TAIYO NIPPON SANSO

Think Globally, Act Locally

Redefining the Future of Industrial Gases

Annual Report **2012** Year Ended March 31, 2012

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Profile

Taiyo Nippon Sanso Corporation was created through the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd., on October 1, 2004. Today, the Company continues to draw on the capabilities of its two predecessors as it strives to become an Asian-born major player in the global industrial gases industry.

Management Philosophy

“Market-driven collaborative innovation:
improving the future through gases”

Business Portfolio

Throughout our history, we have worked to diversify our operations by building on our extensive experience as a provider of industrial gases and our state-of-the-art proprietary gas technologies, in the process creating a broad-based business model that centers on supporting the corporate activities of customers in various industries worldwide. In this section, we present information on our operations, focusing on the nature, competitive advantages and market position of each of our business units.

Industrial gas business

Outline of business

In line with our commitment to provide industrial gases to customers when and where needed, we have gas production and supply capabilities in Japan, the United States and across Asia, including in China and India. This enables us to ensure safe, stable supplies of gases to customers in the manner that best suits their particular needs, as well as to help customers enhance their quality and productivity. Our distinctive gas technologies continue to earn us high marks from customers in a wide range of industries, including manufacturing and processing, materials, energy, chemicals, agriculture, food, bioscience and aerospace.

Competitive advantages

▶ Leading share of Japan's market for industrial gases

Number 1 in oxygen, nitrogen and argon, number 1 in helium and carbon dioxide and number 2 in acetylene, we enjoy a 40% share of the domestic market for industrial gases. In addition to approximately 30 liquid gas production bases and 200 filling stations nationwide, we have an extensive network of shipping bases and a fleet of tanker trucks. At our liquid gas production bases, we are steadily replacing equipment with state-of-the-art, energy-efficient air separation plants.

▶ One of only six companies in the world with rights to conduct transactions directly with major helium producers

In the United States, subsidiary Matheson Tri-Gas, Inc., formed a joint venture with Air Products and Chemicals, Inc., thereby establishing itself as a helium producer. In China, India and elsewhere in Asia, we are pressing forward with the construction of helium filling stations with the aim of expanding our supply capabilities.

▶ Building air separation plants in the United States and Asia

In the United States, we are currently building new air separation plants in North Dakota and Florida, which are slated for completion in September 2012 and November 2012, respectively. In Asia, we completed an air separation plant in Vietnam in February 2012 and plan to complete additional units in November 2012 and within 2013, the former in the Philippines and the latter in India.

Plants and engineering

Outline of business

As a manufacturer of plants, which underpin our industrial gas business, we boast an extensive lineup, ranging from ultrahigh-purity manufacturing equipment for customers in the electronics industry to large-scale plants for steel manufacturers and specialized containers for the cryogenic transport of helium, and enjoy a favorable reputation for all products both in Japan and overseas. Our portfolio also includes space-simulation chambers, large-scale helium refrigeration systems and other cutting-edge offerings, which we market primarily for use in space development and in R&D in the area of superconductive technologies.

Competitive advantages

- ▶ Top share of the domestic market for air separation plants
- ▶ Leveraging our wealth of accumulated cryogenic and adsorption technologies to reduce consumption of electricity and cost per unit of production, as well as to increase the quality and size of equipment
- ▶ Capitalizing on simulation technologies to ensure the optimal operation of air separation plants in response to different requirements
- ▶ One of only three helium container manufacturers worldwide and the only one in Japan

  We are expanding our production capacity to accommodate rising demand for containers that facilitate the cryogenic transport of helium over long distances.

Electronics-related businesses

Outline of business

Manufacturers in the electronics industry face growing pressure to achieve higher product quality and production efficiency. We assist such firms by installing Total Gas Centers (TGCs), which feature ultrahigh-purity nitrogen manufacturing equipment and facilities for producing and supplying electronics materials gases, adjacent to the production facilities of major customers, thereby ensuring steady around-the-clock gas supplies.

We also supply metal organic chemical vapor deposition (MOCVD) equipment, used in the production of compound semiconductors for light-emitting diodes (LEDs) and power devices and are the only company in the world that can provide integrated services, encompassing everything from the production of equipment through to the supply of electronic materials gases and the abatement of toxic exhaust gas. To date, we have delivered MOCVD equipment to customers around the world for use in applications ranging from R&D to mass production, which uses large-scale MOCVD systems.

Competitive advantages

▶ Total gas, equipment and quality control solutions

▶ Supply structure encompassing key global markets

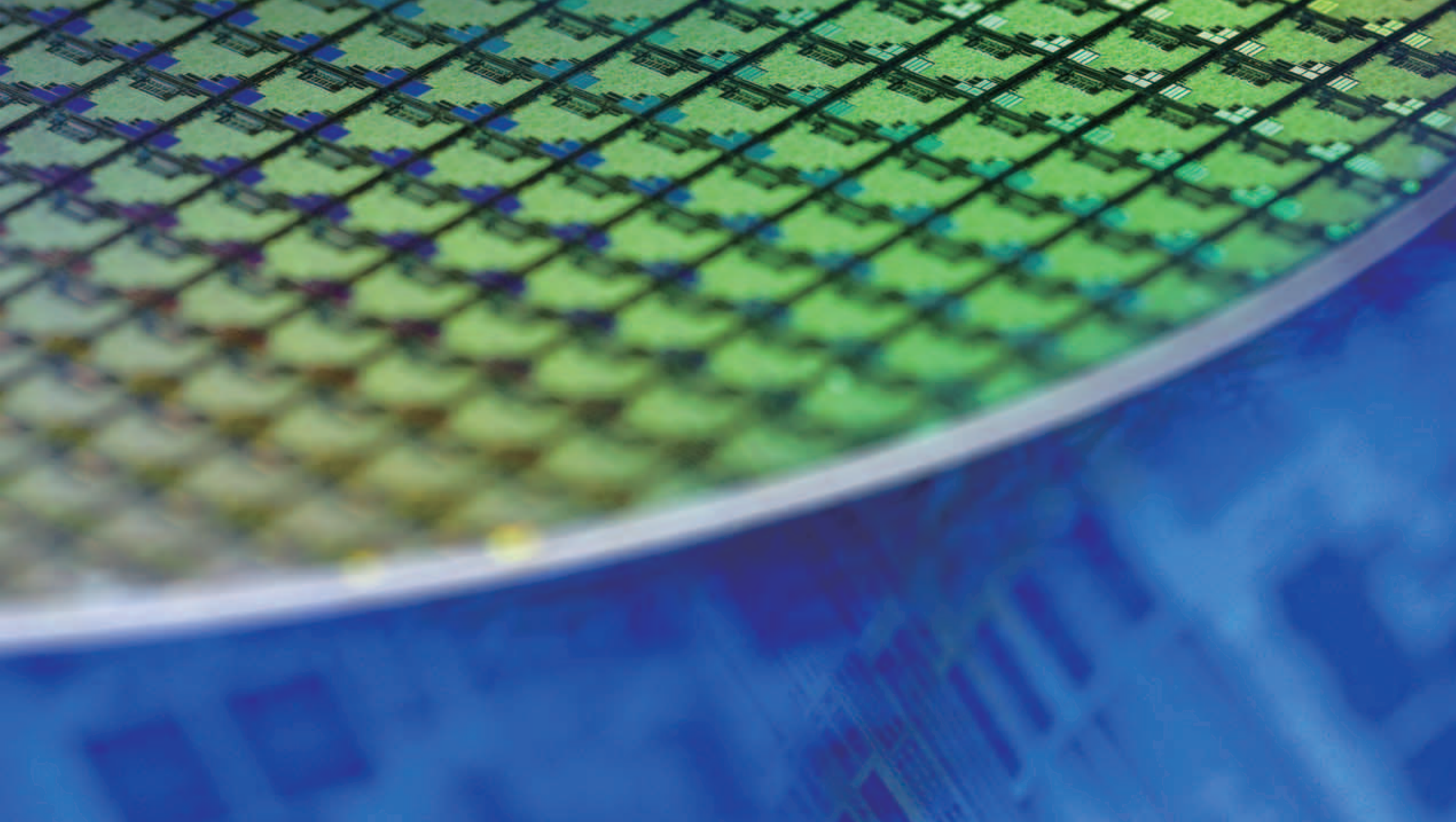
Our supply structure covers Japan, East Asia (South Korea, China and Taiwan), Southeast Asia, the United States and Europe.

