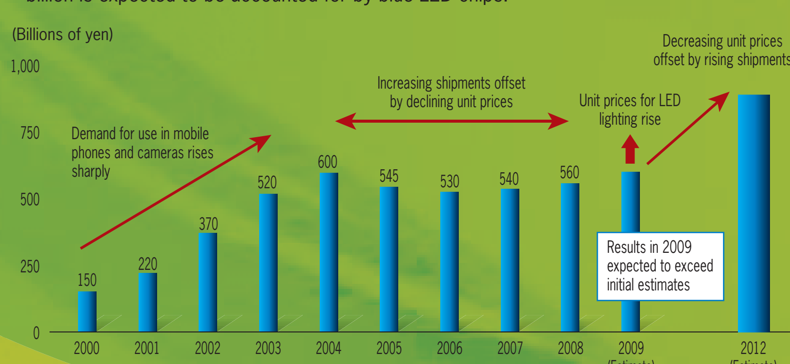
Joint Monosilane Gas Production Project

To reinforce our position as a producer of gases for the electronics industry, we continue to promote an ambitious program of strategic investments both in Japan and overseas. In 2009, we announced the launch of a project with Evonik Degussa Japan Co., Ltd., an affiliate of Evonik Industries AG of

Global Market for LED Chips

(Figures are for blue and other LED chips)

- In 2008, the global market for LED chips amounted to ¥560 billion, of which ¥340 billion was accounted for by blue LED chips.
- In 2012, the global market for LED chips is expected to reach ¥800 billion, of which ¥600 billion is expected to be accounted for by blue LED chips.



Source: The Semiconductor Industry News estimate

Germany, to produce monosilane gas, which is used in the manufacture of semiconductor devices, liquid crystals displays (LCDs) and solar cells. Under the terms of the agreement, we will set up a joint venture with Evonik Degussa Japan in 2010 with a view to commencing operations in March 2011.

Through this agreement, we aim to respond to growing global demand for monosilane gas. The joint venture will employ an innovative process whereby a thin silicon film is produced on a substrate for a silicon wafer, LCDs or solar cell from a silicon-based precursor using chemical vapor deposition (CVD).

The agreement calls for construction of a plant with an annual production capacity of 1,000 tons in Yokkaichi, Mie Prefecture.

Together with silane gas filling subsidiary Yangzhou Taiyo Nippon Sanso Semiconductor Gases Co., Ltd. in China, the new joint venture will play a crucial role in ensuring a stable supply of products in the region.

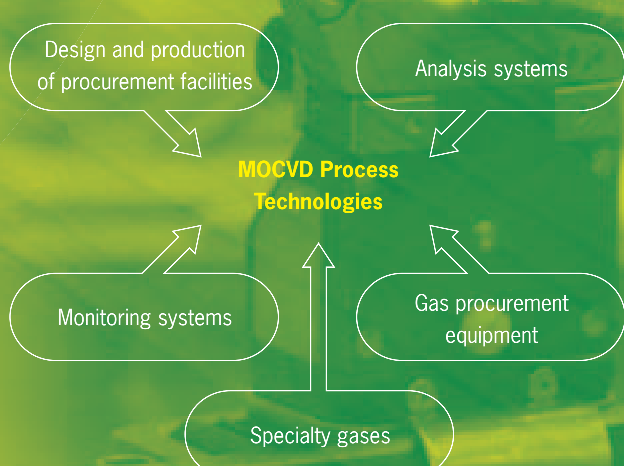
Expand Helium Gas Sales Through Major Projects

Helium gas is used in a wide range of applications, including the fabrication of semiconductor devices and LCDs for electronics industries and the manufacture of optical fibers, while liquid helium is needed as a coolant for magnetic resonance imaging (MRI) devices. Despite the importance of helium, however, supplies worldwide are extremely limited.

In 2006, we purchased the helium gas business of the former BOC Group plc, as a result of which we gained BOC's helium source contracts and other related assets in the United States, Russia and Poland. Capitalizing on our newly acquired position as one of only six companies in the world with rights to conduct transactions directly with major helium producers, we designated our helium business as a key growth driver. In 2007, subsidiary Matheson Tri-Gas, Inc., formed a joint venture with Air Products and Chemicals, Inc., of the United States, thereby establishing itself as a helium manufacturer, and resolved to begin production at a new helium plant in the American state of Wyoming in 2012.

With the aim of securing new sources of helium in the United States and further strengthening our position as a top supplier in Japan, we recently commenced helium sales in China. Acting through Matheson Tri-Gas, we signed a long-term helium supply agreement with Jiyang Technology & Development Co., Ltd., China's largest independent helium distributor. We also signed a helium supply agreement with Jinhong Gas Co., Ltd., of Jiangsu Province, which is building a new helium filling base. In spring 2010, we acquired former helium customer K-Air Gases India Private Limited, which was subsequently renamed Matheson K-Air Gases India Private Limited, thereby enabling us to expand helium operations in India.

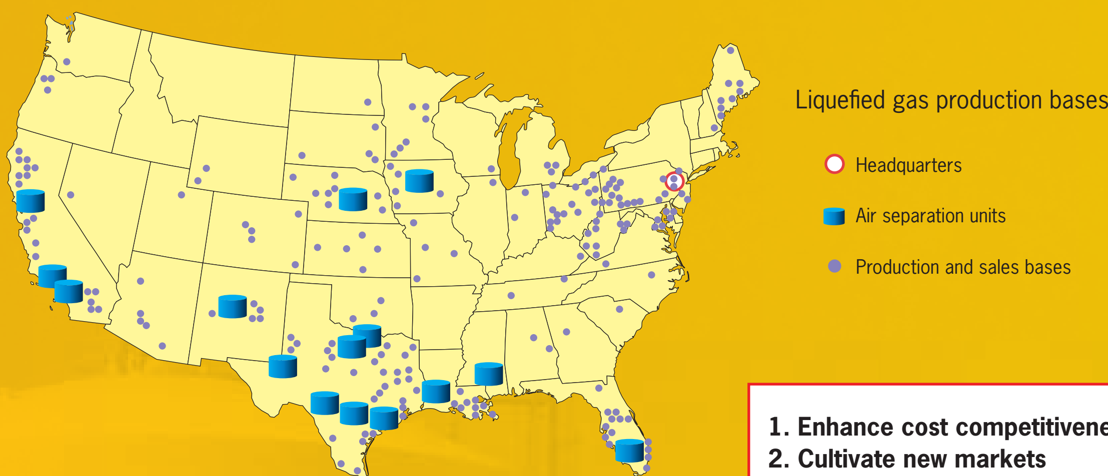
Taiyo Nippon Sanso: Total Solutions for Compound Semiconductors



Theme 2

Enhance our position in promising geographic markets

Expansion and Growth of U.S. Operations 2010



1. Enhance cost competitiveness
2. Cultivate new markets

Strengthen presence in the United States

Accelerating Effort to Strengthen Our North American Industrial Gases Business

In line with our strategy of enhancing our position in promising geographic markets, in May 2010, we acquired Western International Gas and Cylinders, Inc., a leading U.S. wholesale producer and supplier of acetylene gas. This followed our April 2009 acquisition of Valley National Gases LLC, the largest privately held U.S. distributor of industrial gases.

Looking ahead, we will capitalize on synergies among Valley, Western and Matheson Tri-Gas, which boasts a network of production and sales bases across North America. We will also work to expand our share of regional industrial gases markets.

To date, we have promoted the focused allocation of management resources in North America, expanding our network of liquefied gas production bases, acquiring local distributors and securing helium source contracts. These and other measures have steadily enhanced our presence in the region. We will continue to take decisive steps to increase the efficiency of our operations and build new gas production facilities. We will also seek attractive M&A opportunities while at the same time implementing strategies aimed at ensuring sustainable growth.

Expanding Operations in Asia

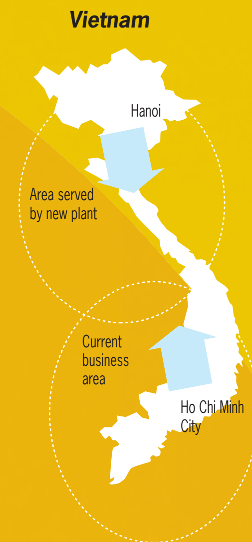
The industrial gases business is by nature closely tied to the local economy. In developing countries in Asia, economic growth is driving the need for effective resource and energy development and supply infrastructures, underscoring the increasing importance of these countries as markets for companies like Taiyo Nippon Sanso and stimulating intense competition for market share among industrial gas companies,

including the major global players. In this environment, we recognize that enhancing our production capabilities in Asian markets as strategically crucial to future growth and are taking active steps, particularly in the Philippines and Vietnam, to address this challenge.

In the Philippines, the annual market for industrial gases reached approximately ¥15 billion in 2009, and is expected to continue growing by around 7% or 8% annually for the foreseeable future. The country is an increasingly popular choice among European and North American manufacturers—particularly in the electronics industry—as a location for offshore production facilities, and exports of semiconductor devices and electronics equipment to the United States, the European Union (EU), Japan and China, among others, are expanding in line with global economic recovery. Numerous ambitious infrastructure projects, including building, subway, road and water supply facilities, are also being implemented. In response, we are working to enhance the production capabilities of locally incorporated subsidiary Ingasco, Incorporated and Taiyo Nippon Sanso Philippines Inc., the leading name in industrial gases in the Philippines.

On the island of Mindanao, in the southern part of the country, we plan to build an air separation plant to supply oxygen, nitrogen, argon and other gases for use in furnaces and to food products manufacturers. The new plant will have a capacity of 2,000 Nm³/hour; combined with its existing liquid gas production capacity, which is currently 20,000 Nm³/hour, this will give Ingasco a market share in excess of 50%. Additionally, on the northern island of Luzon, we plan to build a facility for specialty gases for semiconductor fabrication at the site of our existing air separation plant in Batangas. Including benefits from investment in the two new plants, estimated at approximately ¥2.0 billion, we aim to double our sales in the Philippines by fiscal year 2015, to ¥8.0 billion.