▶ Newly developed MOCVD system (UR-26K)

This system helps deliver world-class surface processing performance and boasts a yield rate of 10 six-inch or six eight-inch substrates.

▶ Upstream business strategy for electronics materials gases

We have commenced production of hydrogen compounds, essential to the manufacture of semiconductors, liquid crystal display (LCD) panels and solar cells in Japan and the United States.



LP gas

Outline of business

We wholesale LP gas to production facilities and for other industrial applications, and supply it to fueling stations for taxis and other vehicles and a wide range of other customers, from restaurants and other commercial users to residential users. We also sell related equipment and devices, including gas heat pumps, air conditioners, fuel cells for homes and hot water heaters, as well as design, build and provide maintenance services for LP gas supply facilities.

Competitive advantages

- Ranked ninth in Japan in terms of market share, with an annual LP gas supply capacity of 410,000 tons
- Providing a stable supply of LP gas to approximately 100,000 households that lack access to town gas services; strengthening and improving the efficiency of our domestic network for supplying commercial users by integrating and/or expanding sales and delivery sites

Medical businesses

Outline of business

In addition to providing stable supplies of high-quality medical gases, we develop, manufacture, sell and provide maintenance services for gas supply systems for hospitals, as well as home oxygen therapy (HOT) and other home healthcare equipment. We also extend comprehensive support in the form of around-the-clock services, including remote monitoring of gas levels and follow-up services for home healthcare equipment, provided in cooperation with retailers. Applying our advanced gas technologies, we provide products for the biotechnology field, including cryopreservation containers for bioresources for research applications, as well as stable isotopes and specialty gases for use in advanced diagnostics and medical treatment.

Competitive advantages

- Expanding production facilities in response to growth in the global market for Water-^{18}O, a pharmaceutical reagent used in positron emission tomography (PET) cancer diagnostics, thereby enabling us to supply customers in more than 20 countries, including the United States.
- Japan's leading name in cryopreservation containers for bioresources, which are crucial to the biotechnology field, container management systems and cryopreservation and auto-pick-up systems (product name: CryoLibrary)
- The largest number of production bases, filling facilities and distribution bases for medical gases in Japan, facilitating stable supplies nationwide; a well-organized distribution and maintenance network that includes the Medical Technical Center, a comprehensive facility for distribution and maintenance that helps ensure stable supplies to hospitals and high product quality.
- Have commenced sales of OXYMED-brand medical gas supply equipment and systems for hospitals, developed through an integrated process that encompasses design, manufacturing, and testing and maintenance services.

Thermos businesses

Outline of business

Thermos K.K. is recognized as a pioneer in the stainless steel vacuum bottle industry. Leveraging its outstanding vacuum insulation and metal processing technologies, Thermos manufactures a wide range of stainless steel vacuum bottles, vacuum insulated cooking pots and other items for home and commercial use. Trusted by customers the world over, Thermos has established its own stringent quality standards and an integrated production system that encompasses planning, development, manufacturing and sales.

Competitive advantages

- Products that are developed in Japan and manufactured in Malaysia and China, sales in approximately 120 countries and territories worldwide, a reputation for unconditional commitment to quality and a solid top global market share
- Reinforcing manufacturing facility in China in response to growth in markets for stainless steel vacuum bottles worldwide
- Named Product of the Year in the 2011 Eco Mark Awards, sponsored by the Japan Environment Association

Hydrogen

Outline of business

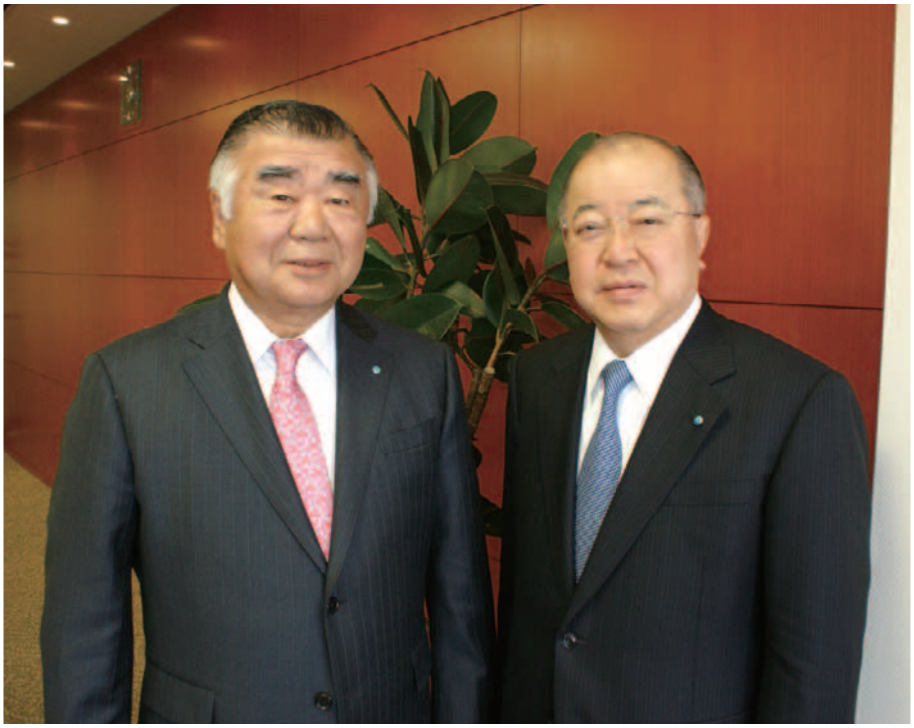
Against a backdrop of growing interest in ways to reduce the impact of human life on the environment, we are participating in the Japan Hydrogen & Fuel Cell Demonstration Project (JHFC), a national project that is using our advanced gas technologies to promote the development of fuel cell-powered vehicles (FCVs), and the Hydrogen Supply Utilization Technology (HySUT) project, the aim of which is to establish a hydrogen filling station infrastructure in Japan. In both initiatives, we are sharing our know-how in the operation of hydrogen filling stations for servicing FCVs with a view to eventual commercialization.

Taking full advantage of petroleum refining complexes' need to reinforce competitiveness by enhancing their operating efficiency and improving their environmental performance, we have begun developing a system that will enable the efficient recovery and reuse of hydrogen gas emitted during refining.

Competitive advantages

- Successful commercialization of a hydrogen filling station dispenser that achieves a filling pressure of 70 megapascals (MPa), a filling speed of 5.0 kg/three minutes and hydrogen cooling as low as –40° C.
- Construction of the Narita Hydrogen Station, a packaged offsite hydrogen station, which will support the operation of FCVs between central Tokyo and Narita International Airport

To Our Stakeholders



Hirosuke Matsueda
Chairman

Yasunobu Kawaguchi
President

Despite signs of a recovery in the U.S. economy in fiscal year 2012, the year ended March 31, 2012, the outlook for the global economy remained uncertain, owing to the worsening European sovereign debt crisis, slowing growth in emerging economies and the disruption of supply chains caused by the devastating floods in Thailand. In Japan, economic conditions deteriorated further, reflecting the protracted impact of the Great East Japan Earthquake, which struck March 11, 2011, and the resulting nuclear power plant disaster, which has put increasing pressure on electric power supplies, as well as the rapid appreciation of the yen.

In such an environment, our overseas operations reported firm results, benefiting from a gradual recovery in demand for industrial gases in North American markets, as well as from demand in Asian markets, particularly China, from principal customer industries. Despite a steady recovery in production levels, which had fallen off in the wake of the earthquake, demand in the domestic market was weak overall, a consequence of dwindling demand from the electronics industry. In this environment, consolidated net sales declined 1.3%, to ¥477,451 million, and operating income fell 12.4%, to ¥31,067 million.

In fiscal year 2012, we embarked upon a new three-year medium-term business plan, under which we have set ambitious consolidated numerical targets for fiscal year 2014, notably, net sales of ¥650 billion and operating income of ¥60 billion. While harsh operating conditions caused us to fall short of our forecasts for the plan's first year, we will maintain our focus on the basic policies of the plan, which are to

- strengthen compliance and ensure safety and quality control,
- promote efficient management by rigorously pursuing cost and labor benefits,
- strengthen regional sales bases,
- focus on our cylinder business,
- strengthen R&D and
- continue proactive investment.

We will also continue advancing our key strategies, which are to

- concentrate management resources in growing markets and regions,
- strengthen upstream strategies,
- promote our M&A strategy,
- implement cost reductions and
- strengthen Group management.

With our operating environment expected to remain challenging for the foreseeable future, we pledge to work as one toward our long-term target for consolidated net sales of ¥1,000 billion, which we hope to achieve by 2020 at the latest. In these and all our efforts, we look forward to the ongoing support of stakeholders.

July 2012

Hirosuke Matsueda, Chairman

Y. Kawaguchi

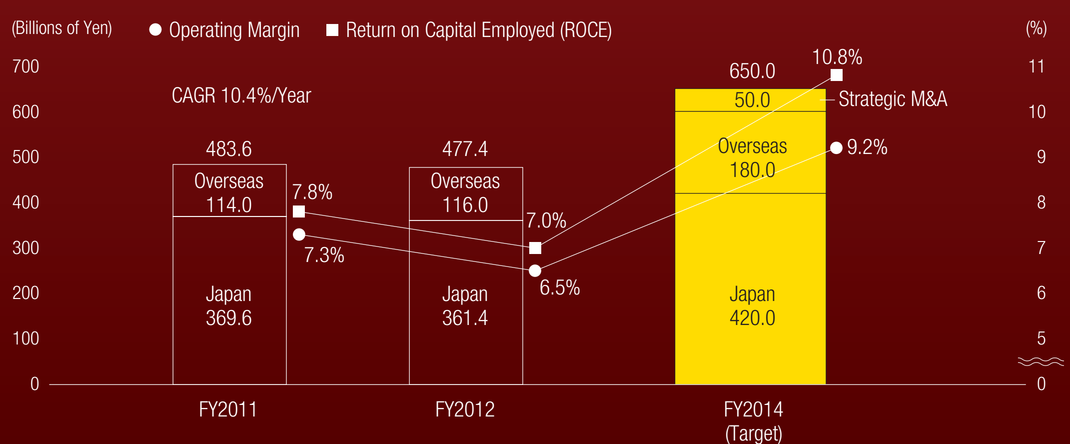
Yasunobu Kawaguchi, President

NEW MEDIUM-TERM BUSINESS PLAN

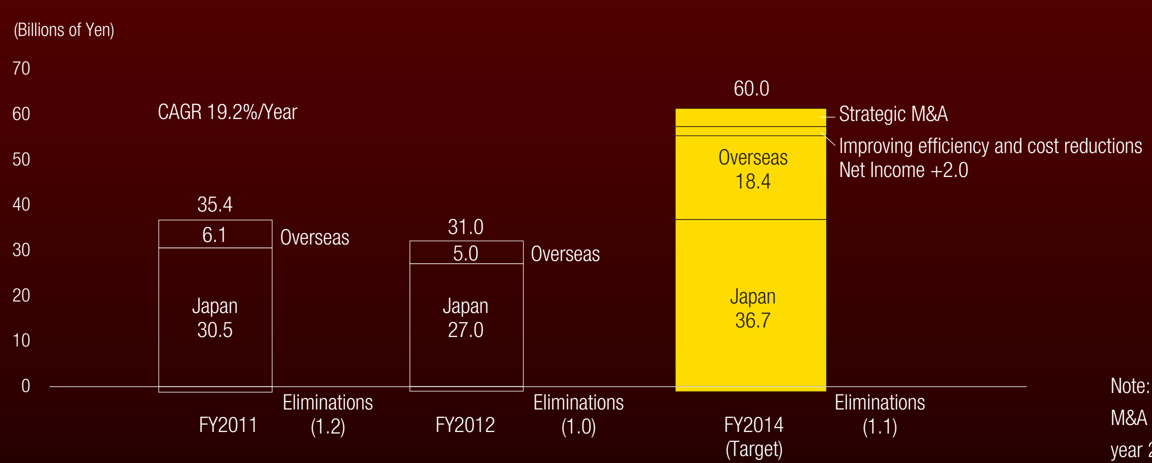
GEAR UP 10

With the aim of establishing Taiyo Nippon Sanso as an Asian-born major player in the global industrial gases industry, we are taking decisive steps to strengthen our domestic operating foundation and accelerate the expansion of our global operations with the aim of building enhanced corporate value. In fiscal year 2012, we embarked upon a new medium-term business plan, dubbed Gear Up 10, which will guide us through fiscal year 2014. This plan constitutes the first phase of our medium- to long-term vision.