In Vietnam, other major global players have established source fields in the north. In contrast, we produce and supply separated gases through subsidiary Vietnam Japan Gas Co., Ltd., in the south, where we enjoy a commanding market share. With the aim of securing the top market share throughout Vietnam, we have earmarked approximately ¥4.0 billion for major investments in both the north and the south. Recently, we signed a long-term contract to supply industrial gases by pipeline to Pomina Steel Co., Ltd., Vietnam's largest electric furnace steel manufacturer. Under the terms of the contract, we will build an air separation plant—our fourth in the country—with a capacity of 11,000 Nm³/hour at Phu My I Industrial Park, in the province of Ba Ria-Vung Tau. We aim to commence full production at the new plant in 2012.



In northern Vietnam, we have established a joint venture with a local gas producer and will build an air separation plant at Thang Long Industrial Park II, in the province of Hung Yen. The new plant will have a capacity of 3,500 Nm³/hour, thus giving Vietnam Japan Gas a domestic market share of approximately 40% and the top position in the Vietnamese market.

Theme 3

Advance our environment, resource and energy businesses

Developing Biogas Refining Units

With the aim of encouraging the greater use of biogas in the home, we have developed an innovative compact pressure swing adsorption (PSA) biogas refining unit. The unit is capable of increasing the purity of methane gas yielded by sewage sludge, livestock manure and food waste from the normal by 60% to 98% or higher, on a par with standard city gas.

In simulation testing of home biogas supply systems, employing transport and storage technologies, conducted at the Yamaga Biomass Center in Japan's Kumamoto Prefecture, this unit was assessed to have the necessary performance capabilities, leading to its choice for use in Japan's first system for supplying biogas to ordinary homes. We also received an order for biogas refining units for use in a project to demonstrate the potential of supplying biogas and city gas using the same pipelines. These units are effective in reducing emissions of greenhouse gases. Going forward, we look forward to ever-greater opportunities to demonstrate the capabilities of our biogas refining units in applications designed to provide viable alternatives to city gas.

Perfecting New Technologies for Highly Oriented Carbon Nanotubes

In collaboration with the Osaka Science & Technology Center, Osaka Prefecture, and Hokkaido University, we recently succeeded in perfecting dispersion solution and film transfer technologies for vertically aligned carbon nanotubes. Dispersion solution is used to dissolve the tubes, making it easy to introduce plastic or other substances and facilitating extended dispersion, i.e., for more than 1,000 hours. Film transfer is used to harden densely aligned long nanotubes in resin into a sheet formation, facilitating use for applications requiring a high degree of electroconductivity, including solar cells, fuel cells, lithium-ion batteries and other electrode materials, as well as in electron emission devices for displays. To date, the extremely narrow space between high-density long carbon nanotubes and their propensity to bundle made it impossible to create uniform sheets in resin.

Fostering Hydroenergy Businesses

For some years, we have participated in a variety of energy-related national projects in Japan, focusing primarily on the development of gas technologies necessary to the realization of a practical hydrogen-based energy system in the future. These efforts have met with considerable success.

In 2015, Japan intends to begin creating a full-scale network of hydrogen stations. One immediate outcome of this is expected to be sharp growth in the market for hydrogen fuel cells and related products; a private-sector research firm recently estimated that the market would increase to approximately ¥1,500 billion annually by 2020, from ¥10 billion today. While hurdles to the popular adoption of fuel cell vehicles (FCVs) remain, including high cost, a lack of filling facilities and disagreement as to how hydrogen fuel cells should be mounted, they offer a powerful alternative, along with electric vehicles, for the next generation of automobiles. FCVs are also attractive for their ability to contribute to the reduction of CO_2 emissions. We are currently involved in a number of pilot initiatives, including the construction of hydrogen stations, designed to facilitate the development of an optimal hydrogen supply system.

Developing Cryogenic Systems for Superconducting Power Applications

Superconductivity is relevant in many markets, including electric power, electronics and transport. We are currently involved in a number of initiatives aimed at developing cooling technologies for use in the transport industry (for superconducting motors for ships and railways) and in smart grids (for superconducting transformers and cables to facilitate the efficient control and transmission of power.)

Responding to Advances in Superconductivity

Smart grids

Between 2010 and 2030, latent demand for smart grids in Japan, the United States and Europe is expected to be worth ¥125 trillion.

(Source: Financial & Economic Research Center, Nomura Securities Co., Ltd.)

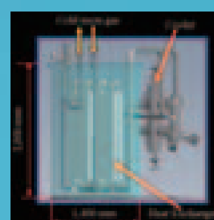
Markets for superconductivity

- Electronics
- Medicine
- Others
- Transport
- Research
- Electric power

Superconductive motors for ships

Cryogenic Systems for Superconductive Devices

Compact neon gas cryogenic unit



Specifications

Cooling efficiency: 0.06 at 80 kelvin/
Cooling capacity: 2 kW at 65 kelvin

Principal markets

- Superconducting magnetic energy storage (SMES)
- Superconducting transformers (power transmission)
- Superconducting cables (power transmission)
- Superconducting generators (power generation)
- Superconducting motors (transport)

Cryogenic system for superconducting power applications

- **The world's first cryogenic unit employing neon gas**
- **Promotion and advancement of technologies for the production and handling of subcooled liquid nitrogen**

Provide cooling systems and management services that respond to the increasing use of superconductivity

In 2007, a collaborative project between industry and academia that also involved IHI Corporation, Sumitomo Electric Industries, Ltd., Hitachi, Ltd. and the University of Fukui, as well as us, succeeded in developing a liquid nitrogen-cooled bismuth alloy superconducting motor with a greater displacement than any other such motor to date. Our contribution was the design and production of the cryogenic vessel and automatic cooling system. With the cooperation of Kyushu University and the International Superconductivity Technology Center (ISTEC), in January 2008, we developed the world's first neon turbo refrigerator.

Japan's New Energy and Industrial Technology Development Organization (NEDO) is currently pursuing a superconductive device development project. NEDO has set a target for the use of high-temperature yttrium-based superconductive materials developed under this program, which are now entering the actual production stage, in next-generation superconducting magnetic energy storage (SMES) systems, superconducting cables and superconducting transformers by 2012. We are responsible for developing cryongenic systems for the third application, that is, for superconducting transformers.

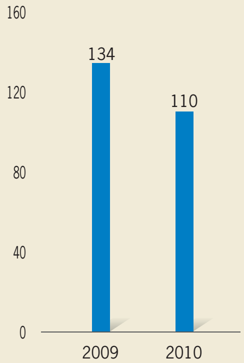
With latent demand expected to be worth a cumulative total of ¥125 trillion over the next 20 years, the market for smart grids, which are essential to the spread of superconductivity, offers considerable promise. We expect to play a key role in the creation of a smart grid infrastructure, capitalizing on our accumulated know-how in industrial gases to promote the development and early commercialization of related cryogenic systems.

Our Businesses

Electronics-Related Business

Sales of Electronics-Related Business

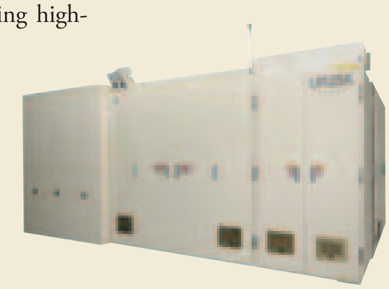
Years ended March 31 (Billions of yen)



Amidst advances in device integration and the use of thin films in semiconductors and the increasing size of LCDs, and with rising demand for solar cell 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.

As part of our broad range of solutions for semiconductor, LCD and solar cell manufacturing processes, we also provide MOCVD equipment for manufacturing compound semiconductors, which are mounted in LEDs for LCDs and PC backlights; installation of environment-friendly gas purification and abatement systems in optimal locations; construction of special piping that draws on our industrial gas supply technologies; and remote monitoring of safety levels and design alarm systems. We operate in Japan and around the world as a partner to electronics manufacturers, producing and selling high-purity industrial gases, electronic materials gases and electronics-related equipment to customers as a total solutions provider.

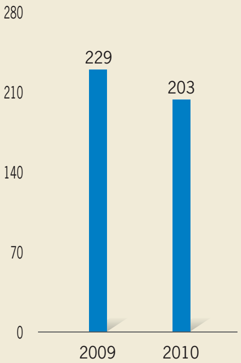


Fiscal year 2010 sales	Approximately **¥110,879 million**
Principal products and operations	High-purity nitrogen and argon Electronic materials gases, including Safe Delivery Source (SDS) MOCVD equipment Gas purification, abatement and other systems High-purity gas supply facility installation and construction
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, encompassing gas, equipment and installation • Comprehensive, world-class technologies • Highly experienced engineering department 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 year 2010 highlights	Released “UR25K”, a state-of-the-art large-scale MOCVD system • Began supplying electronic materials gas and regular industrial gases to the Green Front Sakai factory complex in Osaka • Commenced joint development of next-generation semiconductor process technologies with IBM • Began joint construction of monosilane plant with Evonik Degussa Japan Co., Ltd. • Reinforced semiconductor specialty gases supply capabilities of National Oxygen Pte Ltd.

Gas Business

Sales of Gas Business

Years ended March 31 (Billions of yen)



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.

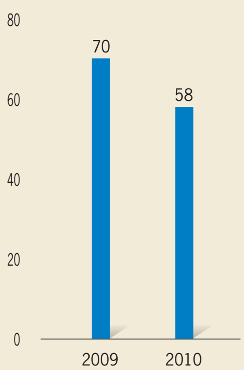
Fiscal year 2010 sales	Approximately **¥203,894 million**
Principal products and operations	Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium and other industrial gases Gas supply (filling, transport, storage) equipment, facilities installation and construction Gas equipment (including for cutting, 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 • Continuing to make assertive investments in the Philippines, Vietnam and Singapore with the aim of establishing a nationwide presence in each • 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 and helium
Fiscal year 2010 highlights	• Acquired Valley National Gases LLC, the largest privately held U.S. distributor of industrial gases • Received an order for pressure swing adsorption (PSA) biogas refining equipment to be used in Japan's first project for the input of biogas into city gas pipelines • Acquired 51% stake in K-Air Gases India Private Limited of India, which became a consolidated subsidiary • Built new air separation plant for Shin Sagami Sanso Co., Ltd.