Net Sales: Results and Forecasts



Operating Income: Results and Forecasts



Note: Total investment in strategic M&A (fiscal year 2012 to fiscal year 2014): ¥100 billion

Positioning of Plan

Build a strong operating base capable of supporting continued growth

- A new start for our 101st year reviewing our origins
- Solidify our foundation for further development and prepare us for the next 50–100 years

Principal Strategies

Ensure sustainable growth by improving efficiency and profitability

- Concentrate management resources in growing markets and regions
- Strengthen upstream strategies
- Promote our M&A strategy
- Implement cost reductions
- Strengthen Group management

Quantitative Targets

Pursue ambitious performance targets in tandem with our "triple 10" medium-term performance benchmarks

Capital Expenditures and Equity Investment

(Billions of Yen)

	FY2011	Estimate for fiscal 2012–2014	%
Japan	19.5	83.0	48.8
U.S.A.	28.6	61.5	36.2
China	2.7	9.0	5.3
Asia	3.4	16.5	9.7
Total	54.2	170.0	100.0

Note: Does not include investments in strategic M&A

NEW MEDIUM-TERM BUSINESS PLAN

Gear Up 10 sets out five principal strategies designed to help us build a strong operating foundation capable of supporting continued growth and improving efficiency and profitability, and ensure sustainable profitable growth. In these two pages, we look at a number of timely initiatives currently in progress from the perspective of these strategies.

A Progress and Achievements **B** New Strategic Directions

Concentrate management resources in growing markets and regions

New air separation plants come on line in Vietnam

A Our new air separation plant in the province of Hung Yen, in northern Vietnam, commenced full production in April 2011. This was followed in February 2012 by the completion of an air separation plant in Phu My, in the province of Ba Ria-Vung Tau, near Ho Chi Minh City, in southern Vietnam. The new plants have reinforced our position as the market leader in Vietnam in terms of liquid gas production capacity.

B In 2011, we signed a contract to supply industrial gases by pipeline to a major electric furnace steelmaker in southern Vietnam.

Expanding air separation plant capacity in the Philippines

A In fiscal year 2012, we began construction of an air separation plant in the Philippines on the island of Mindanao. The new plant—our first liquid gas production facility on Mindanao—is scheduled for completion in November 2012 and will position us well to respond to the expansion of the local industrial gases market. We are also pushing forward with plans to expand our large-scale air separation plant north of Manila, from which we supply customers throughout the island of Luzon, the principal market for industrial gases in the Philippines.

Taiyo Nippon Sanso Group's first air separation plant in India

A Through subsidiary Matheson K-Air India Private Limited, we are currently building an air separation plant near Pune, in the state of Maharashtra. The plant, our first such facility in India, is scheduled to commence operations in 2013.

B In line with a $100 million investment plan that will run through fiscal year 2016, we will expand our supply capabilities in India beyond helium to include general industrial gases and electronics materials gases, with the aim of increasing our share of the Indian industrial gases market.

Introducing a next-generation MOCVD system (UR-26K)

A We recently launched the UR-26K, a state-of-the-art large-scale metal organic chemical vapor deposition (MOCVD) system that boasts yield rates of 10 six-inch or six eight-inch substrates and 1.5 times the production efficiency of its predecessor with no increase in footprint.

B In January 2011, we established a joint venture in South Korea with local partner PSK Inc. This move has enhanced our ability to serve customers in the rapidly growing Korean, Taiwanese and Chinese markets.

Production and supply of medical-use oxygen begins in Shanghai

A In fiscal year 2012, joint venture Taiyo Nippon Sanso Shenwei (Shanghai) Medical Gas Co., Ltd., commenced operations at its medical-use oxygen production base in Shanghai. This has positioned us to respond to soaring demand for medical gases in China.

Strengthen upstream strategies

Taiyo Nippon Sanso to be the first Japanese company to produce helium

A Our joint venture with Air Products and Chemicals, Inc., completed a new helium plant in the United States and is expected to start producing in late 2012. Approximately 40% of our share of the output of this plant will be shipped for sale to customers in Japan.

Production of key gases to the electronics industry begins in Japan and the United States

A In the period under review, we commenced production of hydrogen compounds, essential to the manufacture of semiconductors, liquid crystal display (LCD) panels and solar cells, in Japan and the United States.

B Going forward, we intend to begin producing other materials gases, including boron trichloride (BCl_3) and nitric oxide (NO), which are expected to be used in increasing volume in the manufacture of semiconductors and LCD panels.

Promote our M&A strategy

United States

A We are currently working to ensure the early realization of benefits from M&A deals to date in the United States.

B Looking ahead, we will continue seeking to acquire small and mid-tier regional gas distributors to reinforce our U.S. operations.

China

B We are currently pressing ahead with M&A plans involving local gas producers and distributors.

Singapore

B Late in 2011, we made a tender offer for all shares of Singapore-based Leeden Limited. In February 2012, Leeden became a consolidated subsidiary. In the months and years ahead, we will work to maximize synergies between Leeden and our existing operations in Southeast Asia.

Implement cost reductions

Reinforcing operating foundation by optimizing and enhancing the efficiency of operations

B At present, we are taking decisive steps to reduce costs at all stages of the supply chain, including production, distribution and procurement. Looking forward, we will work to enhance our cost competitiveness by optimizing plant operations and periodically replacing equipment. We will also focus on realigning our carbon dioxide production bases.

Strengthen Group management

Enhancing our pivotal domestic operating foundation

B As part of a drive to increase front-line capabilities at our approximately 450 bases in Japan, we continue to use our cylinder business as a way of encouraging a sales approach that is closely tailored to local needs. We are also reinforcing relations with our domestic sales agents. On another front, we are renovating our filling stations.

Providing medical gases to approximately 10,000 home healthcare patients nationwide

B Our priority here is to ensure a harmonious and mutually beneficial relationship with local retailers. Our home healthcare business is expanding and increasing the efficiency of its operations, which are spearheaded by Group company Nippon Megacare Corporation, particularly through its affiliates in the Kansai region, which centers on Osaka, and in the Kanto region, home to the metropolis of Tokyo.