Our Businesses

Onsite and Plant Business

Sales of Onsite and Plant Business

Years ended March 31 (Billions of yen)



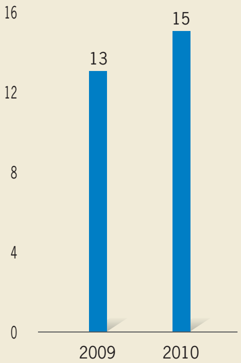
In the onsite business, Taiyo Nippon Sanso constructs large cryogenic air separation plants on the premises of major industrial gas users, notably steel mills and chemical complexes. We also provide stable supplies of oxygen and nitrogen through our pipelines. Our onsite business operates around the 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, 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. In addition, we supply equipment for exploring basic physics and discovering new functional materials.

Fiscal year 2010 sales	Approximately **¥58,500 million**
Principal products and operations	Onsite operations: 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 operations: Systems for the safe and stable supply of large volumes of gas 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 year 2010 highlights	• Built a new plant at Shin Sagami Sanso Co., Ltd.'s factory in Oyama, Tochigi • Completed and commenced operations on two air separation plants with capacity of 18,000 Nm^3/hour in the American states of Iowa and Texas • Began construction of new plants in the Phillipines and Vietnam • Completed air separation plant with capacity of 8,000 Nm^3/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

Sales of Medical-Related Business

Years ended March 31 (Billions of yen)



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.

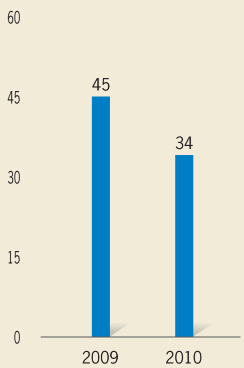
Fiscal year 2010 sales	Approximately **¥15,005 million**
Principal products and operations	Medical-related oxygen and other gases Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors Stable isotopes
Market needs	Quality control and assurance for medical-use gases Mass production and ongoing supply of stable isotopes used in cancer diagnostic agents
Competitive advantages	Reliable systems for manufacture and sale of pharmaceutical products • Continue to gather safety information and data Production and sale of pharmaceutical ingredients for positron emission tomography (PET) diagnostics • Strong position as manufacturer of Water–^{18}O, 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
Fiscal year 2010 highlights	• Established Taiyo Nippon Sanso Shenwei (Shanghai) Medical Gas Co., Ltd. • Expanded sales of stable isotopes and sought out M&A opportunities with the aim of strengthening medical gas and equipment businesses

Our Businesses

LP Gas Business

Sales of LP Gas Business

Years ended March 31 (Billions of yen)



LP gas is highly valued as a clean energy source, with applications ranging from industrial to household purposes. 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 year 2010 sales	Approximately **¥34,385 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 year 2010 highlights	• Integrated sales companies in the western region of Japan • Strove to achieve goal of 100,000 homes supplied through M&As and other initiatives

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2010**	2009	2008	2007	2006	2005
Net sales	**¥433,390**	¥495,746	¥507,718	¥458,587	¥397,308	¥300,055
Operating income	**27,556**	29,164	38,783	36,488	26,788	20,727
Net income	**15,748**	16,533	21,930	20,094	14,444	11,568
Selling, general and administrative expenses/Net sales (%)	**27.5%**	24.7%	23.1%	23.2%	24.0%	24.5%
Return on equity (%)	**8.3%**	8.6%	10.8%	10.6%	8.7%	8.7%[2]
Return on assets (%)	**2.4%**	3.1%	4.0%	3.6%	3.1%	3.3%[2]
Capital expenditure	**38,366**	66,010	36,260	35,891	22,176	38,092
Depreciation and amortization	**30,143**	28,339	25,506	21,210	18,982	14,592
Research and development expenses	**4,137**	3,936	2,903	2,713	2,223	2,056
Interest-bearing debt	**259,111**	191,074	159,500	152,232	122,196	122,089
Total net assets	**212,396**	194,250	217,813	216,068	178,055	154,207
Total assets	**617,215**	534,350	547,237	547,791	471,602	404,668

	Yen					
Per share data:						
Net income[1]	**¥39.39**	¥41.21	¥54.48	¥49.93	¥35.45	¥32.76
Cash dividends	**12.00**	12.00	12.00	12.00	10.00	9.00

	Times					
Price earnings ratio	**23.20**	15.55	14.65	21.31	24.54	19.17

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.

Management's Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

As of March 31, 2010, the Taiyo Nippon Sanso Group consisted of Taiyo Nippon Sanso Corporation (the parent company); 70 consolidated subsidiaries (43 based in Japan and 27 based overseas, including Valley National Gases, LLC and TI-Medical Co., Ltd., acquired on April 20, 2010); and 26 equity-method affiliates (10 based in Japan and 16 based overseas).

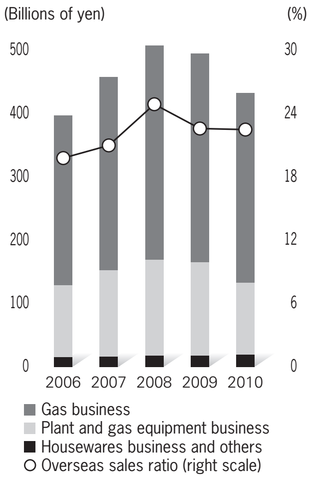
A total of 56 consolidated subsidiaries and 18 equity-method affiliates are accounted for in the Gas Business segment. The Plant and Gas Equipment Business segment comprises eight consolidated subsidiaries and one equity-method affiliate, while the Housewares Business and Others segment encompasses six consolidated subsidiaries and eight equity-method affiliates.

Operating Results

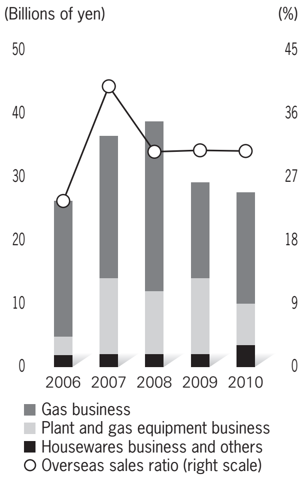
In fiscal year 2010, ended March 31, 2010, consolidated net sales were down 12.6%, to ¥433,390 million. Cost of sales fell 16.7%, to ¥286,529 million, while selling, general and administrative expenses slipped 2.7%, to ¥119,305 million, primarily reflecting a decrease in packaging and freight expenses. Owing to these and other factors, operating income declined 5.5%, to ¥27,556 million, although the operating margin edged up 0.5 percentage point, to 6.4%.

Other income soared 423.0% to ¥2,771 million. The absence of special loss prompted by a reversal of the allowance for doubtful accounts, which increased other expenses in the previous fiscal year, prompted a 40.8% decline in other expenses, to ¥1,638 million. As a consequence, net income amounted to ¥15,748 million, down 4.7%. Net income per share was ¥39.39, while return on equity (ROE) was 8.3%, 0.3 percentage point lower than in the previous fiscal year. At the

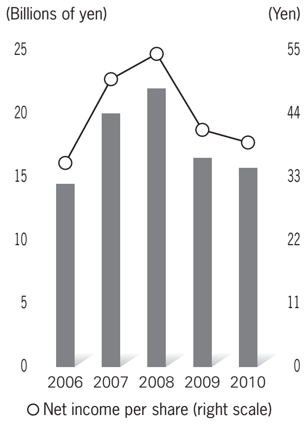
Net Sales



Operating Income



Net Income



general meeting of the Company's shareholders on June 29, 2010, a proposal to pay a full-term dividend of ¥12.00 for the period under review was approved.

Capital expenditures, including the cost of construction, totaled ¥38,366 million in the period under review, approximately ¥27,600 million less than in fiscal 2009. In contrast, depreciation and amortization increased ¥1,804 million, to ¥30,143 million. Investment in R&D rose ¥201 million, to ¥4,137 million, equivalent to approximately 1% of consolidated net sales.

Results by Segment

Gas Business

Shipments of the Company's principle gases—oxygen, nitrogen and argon—showed signs of improving overall, bolstered by increased exports in the electronics, automotive, petrochemicals and other related industries and a recovery in demand, thanks in part to domestic demand stimulus measures, as well as by the positive impact of an M&A deal during the period.

Against a backdrop of rising domestic demand in China and elsewhere in Asia for products used in the manufacture of high-end steel plates for automobiles and petrochemicals products, shipments of oxygen for supply through pipelines rallied strongly. Nonetheless, overall sales of oxygen, including liquefied gas, declined from the fiscal 2009 level.

Overall shipments and sales of nitrogen, including liquefied gas, also fell short compared with the previous fiscal year, despite firm demand from the steel, chemical and electronics industries for use in ensuring process safety and nitrogen purging, combined with demand for use at a new plant for large LCD panels established by Sharp Corporation.

Despite signs of a recovery in demand for use in the production of silicon liquid crystals and in stainless steel smelting, overall shipments and sales of argon also fell, owing to a steep decline in demand for use in welding.

As a consequence of these and other factors, sales in the Gas Business segment declined 8.9%, to ¥300,451 million. Operating income amounted to ¥22,443 million, essentially level with fiscal year 2009.

Plant and Gas Equipment Business

Sales and operating income in this segment declined from fiscal 2009, as persistent recessionary conditions in Japan prompted our electronics materials-related equipment and plant businesses to revise and/or postpone facility replacement plans and new investments.

Rising demand for liquid crystal backlights and LEDs for lighting applications combined with higher demand for electronic devices to support a 32% increase in sales in our compound semiconductor manufacturing equipment and MOCVD equipment business. With the release of Mache, a new large-scale model, which stimulated demand in Japan and overseas, bolstering orders, we increased the capacity of the test line at our Tsukuba Laboratory. In the current period, we will install a new, large-scale mass-production testing facility at the Tsukuba Laboratory.

Sales of welding equipment and materials fell short of the fiscal year 2009 level. This result was due to a sharp decline in domestic demand, attributable to decreased public-sector investment and to the postponement of capital expenditures in the private sector, which hampered demand for use in the manufacture of transportation and construction equipment. The decline in sales also reflected a slower-than-expected improvement in economic conditions in North America.

Owing to the aforementioned business results, among others, sales in the Plant and Gas Equipment Business segment declined 22.7%, to ¥113,997 million. Operating income plummeted 42.6%, to ¥6,646 million.

Housewares Business and Others

Sales in this segment were bolstered by robust shipments of sports bottles, Keitai Mug insulated mugs and the Shuttle Chef thermal cooker, all mainstay products of Thermos K.K. Segment sales rose 2.5%, to ¥18,941 million. Operating income climbed 52.9%, to ¥3,412 million.