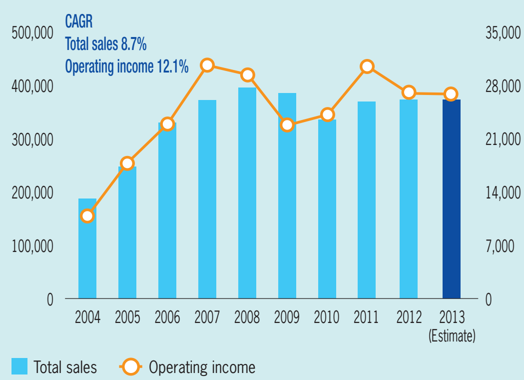
Perception of the Business Climate in Key Markets

Japan

Despite signs of a gradual recovery after the devastating impact of the Great East Japan Earthquake, Japan's economy was hampered by the rapid appreciation of the yen in subsequent months, which pushed down exports, as well as by the severe flooding in Thailand in late 2011, as a consequence of which results in the electronics industry stagnated. In this environment, sales of core products, notably oxygen, nitrogen and argon, dipped below the previous year's level, mainly to the steel and chemicals industries. In contrast, sales of specialty electronics materials gases to customers in the electronics industry for use in semiconductors, liquid crystal display (LCD) panels and solar cells declined sharply, as did demand for high-purity gas supply facility installation and construction.

Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)



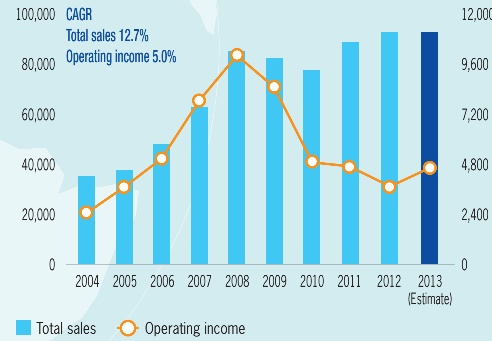
Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2012 and estimates for the year ending March 31, 2013.

North America

Having positioned North America as an important growth region, we continue to capitalize actively on M&A opportunities and to press forward with the construction of air separation plants. In fiscal year 2012, we focused on rationalization efforts aimed a maximizing the synergies of M&A deals to date. We also proceeded with work on air separation plants in Florida and North Dakota. Going forward, we will take steps to secure demand for industrial gases from the shale gas and oil and the biofuel sectors. Our helium joint venture with Air Products and Chemicals completed a new plant in the United States, which is expected to start producing in late 2012.

Total Sales and Operating Income in North America

As of July 2011 (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—2012 and estimates for the year ending March 31, 2013.

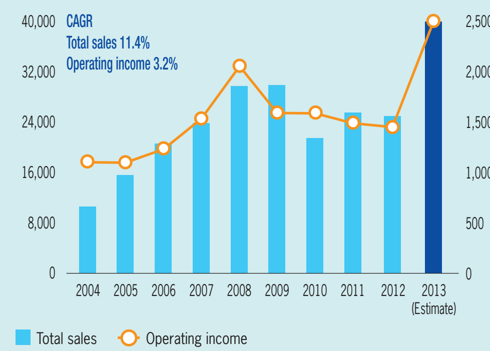
Asia

In the Philippines and Vietnam, demand for industrial gases remains firm, while in South Korea, Taiwan and China we continue to benefit from steady demand for electronics materials gases. China, in particular, is emerging as a huge market for industrial gases, and we are actively pursuing not only major projects, but also M&A opportunities involving local gas producers and distributors. We currently have operations in Malaysia, Singapore, Thailand, the Philippines, Vietnam, South Korea, Taiwan, China and India. Recognizing the potential for significantly higher sales growth in these markets than in Japan, we continue to seek out promising new business opportunities.

The market for industrial gases in India is estimated to be worth approximately $1 billion annually. The compound annual growth rate (CAGR) for the market is currently between 12% and 15%—higher than the rate at which the country's gross domestic product (GDP) is growing—while the CAGR for the helium market has been between 25% and 30% for the past three years. Through Matheson K-Air India Private Limited, we plan to invest $100 million between now and fiscal year 2016 to expand our supply capabilities in India.

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—2012 and estimates for the year ending March 31, 2013.

Taiyo Nippon Sanso in Asia

Asia—including Southeast Asia, China and India—is one of Taiyo Nippon Sanso Group's most important geographic markets. In the industrial gases business, our first foray into Asia came in 1982, when we set up a local subsidiary in Singapore.

In subsequent years, we took assertive steps to bolster our Asian presence, establishing companies in Thailand, the Philippines, Vietnam, South Korea and other countries and territories. Our expansion has primarily been through equity participation or the establishment of joint ventures, because of restrictions on foreign investment in many countries of the region and because our goal has been to establish strong roots in the market, producing and supplying locally, rather than simply shifting our production offshore.

Our approach to expansion means choosing the right local partner, which is crucial to the success of our endeavors. In instances where our partner is another producer or a distributor of industrial gases, the network and personal contacts of our partners are our way into the market.

We first set up operations in the Chinese market in 1993 with the establishment of an industrial gases production and sales company in Dalian. We established an import and sales company for specialty gases in Shanghai in 2002, which was followed in 2003 by an industrial gases production and sales company. Four years later, in 2007, we signed an agreement with the local executive committee giving us exclusive rights to produce industrial gases for Dalian Changxing Island Harbor Industrial Zone, a new industrial park, primarily for shipbuilding and petrochemicals firms, being planned for Dalian. The selection of our bid reflected high marks given our production and sales records to date in Dalian and Shanghai. We established Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd., in 2008 and commenced production at a new plant located inside the park in 2010. However, owing to the global economic downturn triggered by the collapse of Lehman Brothers, many companies scheduled to occupy space in Changxing Island Harbor Industrial Zone were forced to delay plans, a development that devastated the operating environment for our subsidiary. However, thanks to the hard work and dedication of local staff, we succeeded in securing orders from local liquid gas users, as a result of which the plant is currently operating at near its intended capacity. In the years ahead, we will continue taking steps to bolster our operations in China.

In India, we are currently building an air separation plant at Matheson K-Air India Private Limited, acquired in 2011 through U.S. subsidiary Matheson Tri-Gas. The plant is expected to be fully operational by 2013. Matheson K-Air India has its headquarters and filling facilities in Pune, home to numerous educational facilities and research institutes, which is in the process of building a major high-tech industrial park. The company currently sources liquid gases from local suppliers, but with the start of production at the new plant will establish itself as a producer of industrial gases. In addition to its expanding automotive and steel industries, India is expected to see growth in its electronics industry. Accordingly, we intend to continue investing assertively in the country.

Expanding our Operations in Asia: Industrial Gases

Format of investment (initial stage)

Equity participation	Examples: Ingasco, Inc. (Philippines), Air Products Industry Co., Ltd. (Thailand)
Joint venture	Examples: National Oxygen Pte. Ltd. (Singapore), Vietnam Japan Gas Co., Ltd. (Vietnam), Dalian Taiyo Nippon Sanso Gas Co., Ltd. (China)
Independently established	Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd.
M&A	Matheson K-Air India Private Limited (India)

Milestones

National Oxygen Pte. Ltd. (Singapore)

1980 Set up representative office in Singapore
1982 Established National Oxygen Pte. Ltd. in a joint venture with three local companies, including a major steelmaker
2003 Bought out partners' shares, transforming National Oxygen into a wholly owned subsidiary

Ingasco, Inc. (Philippines)

1994 Took equity stake in Ingasco
1998 Acquired new shares, securing 51% equity holding
2002 Entered into joint venture with major distributor
2006 Acquired founder's share of company, increasing holding to 70%

Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd. (China)

2007 Signed agreement to supply industrial gases to the Dalian Changxing Island Harbor Industrial Zone, thereby securing exclusive manufacturing rights for the complex
2008 Established Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd.
2010 Commenced operation of new air separation plant in the complex on schedule

Ceremony held in 2007 to mark the 25th anniversary of National Oxygen's establishment (Singapore)

Tanker truck (Philippines)

With Japan a mature market, we are stepping up efforts to expand our operations elsewhere in Asia. In 2008, we launched a monosilane gas filling operation in Yangzhou, China. Monosilane gas is an electronics materials gas crucial to the manufacture of semiconductors, solar cells and LCD panels.