Financial Position

As of March 31, 2010, total assets amounted to ¥617,215 million. Approximately ¥30,000 million of this total reflects a ¥1.0 increase in the value of the yen against the U.S. dollar on the last day of the fiscal year. The current ratio was 137%, a 12.0 percentage point improvement from the fiscal 2009 year-end. Property, plant and equipment increased 11.2%, to ¥259,963 million, primarily to the acquisition of a subsidiary in the United States. Investments and other assets climbed 31.5%, to ¥83,724 million, as a recovery in the stock market boosted latent profits on investment securities.

Total current liabilities declined 9.3%, to ¥149,583 million, as declines in notes and accounts payable—trade and the current portion of bonds countered an increase in short-term loans payable, a result of the shift of loans due within one year to the current portion. Total noncurrent liabilities rose 45.8%, to ¥255,236 million, owing primarily to newly issued bonds and an increase in long-term loans payable. These factors resulted in a ¥63,433 million increase in interest-bearing debt, to ¥259,111 million.

Total net assets increased ¥18,146 million, to ¥212,396 million, as retained earnings, adjusted for net income and dividends, rose ¥10,948 million and the valuation difference on available-for-sale securities increased ¥7,804 million, reflecting a gain in latent profits on securities of listed companies held for investment. The net asset ratio slipped 1.6 percentage points to 32.3%, while net assets per share rose ¥45.25, to ¥497.92.

Cash Flow Analysis

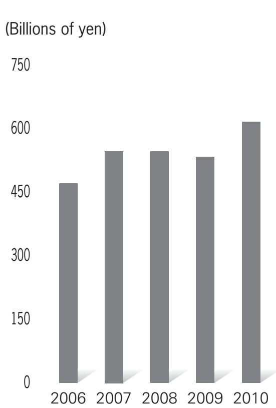
In fiscal year 2010, net cash provided by operating activities amounted to ¥40,730 million, down ¥11,182 million from fiscal 2009. Principal factors contributing to this result were a ¥8,517 million increase in notes and accounts receivable—trade, a ¥14,918 million decrease in notes and accounts—payable. The interest coverage ratio was 9.4 times, down 5.3 points.

Net cash used in investing activities, at ¥103,697 million, was up ¥33,597 million. This result reflected the application of ¥56,100 million to the purchase of investments in subsidiaries resulting in a change in the scope of consolidation and ¥2,622 million to the payment of loans receivable.

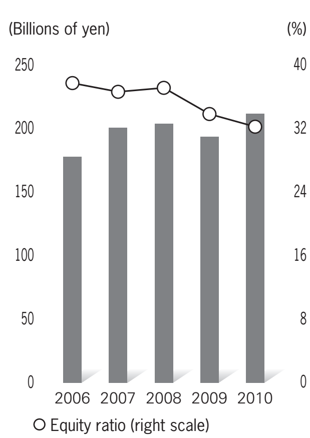
Net cash provided by financing activities amounted to ¥56,048 million, an increase of ¥22,088 million. The main factor at work here was an increase in proceeds from long-term loans payable.

As a consequence of operating, investing and financing activities in the period under review, cash and cash equivalents at end of term totaled ¥23,723 million, ¥5,053 million lower than at the fiscal 2009 year-end.

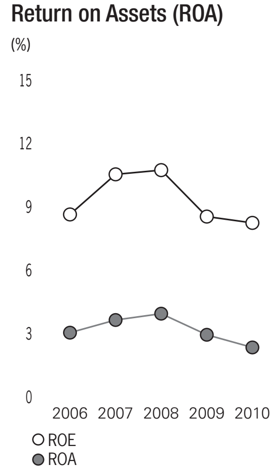
Total Assets



Equity



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



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 the Company's 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.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	2010	2009	2010
Assets			
Current assets:			
Cash and deposits (Notes 14 and 20)	¥ 24,029	¥ 29,208	$ 258,265
Notes and accounts receivable–trade (Notes 5 and 14)	127,687	116,977	1,372,388
Merchandise and finished goods	16,227	18,108	174,409
Work in process	12,474	17,803	134,071
Raw materials and supplies	7,353	8,597	79,031
Deferred tax assets (Note 9)	6,359	6,012	68,347
Other	12,158	10,966	130,675
Allowance for doubtful accounts	(976)	(1,771)	(10,490)
Total current assets	205,313	205,904	2,206,718
Property, plant and equipment (Notes 7, 8 and 19)	616,202	572,328	6,622,979
Accumulated depreciation	(356,239)	(338,497)	(3,828,880)
Property, plant and equipment, net	259,963	233,831	2,794,099
Investments and other assets:			
Investment securities (Notes 4 and 14)	62,178	43,930	668,293
Long-term loans receivable	2,921	651	31,395
Goodwill	47,441	22,285	509,899
Other intangible assets	20,772	8,665	223,259
Prepaid pension cost (Note 12)	11,230	12,518	120,701
Deferred tax assets (Note 9)	2,248	2,501	24,162
Other	7,780	6,753	83,620
Valuation allowance for investments	(1,357)	(1,430)	(14,585)
Allowance for doubtful accounts	(1,278)	(1,258)	(13,736)
Total investments and other assets	151,938	94,615	1,633,040
Total assets	¥ 617,215	¥ 534,350	$ 6,633,867

See notes to consolidated financial statements.

March 31	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 3) 2010
Liabilities and Net assets			
Current liabilities:			
Notes and accounts payable–trade (Note 14)	**¥ 67,926**	¥ 81,236	**$ 730,073**
Short-term loans payable (Notes 6 and 14)	**47,429**	49,495	**509,770**
Income taxes payable (Note 9)	**7,051**	6,162	**75,785**
Other	**27,174**	28,090	**292,068**
Total current liabilities	**149,583**	164,985	**1,607,728**
Noncurrent liabilities:			
Long-term loans payable (Notes 6 and 14)	**201,197**	135,659	**2,162,479**
Pension and severance indemnities (Note 12)	**5,051**	5,306	**54,288**
Deferred tax liabilities (Note 9)	**32,305**	18,639	**347,216**
Negative goodwill	**1,181**	1,718	**12,693**
Lease obligations (Note 6)	**8,957**	8,556	**96,270**
Other	**6,541**	5,234	**70,303**
Total noncurrent liabilities	**255,236**	175,115	**2,743,293**
Contingent liabilities (Note 13)			
Total liabilities	**404,819**	340,100	**4,351,021**
Net assets (Notes 10 and 21):			
Shareholders' equity:			
Capital stock:			
Authorized—1,600,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**290,617**
Capital surplus	**44,910**	44,910	**482,696**
Retained earnings	**142,426**	131,478	**1,530,804**
Treasury stock, at cost—			
3,268,919 shares in 2010 and 3,159,559 shares in 2009	**(2,307)**	(2,181)	**(24,796)**
Valuation and translation adjustments and others:			
Valuation difference on available-for-sale securities	**10,880**	3,076	**116,939**
Deferred gains or losses on hedges	**27**	(111)	**290**
Foreign currency translation adjustments	**(23,773)**	(23,011)	**(255,514)**
Accumulated other comprehensive loss	**(124)**	(163)	**(1,333)**
Minority interests	**13,317**	13,212	**143,132**
Total net assets	**212,396**	194,250	**2,282,846**
Total liabilities and net assets	**¥617,215**	¥534,350	**$6,633,867**

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	**2010**	2009	**2010**
Net sales	**¥433,390**	¥495,746	**$4,658,104**
Cost of sales (Note 16)	**286,529**	343,905	**3,079,632**
Gross profit	**146,861**	151,841	**1,578,472**
Selling, general and administrative expenses (Note 16)	**119,305**	122,676	**1,282,298**
Operating income	**27,556**	29,164	**296,174**
Other income (expenses):			
Interest and dividend income	**928**	1,313	**9,974**
Interest expenses	**(4,352)**	(3,504)	**(46,776)**
Amortization of negative goodwill	**750**	667	**8,061**
Gain on sales of noncurrent assets (Note 17)	**151**	354	**1,623**
Gain on extinguishment of tie-in shares	**332**	—	**3,568**
Compensation income	**264**	—	**2,837**
Loss on sales and retirement of noncurrent assets (Note 17)	**(1,146)**	(916)	**(12,317)**
Foreign exchange losses	**—**	(824)	**—**
Gain on sales of investment securities	**—**	9	**—**
Loss on valuation of investment securities	**(1)**	(209)	**(11)**
Loss on valuation of golf club memberships	**(68)**	(81)	**(731)**
Gain on sales of golf club memberships	**—**	2	**—**
Gain on sales of subsidiaries' stocks	**1,225**	—	**13,166**
Loss on sales of subsidiaries' stocks	**(18)**	—	**(193)**
Gain on sales of subsidiaries and affiliates' stocks	**49**	9	**527**
Equity in earnings of affiliates	**1,385**	1,333	**14,886**
Impairment loss (Note 18)	**(570)**	(141)	**(6,126)**
Provision of valuation allowance for investments	**(240)**	(450)	**(2,580)**
Reversal of valuation allowance for investments	**32**	—	**344**
Reversal of allowance for doubtful accounts	**716**	278	**7,696**
Provision of allowance for doubtful accounts	**—**	(722)	**—**
Environmental expenses	**(108)**	—	**(1,161)**
Loss on revision of retirement benefit plan	**—**	(333)	**—**
Early extra retirement payments	**—**	(311)	**—**
Other	**1,305**	200	**14,026**
	634	(3,325)	**6,814**
Income before income taxes and minority interests	**28,191**	25,839	**302,999**
Income taxes (Note 9):			
Current	**11,155**	12,332	**119,895**
Deferred	**146**	(4,089)	**1,569**
	11,301	8,243	**121,464**
Minority interests in income	**1,142**	1,062	**12,274**
Net income	**¥ 15,748**	¥ 16,533	**$ 169,261**

	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net assets	**¥497.92**	¥452.67	**$5.35**
Net income	**39.39**	41.21	**0.42**
Cash dividends	**12.00**	12.00	**0.13**

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 åon hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
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
Disposal of treasury stock	**—**	**—**	**0**	**—**	**14**	**—**	**—**	**—**	**—**	**—**	**14**
Change of scope of equity method	**—**	**—**	**—**	**—**	**(40)**	**—**	**—**	**—**	**—**	**—**	**(40)**
Dividends from surplus	**—**	**—**	**—**	**(4,799)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,799)**
Net income	**—**	**—**	**—**	**15,748**	**—**	**—**	**—**	**—**	**—**	**—**	**15,748**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(100)**	**—**	**—**	**—**	**—**	**—**	**(100)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**7,804**	**139**	**(762)**	**38**	**104**	**7,324**
Balance at March 31, 2010	**403,092,837**	**¥27,039**	**¥44,910**	**¥142,426**	**¥(2,307)**	**¥10,880**	**¥ 27**	**¥(23,773)**	**¥(124)**	**¥13,317**	**¥212,396**

					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, 2009	$290,617	$482,696	$1,413,134	$(23,442)	$ 33,061	$(1,193)	$(247,324)	$(1,752)	$142,003	$2,087,812
Disposal of treasury stock	**—**	**—**	**0**	**150**	**—**	**—**	**—**	**—**	**—**	**150**
Change of scope of equity method	**—**	**—**	**—**	**(430)**	**—**	**—**	**—**	**—**	**—**	**(430)**
Dividends from surplus	**—**	**—**	**(51,580)**	**—**	**—**	**—**	**—**	**—**	**—**	**(51,580)**
Net income	**—**	**—**	**169,261**	**—**	**—**	**—**	**—**	**—**	**—**	**169,261**
Purchase of treasury stock	**—**	**—**	**—**	**(1,075)**	**—**	**—**	**—**	**—**	**—**	**(1,075)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**83,878**	**1,494**	**(8,190)**	**408**	**1,118**	**78,719**
Balance at March 31, 2010	**$290,617**	**$482,696**	**$1,530,804**	**$(24,796)**	**$116,939**	**$ 290**	**$(255,514)**	**$(1,333)**	**$143,132**	**$2,282,846**

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	**2010**	2009	**2010**
Operating activities			
Income before income taxes and minority interests	**¥ 28,191**	¥ 25,839	**$ 302,999**
Depreciation and amortization	**30,143**	28,339	**323,979**
Impairment loss	**570**	141	**6,126**
Amortization of goodwill	**3,153**	1,961	**33,889**
Interest and dividends income	**(929)**	(1,313)	**(9,985)**
Interest expense	**4,352**	3,504	**46,776**
Equity in earnings of affiliates	**(1,385)**	(1,333)	**(14,886)**
Loss on sales and retirement of noncurrent assets	**941**	527	**10,114**
Gain on sales of investment securities	**(1,275)**	(19)	**(13,704)**
Gain on extinguishment of tie-in shares	**(332)**	—	**(3,568)**
Loss on sales of subsidiaries' stocks	**18**	—	**193**
(Increase) decrease in accounts receivable–other	**(78)**	470	**(838)**
(Increase) decrease in notes and accounts receivable–trade	**(8,517)**	18,962	**(91,541)**
(Increase) decrease in advance payments	**(337)**	1,006	**(3,622)**
Decrease (increase) in inventories	**11,420**	(4,970)	**122,743**
Decrease in notes and accounts payable–trade	**(14,918)**	(6,225)	**(160,340)**
Decrease in accrued expenses	**(1,934)**	(1,519)	**(20,787)**
Increase in advances received	**664**	503	**7,137**
Decrease in prepaid pension costs	**1,287**	670	**13,833**
(Decrease) increase in provision for retirement benefits	**(170)**	273	**(1,827)**
Other, net	**3,873**	2,011	**41,627**
	54,736	68,828	**588,306**
Interest and dividends income received	**1,353**	1,767	**14,542**
Interest expenses paid	**(4,315)**	(3,541)	**(46,378)**
Income taxes paid	**(11,043)**	(15,141)	**(118,691)**
Net cash provided by operating activities	**40,730**	51,912	**437,769**
Investing activities			
Increase in short-term investments	**137**	168	**1,472**
Purchases of property, plant and equipment	**(40,830)**	(58,703)	**(438,844)**
Proceeds from sales of property, plant and equipment	**576**	1,000	**6,191**
Purchases of intangible assets	**(160)**	(1,426)	**(1,720)**
Purchases of investment securities	**(4,685)**	(5,833)	**(50,355)**
Proceeds from sales of investment securities	**1,229**	102	**13,209**
Payments for assets purchase (Note 20)	**(2,137)**	(5,425)	**(22,969)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 20)	**(56,100)**	—	**(602,966)**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 20)	**1,547**	—	**16,627**
Payments of loans receivable	**(2,622)**	(30)	**(28,181)**
Other, net	**(651)**	48	**(6,997)**
Net cash used in investing activities	**(103,697)**	(70,100)	**(1,114,542)**
Financing activities			
Net (decrease) increase in short-term loans payable	**¥ (6,516)**	¥ 10,136	**$ (70,034)**
Net decrease in commercial papers	**(1,000)**	(4,000)	**(10,748)**
Proceeds from long-term loans payable	**81,345**	57,875	**874,301**
Repayment of long-term loans payable	**(10,986)**	(22,172)	**(118,078)**
Proceeds from issuance of bonds	**15,000**	—	**161,221**
Redemption of bonds	**(15,000)**	—	**(161,221)**
Repayments of lease obligations	**(1,444)**	(990)	**(15,520)**
Cash dividends paid	**(4,800)**	(4,831)	**(51,591)**
Cash dividends paid to minority shareholders	**(469)**	(280)	**(5,041)**
Purchase of treasury stock	**(82)**	(1,852)	**(881)**
Proceeds from sales of treasury stock	**2**	74	**21**
Net cash provided by financing activities	**56,048**	33,960	**602,408**
Effect of exchange rate change on cash and cash equivalents	**1,674**	(499)	**17,992**
Net (decrease) increase in cash and cash equivalents	**(5,243)**	15,273	**(56,352)**
Cash and cash equivalents at beginning of period	**28,776**	12,709	**309,286**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**108**	777	**1,161**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**82**	15	**881**
Cash and cash equivalents at end of period (Note 20)	**¥ 23,723**	¥ 28,776	**$ 254,976**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

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 Act of Japan (the "FIEA").

As permitted by the FIEA, 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 70 significant subsidiaries (71 in 2009). 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 FIEA, 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.

(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) Investment securities

Investments in securities are classified into three categories: trading securities, held-to-maturity securities and other securities. The Company and certain consolidated subsidiaries have marketable securities classified as other securities, which are carried at fair value with any changes in valuation difference on other 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 Companies Act of Japan (the "Act"), 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 consolidated domestic subsidiaries are stated at cost, determined by the average method, specific identification method or the moving-average method (lower than book value due to 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.

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

Property, plant and equipment is stated at cost, and for the Company and its consolidated 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 consolidated overseas 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

(f) Intangible assets

Goodwill and other intangible assets are stated at cost. As for the Company and its consolidated domestic subsidiaries, goodwill and other intangible assets are amortized by straight-line method based on their estimated useful life. Consolidated overseas subsidiaries record goodwill according to the Financial Accounting Standards Board Statement No. 142 ("Goodwill and Other Intangible Assets," issued by the Financial Accounting Standards Board of the USA).

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

Finance leases contracted on or before March 31, 2008 that do not deem to transfer ownership of the leased property to the lessee are accounted for as operating lease transactions.

(h) 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.

(i) 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 consolidated 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.

(Change in accounting policy)
Effective from the beginning of the fiscal year, April 1, 2009, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Financial Accounting Standard No. 19, issued by the Accounting Standards Board of Japan on July 31, 2008). There was no effect of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2010.

(j) Allowance for directors' and corporate auditors' retirement benefits
The allowance for directors' and corporate auditors' retirement benefits of the Company and certain consolidated 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 ¥436 million ($4,686 thousand) and ¥410 million for corporate officers at March 31, 2010 and 2009, respectively.

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

(l) 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.

(m) 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, 2010 and 2009.

(n) Allowance for doubtful accounts
To cover possible losses on collection of receivables, the Company and its consolidated 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.

(o) Valuation allowance for investments

To state the investment amount fairly, the allowance is provided by considering the related parties' assets and other factors.

(p) Derivative and hedging transactions

The Company and certain consolidated 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" (Financial Accounting Standard No. 10, issued by the Accounting Standards Board of Japan on March 10, 2008) 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.

(q) Recognition of revenues and costs of construction contracts

Until the year ended March 31, 2009, the percentage-of-completion method was applied to recognize revenues for long-term (over one year) construction contracts over one billion yen. Effective from the beginning of the fiscal year, April 1, 2009, the Company and certain consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts" (Financial Accounting Standard No. 15, issued by the Accounting Standards Board of Japan on December 27, 2007) and the "Guideline on Accounting Standard for Construction Contracts" (Financial Accounting Standard Implementation Guideline No. 18, issued by the Accounting Standards Board of Japan on December 27, 2007).

Under the new accounting standard and guideline, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated. There was no effect as a result of this change on net sales, operating income and income before income taxes and minority interests for the year ended March 31, 2010.

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 ¥93.04 = U.S.$1, the approximate rate of exchange at March 31, 2010. 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. Investment Securities

At March 31, 2010 and 2009, information with respect to other securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2010			**2010**		
	Acquisition Cost	Carrying amount	Unrecognized gain (loss)	Acquisition Cost	Carrying amount	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥21,447**	**¥40,253**	**¥18,806**	**$230,514**	**$432,642**	**$202,128**
Unrecognized loss items: Stock	**1,155**	**929**	**(226)**	**12,414**	**9,985**	**(2,429)**
Total	**¥22,603**	**¥41,183**	**¥18,579**	**$242,939**	**$442,638**	**$199,688**

	Millions of yen		
	2009		
	Acquisition Cost	Carrying amount	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥19,479	¥24,818	¥5,339
Unrecognized loss items: Stock	567	423	(144)
Total	¥20,046	¥25,241	¥5,195

Proceeds from sales of securities classified as other securities amounted to ¥54 million ($580 thousand) and ¥62 million with an aggregate gain on sales of ¥0 million ($0 thousand) and ¥19 million for the years ended March 31, 2010 and 2009, respectively, and an aggregate loss on sales of ¥0 million ($0 thousand) and nil for the years ended March 31, 2010 and 2009.