In gases for electronics-related applications, a market characterized by rapid change, it is crucial that we formulate strategies for expansion from a global perspective. We must also take steps to ensure our strategies are in line with the strategies of customers in local markets, as well as to ensure swift decision making. Accordingly, we are strengthening our strategic focus on product management, with the aim of maximizing the strength of our product portfolio, while maintaining our emphasis on account management.

In the metal organic chemical vapor deposition (MOCVD) equipment business, for example, in January 2011 we established TNSK Corporation, a manufacturing and sales joint venture, in South Korea, a move that positioned us to respond to growing demand in the Asian market for MOCVD equipment, particularly in South Korea. In specialty materials gases, we established a germane production facility joint venture in the United States with U.S. firm Gelest Technologies Inc., in 2010, and in June 2011 we acquired a stake in NO gas producer Zenith Tech Co., Ltd., through subsidiary Matheson Gas Products Korea, Co., Ltd.

In the area of gas supply equipment, we recently began supplying technologies to equipment manufacturing subsidiary Taiyo Nippon Sanso Engineering Taiwan, Inc., with the aim of inaugurating production of gas purification systems in fiscal year 2013 and positioning the company as our Asian supply base for gas-related equipment. Also in Taiwan, subsidiary Nippon Sanso Taiwan, Inc., the second-largest player in the specialty gases market in Taiwan in terms of market share, continues to achieve steady growth by providing stable supplies of specialty gases, building abatement and purification systems, and designing and executing gas piping works.

Expanding our Operations in Asia: Gases for Electronics Applications

Format of investment (initial stage)

Independently established	Taiyo Nippon Sanso Trading (Shanghai) Co., Ltd., Shanghai Taiyo Nippon Sanso Gas Co., Ltd.
Acquisition	Yangzhou Taiyo Nippon Sanso Semiconductor Gases Co., Ltd.

Milestones

Supplying electronics manufacturers in China

2002 Established wholly owned subsidiary Taiyo Nippon Sanso Trading (Shanghai) Co., Ltd.

- Encouraged by market expansion in eastern China, attributable to increase in construction of semiconductor manufacturing facilities
- Company commenced importing and selling specialty gases to Japanese and other semiconductor manufacturers in the area

2003 Established wholly owned subsidiary Shanghai Taiyo Nippon Sanso Gas Co., Ltd.

- Entered market for general industrial gases business in eastern China, beginning with on-site supplies to Chinese–Japanese joint venture LCD panel manufacturer
- Having weathered changes in the operating environment, including downsizing of production plans and eventual collapse of aforementioned joint venture, company is currently implementing measures to restore profitability, including shifting focus to onsite supplies for local LCD panel manufacturers

Yangzhou Taiyo Nippon Sanso Semiconductor Gases Co., Ltd.

2003 Acquired all outstanding shares in monosilane gas filling company Yangzhou Zhongyuan Semiconductor Gases Co., Ltd., which changed its name to Yangzhou Taiyo Nippon Sanso Semiconductor Gases Co., Ltd.

- Acquired company that supplies manufacturers of local thin-film solar cells and LCD panels
- Acquisition of company already licensed to manufacture monosilane gas in China facilitated immediate market entry and the subsequent expansion of this business

As these developments indicate, the guiding policy behind the expansion of our operations in Asia is to remain flexible and adapt as necessary to changes in our operating environment and in conditions within the Taiyo Nippon Sanso Group, thereby ensuring an optimal business configuration. In just three decades, our annual sales in Asia have reached approximately ¥25 billion. With the aim of capitalizing on new growth opportunities in this promising market, we will continue working to optimize our global production capacity.

Air separation plant at Dalian Changxing Island Taiyo Nippon Sanso Gas (China)


Taiyo Nippon Sanso Trading (Shanghai) (China)


Ceremony marking the start of business at Yangzhou Taiyo Nippon Sanso Semiconductor Gases (China)

Corporate Governance

Basic Policy

Having identified the purpose of corporate governance to be the assurance of effective, efficient decision making, thereby facilitating the proper execution of business, while at the same time guaranteeing the appropriate monitoring thereof, we have clarified responsibility and authority with respect to the management monitoring function of directors and the business execution function of corporate officers. We have also sought to enhance the transparency of management and the effectiveness of corporate governance by promoting timely disclosure.

Management Structure

Taiyo Nippon Sanso has adopted a system of internal auditors. Our Board of Directors is composed of 15 directors. To guarantee transparency, one of the directors satisfies the requirements for an outside director. To clarify accountability on a fiscal year basis, the term of office for directors is set at one year. In fiscal year 2012, the Board of Directors met 14 times. The outside director, Ryuichi Tomizawa, attended nine of the 14 meetings (64.3%).

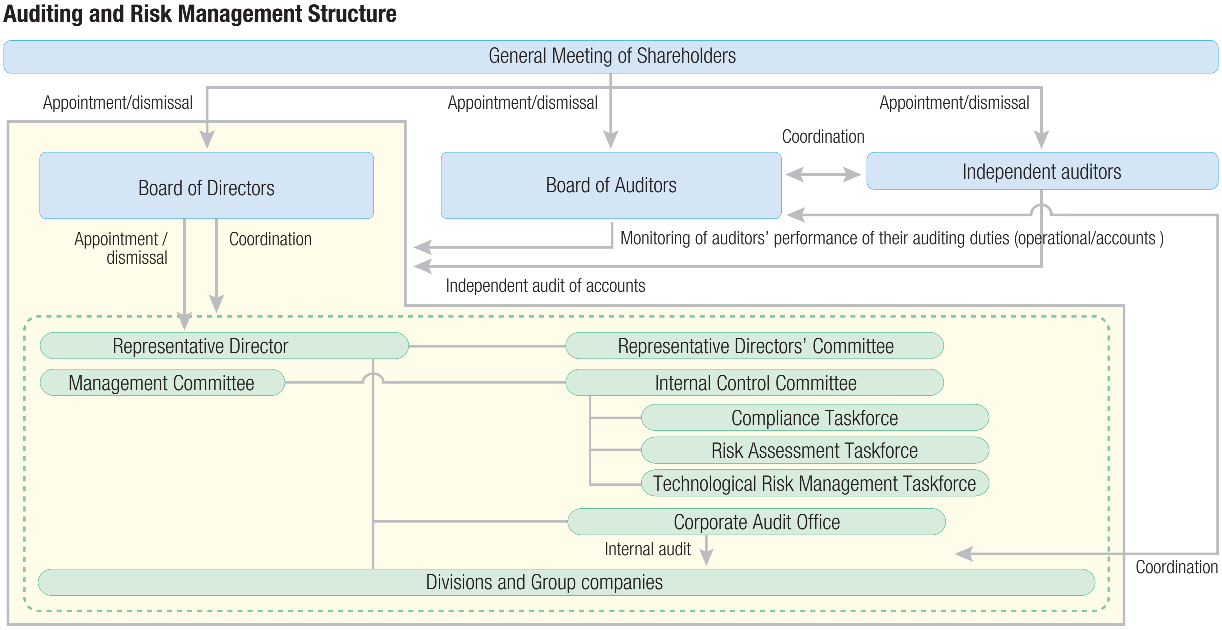
Auditing Structure and Internal Control System