Carrying amounts of non-marketable securities classified as other securities at March 31 2009 were as follows:

Other securities:

	Millions of yen
	2009
Unlisted securities (except for OTC securities)	¥2,796
Preferred stock	1,000

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

As described in Note 14. "Financial Instruments," the Company and certain consolidated subsidiaries have applied "Accounting Standard for Financial Instruments" and "Guideline on Disclosures about Fair Value of Financial Instruments." The accounting standard and the guideline are applicable to financial instruments and related disclosures effective from the beginning of the fiscal year, April 1, 2009; therefore, the information above regarding other securities is not required for the year ended March 31, 2010 and is disclosed only for the year ended March 31, 2009.

5. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Accounts receivable transferred by liquidation	**¥2,800**	¥10,280	**$30,095**
Notes receivable transferred by liquidation	**2,327**	7,726	**25,011**

(b) Notes receivable discounted at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes receivable discounted	**¥—**	¥20	**$—**

6. Short-Term Loans Payable, Long-Term Loans Payable and Lease Obligations

At March 31, 2010 and 2009, short-term loans payable and the current portion of long-term loans payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Bank loans	**¥17,825**	¥24,581	**$191,584**
Current portion of long-term loans payable	**29,604**	9,914	**318,186**
0.95% unsecured bonds, payable in yen, due 2009	**—**	15,000	—
Total	**¥47,429**	¥49,495	**$509,770**

The average interest rates applicable to short-term loans payable outstanding at March 31, 2010 and 2009 were 1.51% and 2.93%, respectively.

Long-term loans payable at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Loans from banks due through 2018 at average interest rate of 1.96% in 2010 and 1.93% in 2009	**¥161,197**	¥110,659	**$1,732,556**
1.81% unsecured bonds, payable in yen, due 2011	**15,000**	15,000	**161,221**
1.58% unsecured bonds, payable in yen, due 2012	**10,000**	10,000	**107,481**
1.13% unsecured bonds, payable in yen, due 2014	**15,000**	—	**161,221**
	¥201,197	**¥135,659**	$2,162,479

At March 31, 2009, commercial paper (¥1,000 million) with a borrowing rate of 0.54% was included in other current liabilities. Short-term lease obligations at March 31, 2010 and 2009 included in other current liabilities were ¥1,525 million ($16,391 thousand) and ¥966 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2010 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 29,604	$ 318,186
2012	24,565	264,026
2013	16,888	181,513
2014	40,020	430,138
2015	49,961	536,984
2016 and thereafter	29,763	319,895
	¥190,801	$2,050,742

The annual maturities of lease obligations subsequent to March 31, 2010 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 1,525	$ 16,391
2012	3,804	40,886
2013	1,354	14,553
2014	1,417	15,230
2015	381	4,095
2016 and thereafter	2,000	21,496
	¥10,481	$112,650

7. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥136 million ($1,462 thousand) and ¥72 million, long-term loans payable of ¥714 million ($7,674 thousand) and ¥697 million, and accounts payable-trade of ¥307 million ($3,300 thousand) and ¥136 million at March 31, 2010 and 2009, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property, plant and equipment, at net book value	**¥2,110**	¥3,176	**$22,678**

8. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Property, plant and equipment	**¥411**	¥411	**$4,417**

9. 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 year ended March 31, 2009.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥2,134**	¥2,000	**$22,936**
Loss from valuation of inventory	**313**	310	**3,364**
Accrued expenses	**2,153**	1,346	**23,141**
Other	**1,975**	2,538	**21,227**
Deferred tax assets—subtotal	**6,577**	6,196	**70,690**
Valuation allowance	**(171)**	(184)	**(1,838)**
Deferred tax assets—net	**6,405**	6,012	**68,841**
Deferred tax liabilities	**(46)**	—	**(494)**
Net deferred tax assets	**¥6,359**	¥6,012	**$68,347**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (134)**	¥ (24)	**$ (1,440)**
Deferred tax liabilities—subtotal	**(134)**	(24)	**(1,440)**
Offset by deferred tax assets	**46**	—	**494**
Net deferred tax liabilities	**¥ (88)**	¥ (24)	**$ (946)**

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,571**	¥ 1,579	**$ 16,885**
Reserve for retirement benefits	**1,335**	1,533	**14,349**
Net operating loss carryforward for tax purposes	**130**	86	**1,397**
Other	**7,946**	8,145	**85,404**
Deferred tax assets—subtotal	**10,983**	11,343	**118,046**
Valuation allowance	**(4,659)**	(4,763)	**(50,075)**
Deferred tax assets—net	**6,324**	6,580	**67,971**
Deferred tax liabilities	**(4,075)**	(4,079)	**(43,798)**
Net deferred tax assets	**2,248**	2,501	**24,162**
Deferred tax liabilities:			
Valuation difference on other securities	**(7,553)**	(2,230)	**(81,180)**
Reserve for replacement of fixed assets	**(5,846)**	(6,731)	**(62,833)**
Reserve for special depreciation	**(145)**	(182)	**(1,558)**
Reserve for replacement of fixed assets—special	**(270)**	(142)	**(2,902)**
Depreciation	**(10,634)**	(5,542)	**(114,295)**
Other	**(11,929)**	(7,889)	**(128,214)**
Deferred tax liabilities—subtotal	**(36,380)**	(22,718)	**(391,015)**
Offset by deferred tax assets	**4,075**	4,079	**43,798**
Net deferred tax liabilities	**¥(32,305)**	¥(18,639)	**$(347,216)**

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 was as follows:

	2009
Statutory tax rate	40.69%
Entertainment expenses and others not deductible permanently	1.57
Dividends received and others	(2.55)
Valuation allowance for deferred tax assets	2.47
Undistributed earnings of affiliates	(9.70)
Other	(0.58)
Effective tax rate	31.90%

The reconciliation was omitted for the year ended March 31, 2010 because the difference was less than 5% of the statutory tax rate.

10. Shareholders' Equity

(a) Dividends

Under the Act, 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 Act 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 Act 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 Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Act 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 Act 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 Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Act 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.

11. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2010 and 2009, which would have been reflected in the consolidated balance sheet 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
	2010	2009	**2010**
Acquisition costs:			
Property, plant and equipment	**¥7,699**	¥9,578	**$82,749**
Other assets	**325**	408	**3,493**
	¥8,026	¥9,987	**$86,264**
Accumulated depreciation:			
Property, plant and equipment	**¥5,608**	¥6,058	**$60,275**
Other assets	**227**	248	**2,440**
	¥5,835	¥6,307	**$62,715**
Net book value:			
Property, plant and equipment	**¥2,091**	¥3,519	**$22,474**
Other assets	**98**	160	**1,053**
	¥2,190	¥3,680	**$23,538**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,254 million ($13,478 thousand) and ¥1,621 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, 2010 and 2009, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 and 2009 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
2010		
2011	**¥ 910**	**$ 9,781**
2012 and thereafter	**1,280**	**13,758**
Total	**¥2,190**	**$23,538**
2009		
2010	¥1,400	
2011 and thereafter	2,279	
Total	¥3,680	

(b) Future minimum lease payments subsequent to March 31, 2010 and 2009 for non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010		
2011	**¥ 2,113**	**$ 22,711**
2012 and thereafter	**8,532**	**91,702**
Total	**¥10,646**	**$114,424**
2009		
2010	¥ 1,809	
2011 and thereafter	6,572	
Total	¥ 8,381	

12. 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 consolidated 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 consolidated overseas subsidiaries have a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2010 and 2009 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the years ended March 31, 2010 and 2009 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥ 34,450**	¥ 33,865	**$ 370,271**
Plan assets at fair market value	**(29,494)**	(27,975)	**(317,003)**
Unfunded retirement benefit liabilities	**4,956**	5,890	**53,267**
Net unrecognized actuarial losses	**(12,209)**	(14,043)	**(131,223)**
Difference at change of accounting standard	**(2,312)**	(2,777)	**(24,850)**
Unrecognized prior service cost	**2,131**	2,372	**22,904**
Prepaid pension cost	**11,230**	12,518	**120,701**
Allowance for employees' retirement benefits	**(3,796)**	(3,960)	**(40,800)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current service cost	**¥1,411**	¥1,360	**$15,166**
Interest cost	**583**	594	**6,266**
Expected return on plan assets	**(660)**	(786)	**(7,094)**
Expense of actuarial loss	**1,271**	707	**13,661**
Net loss on change in accounting standard for employees' retirement benefits	**466**	466	**5,009**
Adjustment for prior service cost	**(241)**	(241)	**(2,590)**
Total of retirement benefit expenses	**¥2,831**	¥2,100	**$30,428**
Other	**786**	745	**8,448**
Total	**¥3,617**	¥2,846	**$38,876**

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

	2010	2009
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

13. Contingent Liabilities

At March 31, 2010 and 2009, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥8,442 million ($90,735 thousand) and ¥9,214 million, which included reguarantees by joint investors amounting to ¥649 million ($6,975 thousand) and ¥785 million and commitments to guarantees amounting to ¥777 million ($8,351 thousand) and ¥1,058 million, respectively.

14. Financial Instruments

Effective from the beginning of the fiscal year, April 1, 2009, the Company and certain consolidated subsidiaries have applied "Accounting Standard for Financial Instruments" (Financial Accounting Standard No. 10, issued by the Accounting Standards Board of Japan on March 10, 2008) and "Guideline for on Disclosures about Fair Value of Financial Instruments" (Financial Accounting Standard Implementation Guideline No. 19, issued by the Accounting Standards Board of Japan on March 10, 2008).

(a) Policy for financial instruments

In consideration of plans for capital investment, the Company and consolidated subsidiaries (collectively, the "Group") raise funds through bank loans or bond issues. The Group manages temporary cash surpluses through bank loans. The Group operates funds only through short-term deposits. The Group uses derivatives only for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(b) Types of financial instruments and related risk and risk management

Notes and accounts receivable–trade are exposed to credit risk in relation to customers. In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships. The Group also reviews their fair value quarterly.

Notes and accounts payable–trade have payment due dates within one year. Although the Group is exposed to liquidity risk arising from those payables the Group manage the risk by preparing cash management plans monthly.

Short-term loans payable are raised mainly for short-term capital and long-term loans are mostly taken out principally for the purpose of making capital investments and long-term capital. Some of those loans with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for those loans bearing interest at variable rates, the Group utilizes interest-rate swap transactions for each loan contract to hedge such risks and to fix interest expenses.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Group also enters into interest-rate swap transactions to reduce fluctuation risk deriving from interest payable for loans and bonds bearing interest at variable rates.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2. (p) "Derivative and hedging transactions."

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies and the Group enters into derivative transactions only with financial institutions which have a sound credit profile.

(c) Fair value of financial instruments

The fair value of financial instruments is based on their market price, if available. When there is no market price available, fair value is reasonably estimated. In addition, the notional amounts of derivatives in Note 15. "Derivative and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(1) Fair value of financial instruments

Carrying amount on the consolidated balance sheet as of March 31, 2010 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 24,029	¥ 24,029	¥ —
Notes and accounts receivable–trade	127,687	127,687	—
Investment securities:			
Other securities	41,183	41,183	—
Total assets	¥192,899	¥192,899	¥ —
Notes and accounts payable–trade	¥ 67,926	¥ 67,926	¥ —
Short-term loans payable	17,825	17,825	—
Long-term loans payable	230,802	234,035	3,233
Total liabilities	¥316,554	¥319,787	¥3,233

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Cash and deposits	$ 258,265	$ 258,265	$ —
Notes and accounts receivable–trade	1,372,388	1,372,388	—
Investment securities:			
Other securities	442,638	442,638	—
Total assets	$2,073,291	$2,073,291	$ —
Notes and accounts payable–trade	$ 730,073	$ 730,073	$ —
Short-term loans payable	191,584	191,584	—
Long-term loans payable	2,480,675	2,515,423	34,748
Total liabilities	$3,402,343	$3,437,092	$34,748

The table above does not include financial instruments for which it is extremely difficult to determine the fair value. For information on those items, please refer to note (2) below. The current portion of long-term loans payable shown as "Short-term loans payable" in consolidated balance sheet are included in "Long-term loans payable" in the table above.

Valuation method of fair value of financial instruments and information on investment securities and derivative transactions were as follows:

Cash and deposits and notes and accounts receivable–trade

Since these items are settled in a short period of time, their carrying amount approximates fair value.

Investment securities

The fair value of stocks is based on quoted market prices of the stock exchange. For information on securities classified by holding purpose, please refer to Note 4. "Investment securities."

Notes and accounts payable–trade and short-term loans payable

Since these items are settled in a short period of time, their carrying amount approximates fair value.

Long-term loans payable

The fair value of bonds is measured at the quoted market price. The fair value of long-term loans payable other than bonds is based on the present value of the total of principal and interest discounted by the interest rate combined of the risk free rate and credit spread. Interest-rate swap transactions are utilized for most variable rate loans to fix interest expense. All interest-rate swap transactions meet the criteria for the short-cut method of interest-rate swap transactions and are integrally processed with those loans. Therefore, the fair value of those loans is based on the present value of the total of principal and interest processed with interest-rate swap discounted by the rate above.

(2) Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen	Thousands of U.S. dollars
Unlisted stocks	¥19,995	$214,908
Preferred stocks	1,000	10,748

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2010

	Millions of yen	Thousands of U.S. dollars
	Due in one year or less	
Cash and deposits	**¥ 24,029**	**$ 258,265**
Notes and accounts receivable–trade	**127,687**	**1,372,388**

(4) Redemption schedule for long-term loans payable

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 29,606	$ 318,207
2012	39,611	425,742
2013	26,872	288,822
2014	40,004	429,966
2015	64,944	698,022
2016 and thereafter	29,761	319,873
	¥230,802	$2,480,675

(5) Unused overdraft agreement and loan commitment line were ¥52,555 million ($564,865 thousand) as of March 31, 2010.

15. Derivative and Hedging Activities

The Company and certain consolidated 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 rates and currency exchange 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 consolidated 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 certain consolidated 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.

Derivative transactions for which hedge accounting is applied for the year ended March 31, 2010 were as follows:

(a) Currency-related

		Millions of yen		
		2010		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable–trade			
USD		**¥ 104**	**¥ —**	
TWD		**6**	**—**	
Buy:	Accounts payable–trade			
USD		**3,769**	**—**	*
EUR		**200**	**—**	
GBP		**22**	**—**	
CHF		**655**	**—**	
SGD		**12**	**—**	
TWD		**380**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**350**	**350**	
Buy:				
SGD		**1,888**	**872**	
Total		**¥7,390**	**¥1,223**	

* The estimated fair value of the foreign exchange forward contracts and foreign currency swaps is included in the fair value of the receivables/payables as the hedged items.

	Hedged item	Thousands of U.S. dollars		
		2010		
		Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable–trade			
USD		**$ 1,118**	**$ —**	*
TWD		**64**	**—**	
Buy:	Accounts payable–trade			
USD		**40,509**	**—**	
EUR		**2,150**	**—**	
GBP		**236**	**—**	
CHF		**7,040**	**—**	
SGD		**129**	**—**	
TWD		**4,084**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**3,762**	**3,762**	
Buy:				
SGD		**20,292**	**9,372**	
Total		**$79,428**	**$13,145**	

* The estimated fair value of the foreign exchange forward contracts and foreign currency swaps is included in the fair value of the receivables/payables as the hedged items.

(b) Interest-related

	Hedged item	Millions of yen			Thousands of U.S. dollars		
		2010			2010		
		Contract amount	Due after one year	Fair value	Contract amount	Due after one year	Fair value
Short-cut method							
Interest-rate swap agreements:							
Receive floating/Pay fix	Long-term loans payable	**¥61,109**	**¥49,520**	*	**$656,804**	**$532,244**	*

* The estimated fair value of the interest-rate swap agreements is included in the fair value of the long-term loans payable as the hedged items.

As described in Note 14. Financial Instruments, the Company and certain subsidiaries have applied "Accounting Standard for Financial Instruments" and "Guideline on Disclosures about Fair Value of Financial Instruments." The accounting standard and the guideline are applicable to financial instruments and related disclosures effective from the beginning of the fiscal year, April 1, 2009; therefore, the required information regarding currency-related and interest-related derivatives is disclosed only for the year ended March 31, 2010.

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

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, 2010 and 2009 totaled ¥4,137 million ($44,465 thousand) and ¥3,936 million, respectively.

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

Significant components of the gain on sales of noncurrent assets of ¥151 million ($1,623 thousand) and ¥354 million for the years ended March 31, 2010 and 2009, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Land	**¥151**	¥354	**$1,623**

Significant components of the loss on sales and retirement of noncurrent assets of ¥1,146 million ($12,317 thousand) and ¥916 million for the years ended March 31, 2010 and 2009, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Land	**¥ —**	¥118	**$ —**
Machinery	**631**	398	**6,782**

18. Impairment Loss

The Company and its consolidated subsidiaries categorize business assets by business segmentation and idle assets without a specific future use are categorized separately. For idle assets affected by decrease of fair market value of land the book values are written down to the recoverable amount and such write-downs were recorded as impairment loss of ¥570 million ($6,126 thousand) and ¥141 million (of which land accounts for ¥99 million and buildings accounts for ¥41 million) for the years ended March 31, 2010 and 2009, respectively, due to lack of recovery provability of market value or recovery provability in the near future. Recoverable amounts for relevant assets are net selling price (selling price 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, 2010 and 2009 is summarized as follows:

(a) Business Segments

	Millions of yen					
Year ended or as of March 31, 2010	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥300,451**	**¥113,997**	**¥18,941**	**¥433,390**	**¥ —**	**¥433,390**
(2) Intersegment sales	**5**	**10,012**	**34**	**10,052**	**(10,052)**	**—**
Total sales	**300,457**	**124,009**	**18,976**	**443,442**	**(10,052)**	**433,390**
Operating costs and expenses	**278,014**	**117,362**	**15,563**	**410,940**	**(5,105)**	**405,834**
Operating income	**¥ 22,443**	**¥ 6,646**	**¥ 3,412**	**¥ 32,502**	**¥ (4,946)**	**¥ 27,556**
II. Assets, depreciation expenses and capital expenditure:						
Assets	**¥464,741**	**¥ 70,939**	**¥21,641**	**¥557,322**	**¥ 59,893**	**¥617,215**
Depreciation expenses	**¥ 28,044**	**¥ 1,811**	**¥ 748**	**¥ 30,604**	**¥ (461)**	**¥ 30,143**
Impairment loss	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ 570**	**¥ 570**
Capital expenditure	**¥ 32,425**	**¥ 5,875**	**¥ 1,442**	**¥ 39,743**	**¥ (1,377)**	**¥ 38,366**

	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

Year ended or as of March 31, 2010	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	$3,229,267	$1,225,247	$203,579	$4,658,104	$ —	$4,658,104
(2) Intersegment sales	54	107,610	365	108,040	(108,040)	—
Total sales	3,229,331	1,332,857	203,955	4,766,144	(108,040)	4,658,104
Operating costs and expenses	2,988,113	1,261,414	167,272	4,416,810	(54,869)	4,361,930
Operating income	$ 241,219	$ 71,432	$ 36,672	$ 349,334	$ (53,160)	$ 296,174
II. Assets, depreciation expenses and capital expenditure:						
Assets	$4,995,067	$ 762,457	$232,599	$5,990,133	$ 643,734	$6,633,867
Depreciation expenses	$ 301,419	$ 19,465	$ 8,040	$ 328,934	$ (4,955)	$ 323,979
Impairment loss	$ —	$ —	$ —	$ —	$ 6,126	$ 6,126
Capital expenditure	$ 348,506	$ 63,145	$ 15,499	$ 427,160	$ (14,800)	$ 412,360

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 years ended March 31, 2010 and 2009 were ¥3,541 million ($38,059 thousand) and ¥3,645 million, respectively, which mainly consisted of the expenses in business administration department.

3. The amounts of the corporate assets included in the column "Eliminations or corporate" as of March 31, 2010 and 2009 were ¥86,215 million ($926,644 thousand) and ¥75,135 million, respectively, which mainly consisted of surplus working funds, investment securities and the assets in the business administration department.

4. As described in Note 2. Summary of Significant Accounting Policies, until the year ended March 31, 2009, the percentage-of-completion method was applied to recognize revenues for long-term (over one year) construction contracts over one billion yen. Effective from the beginning of the fiscal year, April 1, 2009, the Company and certain consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts" (Financial Accounting Standard No. 15, issued by the Accounting Standards Board of Japan on December 27, 2007) and the "Guideline on the Accounting Standard for Construction Contracts" (Financial Accounting Standard Implementation Guideline No. 18, issued by the Accounting Standards Board of Japan on December 27, 2007). Under the new accounting standard and guideline, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated. There was no effect as a result of this change on net sales, operating income and income before income taxes and minority interests for the year ended March 31, 2010.