To ensure adequate monitoring capabilities, our Board of Auditors consists of four auditors, two of whom satisfy the requirements of outside auditors, including one who is independent. Auditors communicate with the independent accountants—with whom they meet periodically to exchange opinions on key aspects of the auditing process and the assessment of risks associated with auditing from the perspective of internal controls—are briefed on audit plans and audit results by an internal auditing body (the Corporate Audit Office), and oversee management appropriateness and efficiency.

Remuneration for Directors

In fiscal year 2011, remuneration for 18 directors totaled ¥723 million, while that for four auditors totaled ¥105 million. Remuneration for directors consists of monthly remuneration, performance-linked bonuses and dividend-linked bonuses. Performance-linked bonuses are linked to consolidated operating results.

Auditing and Risk Management Structure



Corporate Social Responsibility

We recognize effective corporate social responsibility (CSR) as a crucial aspect of management. Through our CSR program, we strive to reinforce the soundness of management, thereby ensuring Taiyo Nippon Sanso remains an entity that exists in harmony with society and the natural environment and is deserving of the designation "good corporate citizen," as well as helping to realize sustainable growth.

Our CSR program is founded on the core concept behind our corporate philosophy, "Market-driven collaborative innovation: Improving the future through gases," namely, our commitment to working with our customers in different industries to contribute, through the advancement of gas technologies, to a healthy and prosperous society.

To fulfill the responsibilities and effectively manage the practical risks implied in our corporate slogan, "The Gas Professionals," and in line with our belief that selling gas is commensurate with selling safety and peace of mind, we continue to expand our operations in a manner that reflects five key priorities:

1. Ensure stringent compliance
2. Enhance safety management
3. Guarantee superior product quality
4. Contribute to a healthy environment
5. Make effective use of intellectual property

THRUSH terminal

THRUSH currently monitors and manages inventory for 600 tanks of medical gases across Japan. Drawing on lessons learned from the Great East Japan Earthquake, we are promoting the expanded use of this system.

Assisting in the Wake of the Great East Japan Earthquake

On March 11, 2011, our BCP Taskforce stepped into action approximately 20 minutes after the Great East Japan Earthquake struck. Our first priority was to fulfill our responsibility to society as a producer of industrial gases by shipping supplies of medical gases and of nitrogen for a variety of applications aimed at preventing secondary disasters.

Shipments of medical gases were organized based on information from the BCP Taskforce, which enabled us to ascertain remaining supplies of such gases in stricken areas and prioritize hospitals and filling stations where needs were most urgent before dispatching tanker trucks. In areas where regular lines of communication had been destroyed and damage from the quake prevented in-person confirmation, our THRUSH liquid gas remote monitoring and inventory management system proved particularly effective, giving us access to data on customers' gas use and remaining supplies up until the day before the earthquake, making it possible for us to appropriately allocate emergency supplies. THRUSH is currently in use by 50% of our customers in Japan, but thanks to a pilot program to promote its adoption the system had been installed at approximately 80% of the hospitals in the Tohoku region.

Going forward, we will continue to take pride in what we do as gas professionals in both emergency situations and everyday operations. In so doing, we will seek to ensure safe, stable supplies of industrial gases and to contribute to the safety and security of society and the communities we serve.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hirosuke Matsueda

President
Yasunobu Kawaguchi

Executive Vice President
Fumio Hara

Executive Director/Advisor
Hiroshi Taguchi

Senior Managing Directors
Shinji Tanabe
Kunishi Hazama
Tadashige Maruyama
Yujiro Ichihara

Managing Directors
Yoshikazu Yamano
Shigeru Amada
Hiroshi Katsumata
Kinji Mizunoe
Akihiko Umekawa

Executive Directors
Shotaro Yoshimura*1
William J. Kroll

Corporate Auditors

Shigeto Umatani
Kiyoshi Fujita
Ichiro Yumoto*2
Kazuo Yoshida*2

Corporate Officers

Executive Corporate Officers
Masanori Zaima
Shin-ichiro Hiramine
Keiki Ariga
Tetsuya Nakayama
Yuki Hajikano
Jun Ishikawa
Takashi Tatsumi
Masami Sakaguchi
Susumu Naka
Yoshihide Kenmochi
Shigenobu Somaya

Corporate Officers
Masahiro Sakamoto
Takashi Fukano
Masahiko Kitabatake
Mikio Yamaguchi
Hiroyuki Tanizawa
Tadashi Higashino
Atsuhiro Fujita
Toshiaki Yamazaki
Hiroshi Nagae
Takeki Hata
Kazushige Arai
Norikazu Ishikawa
Masayuki Taniguchi
Masami Takaine
Kazunori Takeda
Shigeyuki Osawa
Hirohisa Yanagida

(As of June 28, 2012)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2012**	2011	2010	2009	2008	2007
Net sales	**¥477,451**	¥483,620	¥433,390	¥495,746	¥507,718	¥458,587
Operating income	**31,067**	35,468	27,556	29,164	38,783	36,488
Net income	**21,200**	12,736	15,748	16,533	21,930	20,094
Selling, general and administrative expenses/ Net sales (%)	**26.3%**	26.1%	27.5%	24.7%	23.1%	23.2%
Return on equity (%)	**10.8%**	6.5%	8.3%	8.6%	10.8%	10.6%
Return on assets (%)	**3.5%**	2.1%	2.4%	3.1%	4.0%	3.6%
Capital expenditures	**31,452**	31,991	38,366	66,010	36,260	35,891
Depreciation and amortization	**30,471**	32,167	30,143	28,339	25,506	21,210
Research and development expenses	**3,458**	3,924	4,137	3,936	2,903	2,713
Interest-bearing debt	**241,121**	250,409	259,111	191,074	159,500	152,232
Total net assets	**219,611**	207,416	212,396	194,250	217,813	216,068
Total assets	**607,024**	617,676	617,215	534,350	547,237	547,791
	Yen					
Per share data:						
Net income[1]	**¥53.33**	¥31.86	¥39.39	¥41.21	¥54.48	¥49.93
Cash dividends	**12.00**	12.00	12.00	12.00	12.00	12.00
	Times					
Price earnings ratio	**10.95**	21.75	23.20	15.55	14.65	21.31

Note: 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.