5. As described in Note 2. Summary of Significant Accounting Policies, effective from the beginning of the fiscal year, April 1, 2009, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Financial Accounting Standard No. 19, issued by the Accounting Standards Board of Japan on July 31, 2008). There was no effect of this change on operating income for the year ended March 31, 2010.

(b) Geographical Segments

Year ended or as of March 31, 2010	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Millions of yen					
Sales:						
Sales to third parties	¥334,444	¥ 77,554	¥21,391	¥433,390	¥ —	¥433,390
Intersegment sales	3,390	5,776	3,136	12,303	(12,303)	—
Total sales	337,834	83,331	24,528	445,694	(12,303)	433,390
Operating costs and expenses	313,802	78,369	22,934	415,106	(9,271)	405,834
Operating income	¥ 24,031	¥ 4,962	¥ 1,594	¥ 30,587	¥ (3,031)	¥ 27,556
Assets	¥332,399	¥163,106	¥35,898	¥531,404	¥ 85,810	¥617,215

Year ended or as of March 31, 2009	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Millions of yen					
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

Year ended or as of March 31, 2010	Thousands of U.S. dollars Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
Sales:						
Sales to third parties	**$3,594,626**	**$ 833,555**	**$229,912**	**$4,658,104**	**$ —**	**$4,658,104**
Intersegment sales	**36,436**	**62,081**	**33,706**	**132,233**	**(132,233)**	**—**
Total sales	**3,631,062**	**895,647**	**263,629**	**4,790,348**	**(132,233)**	**4,658,104**
Operating costs and expenses	**3,372,764**	**842,315**	**246,496**	**4,461,586**	**(99,645)**	**4,361,930**
Operating income	**$ 258,287**	**$ 53,332**	**$ 17,132**	**$ 328,751**	**$ (32,577)**	**$ 296,174**
Assets	**$3,572,646**	**$1,753,074**	**$385,834**	**$5,711,565**	**$ 922,291**	**$6,633,867**

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 years ending March 31, 2010 and 2009 were ¥3,541 million ($38,059 thousand) and ¥3,645 million, respectively, which mainly consisted of the expenses in business administration department.
3. The amounts of the corporate assets included in the column "Eliminations or corporate" as of March 31, 2010 and 2009 were ¥86,215 million ($926,644 thousand) and ¥75,135 million, respectively, which mainly consisted of surplus working funds, investment securities and the assets in the business administration department.
4. As described in Note 2. Summary of Significant Accounting Policies, previously the percentage-of-completion method was applied to recognize revenues for long-term (over one year) construction contracts over one billion yen. Effective from the beginning of the fiscal year, April 1, 2009, the Company and certain consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts" ((Financial Accounting Standard No. 15, issued by the Accounting Standards Board of Japan on December 27, 2007) and the "Guideline on the Accounting Standard for Construction Contracts" (Financial Accounting Standard Implementation Guideline No. 18, issued by the Accounting Standards Board of Japan on December 27, 2007). Under the new accounting standard and guideline, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated. There was no effect as a result of this change on net sales, operating income and income before income taxes and minority interests for the year ended March 31, 2010.
5. As described in Note 2. Summary of Significant Accounting Policies, effective from the beginning of the fiscal year, April 1, 2009, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Financial Accounting Standard No. 19, issued by the Accounting Standards Board of Japan on July 31, 2008). There was no effect of this change on operating income for the year ended March 31, 2010.

(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, 2010 and 2009 are summarized as follows:

Year ended or as of March 31, 2010	Millions of yen North America	Other	Total	Thousands of U.S. dollars North America	Other	Total
Overseas sales	**¥67,634**	**¥37,448**	**¥105,082**	**$726,935**	**$402,494**	**$1,129,428**
Consolidated net sales			**433,390**			**4,658,104**
Ratio of overseas sales to consolidated net sales	**15.6%**	**8.6%**	**24.2%**			

Year ended or as of March 31, 2009	Millions of yen North America	Other	Total
Overseas sales	¥69,124	¥48,406	¥117,531
Consolidated net sales			495,746
Ratio of overseas sales to consolidated net sales	13.9%	9.8%	23.7%

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. Supplementary Cash Flow Information

Cash and cash equivalents as of the years ended March 31, 2010 and 2009 were reconciled to the accounts reported in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and deposits	**¥24,029**	¥29,208	**$258,265**
Time deposits with maturities of more than three months	**(306)**	(432)	**(3,289)**
Cash and cash equivalents	**¥23,723**	¥28,776	**$254,976**

Acquisition cost and net payments for assets and liabilities of Valley National Gases WV L.L.C. and VNG Propane L.L.C., acquired through stock purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 6,526**	**$ 70,142**
Noncurrent assets	**31,839**	**342,208**
Goodwill	**31,393**	**337,414**
Current liabilities	**(2,752)**	**(29,579)**
Noncurrent liabilities	**(10,206)**	**(109,695)**
Acquisition cost of assets	**(56,800)**	**(610,490)**
Cash and cash equivalents	**699**	**7,513**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥(56,100)**	**$(602,966)**

The acquisition cost and net payments for assets and liabilities of ETOX, Inc., acquired through an asset purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2010	**2010**
Current assets	**¥ 697**	**$ 7,491**
Noncurrent assets	**1,634**	**17,562**
Goodwill	**221**	**2,375**
Current liabilities	**(127)**	**(1,365)**
Noncurrent liabilities	**(41)**	**(441)**
Acquisition cost of assets	**(2,384)**	**(25,623)**
Cash and cash equivalents	**247**	**2,655**
Payments for asset purchase	**¥(2,137)**	**$(22,969)**

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, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2009 were as follows:

	Millions of yen
	2009
Current assets	¥ 858
Property, plant and equipment	2,110
Goodwill	2,086
Other assets	986
Total assets	¥ 6,042
Current liabilities	¥ 164
Noncurrent liabilities	269
Total liabilities	¥ 434
Acquisition cost of assets	¥(5,459)
Cash and cash equivalents	33
Payments for asset purchase	¥(5,425)

Sales amount and proceeds from stock sales, and assets and liabilities of Tri-Gas Technologies which were excluded from consolidation upon stock sales for the year ended March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 657	$ 7,061
Noncurrent assets	1,071	11,511
Current liabilities	(313)	(3,364)
Noncurrent liabilities	(575)	(6,180)
Minority interests	(283)	(3,042)
Foreign currency translation adjustments	(55)	(591)
Gain on sales of subsidiaries stocks	1,225	13,166
Sales amount of stocks	1,725	18,540
Cash and cash equivalents	(177)	(1,902)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	¥(1,547)	$(16,627)

21. Subsequent Events

(1) The Company completed the acquisition of Western International Gas & Cylinders, Inc. ("WIGCI") through a stock purchase by Matheson Tri-Gas, Inc. ("MTG"), a consolidated subsidiary, on April 30, 2010.

(a) Purpose of acquisition
Through the acquisition of WIGCI, which is the largest producer and wholesaler of acetylene in the U.S., the Company pursues profit improvement through expanding its business and products and recognizing synergies with MTG.

(b) Counter party
Owner of WIGCI, Dan Hord III (WIGCI CEO) and Hord family

(c) Name, business and total assets of the company acquired
Name:
Western International Gas & Cylinders Inc.
Business:
Production and wholesale of Acetylene, Propylene and Cylinder Gas
Total assets (as of April 30, 2010): $68 million

(d) Acquisition cost: $110 million

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

(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, 2010, were approved at the shareholders' meeting held on June 29, 2010:

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.064) per share	**¥2,399**	**$25,785**

Report of Independent Auditors

ERNST & YOUNG

Ernst & Young ShinNihon LLC
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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, 2010 and 2009, 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, 2010 and 2009, 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 21, "Subsequent Events," the Company completed the acquisition of Western International Gas & Cylinders Inc. through purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary, on April 30, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 ShinNihon LLC

June 29, 2010

A member firm of Ernst & Young Global Limited

Investor Information

(At March 31, 2010)

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

Number of Employees:
9,631

Date of Incorporation:
October 1910

Number of Shares:
Authorized—1,600,000,000 Issued—403,092,837

Minimum Trading Unit:
1,000 shares

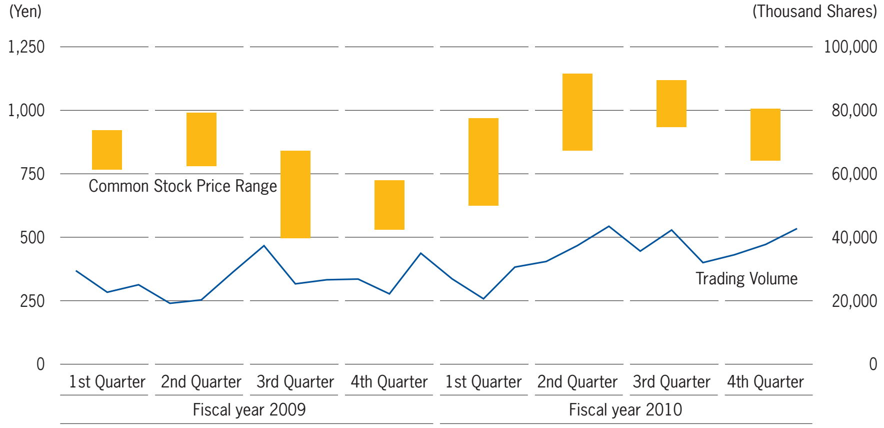
Number of Stockholders:
24,521

Transfer Agent for Shares:
Mizuho Trust & Banking Co., Ltd.

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	60,947	15.12%
JFE Steel Corporation	25,254	6.26
Taiyo Nippon Sanso Client Shareholding Society	17,479	4.33
Meiji Yasuda Life Insurance Company	16,491	4.09
Mizuho Corporate Bank, Ltd.	14,484	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	11,838	2.93
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,198	2.52
Dai-ichi Mutual Life Insurance Company	10,037	2.48
The Norinchukin Bank	10,000	2.48
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	5,343	1.32
	182,075	45.17%

Common Stock Price Range and Trading Volume:



TAIYO NIPPON SANSO
The Gas Professionals

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