Management's Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

As of March 31, 2012, Taiyo Nippon Sanso Corporation had 111 consolidated subsidiaries (46 based in Japan and 65 based overseas), including newly acquired Leeden Limited, which became a consolidated subsidiary in fiscal year 2012, and 30 equity-method affiliates (10 based in Japan and 20 based overseas).

A total of 51 consolidated subsidiaries and 14 equity-method affiliates are accounted for in the Industrial Gases segment. The Electronics segment and the Energy segment comprise 12 and four consolidated subsidiaries, respectively. The Other segment encompasses eight consolidated subsidiaries and 11 equity-method affiliates.

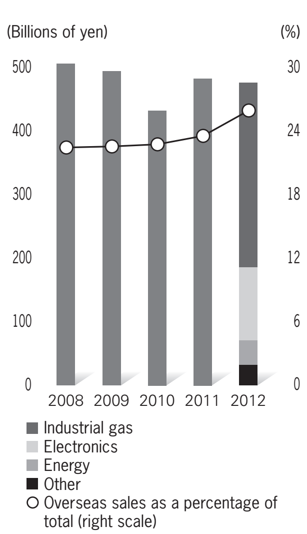
Operating Results

In fiscal year 2012, ended March 31, 2012, consolidated net sales declined 1.3%, to ¥477,451 million. Cost of sales edged down 0.3%, to ¥320,857 million. Selling, general and administrative expenses were also down, slipping 0.6%, to ¥125,526 million, owing principally to the adoption of the straight-line method of depreciation for assets accounted for in property, plant and equipment effective from the period under review. Reflecting these and other factors, operating income fell 12.4%, to ¥31,067 million. The operating margin dipped by 0.8 percentage point, to 6.5%.

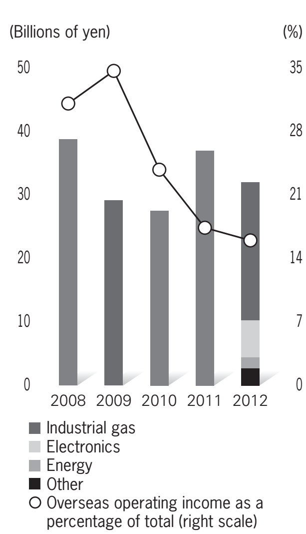
Other income rose ¥9,941 million, to ¥10,118 million, attributable to a gain on transfer of business of ¥6,733 million—an extraordinary gain resulting from the transfer of the safe delivery source (SDS) and vacuum actuated cylinder (VAC) business outside Japan to a third party—and a gain on sale of noncurrent assets of ¥3,385 million. In contrast, other expenses totaled ¥5,913 million, a decrease of ¥1,680 million. As a consequence, net income climbed 66.5%, to ¥21.2 billion. Net income per share was ¥53.33, while return on equity (ROE) was 10.8%, 4.3 percentage points higher than in the previous fiscal year. At the general meeting of the Company's shareholders on June 28, 2012, a proposal to pay a full-term dividend of ¥12.00 per share for the period under review was approved. The dividend payout ratio was 22.5%.

Capital expenditures, including the cost of construction, totaled ¥31,452 million in the period under review, approximately ¥539 million lower than in fiscal year 2011. In contrast, depreciation and amortization declined ¥1,696 million, to ¥30,471 million. Investment in R&D, at ¥3,458 million, was down ¥466 million and equivalent to approximately 0.7% of net sales.

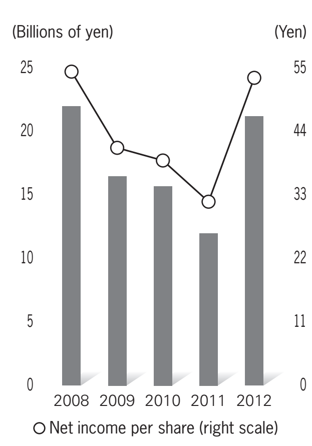
Net Sales



Operating Income



Net Income



Results by Segment

Industrial Gases

Owing partly to M&A activities in North America, which expanded the scale of Taiyo Nippon Sanso's operations, results in the Industrial gas segment were firm. In Japan, sales of principal products—oxygen, nitrogen and argon—dipped slightly, owing to falling demand from steel and chemicals companies, the principal users of these products, the steep appreciation of the yen, which hampered exports, and to the impact of the severe flooding that struck Thailand.

Sales of cutting and welding equipment were also up. Sales in Japan were bolstered by brisk demand for plasma cutting equipment and other large items. Overseas, production adjustments by customers in North America progressed and sales of hard goods, among others, rose in the second half.

In machinery and equipment, sales of pressure swing adsorption (PSA) gas generator plants were brisk, particularly in Japan, while sales of air separation plants fell sharply, owing to flagging demand for large-scale facilities.

As a consequence of these and other factors, segment sales to third parties in the Industrial gas segment edged up 0.8%, to ¥291,057 million. Operating income declined 10.0%, to ¥21,712 million.

Electronics

Demand for core electronics-related gases slackened from our principal customers in Japan, notably manufacturers of semiconductors, liquid crystal display (LCD) panels and solar cells, owing to the impact of the Great East Japan Earthquake, which struck in March 2011, as well as the strength of the yen and the flooding in Thailand. Despite firm demand from customers in South Korea, Taiwan and China, sales of electronics materials gases declined, a consequence of falling domestic shipments.

Sales of electronics-related equipment and installation projects also fell amidst weakening capital investment. Although orders from customers in South Korea and Taiwan were firm, sales of metal organic chemical vapor deposition (MOCVD) equipment fell sharply as principal customers in the domestic market halted capital investment plans.

Owing to the aforementioned factors, segment sales to third parties fell 8.9%, to ¥115,294 million. Operating income fell 30.0%, to ¥5,914 million.

Energy

Despite a decline in shipments, sales of LP gas rose, bolstered by steadily rising import prices, as well as expanded orders for related equipment and devices associated with efforts to conserve electricity and reduce consumption of energy. Accordingly, segment sales to third parties increased 3.3%, to ¥38,881 million. Operating income, at ¥1,667 million, was up 19.1%.

Other

Sales in the Medical business increased, bolstered by firm demand for medical care equipment, notably equipment for use in home medical care. Sales in the Thermos business failed to rebound fully from a slump in the first half, finishing down from the previous fiscal year. Sales for the two businesses accounted for in this segment to third parties amounted to ¥32,218 million, an increase of 4.5%, while operating income declined 10.5%, to ¥2,723 million.

Financial Position

As of March 31, 2012, total assets amounted to ¥607,024 million, a decrease of 1.7%. Approximately ¥8,700 million of the decline was attributable to a ¥3.75 increase in the value of the yen against the U.S. dollar as of the last day of the fiscal year. The current ratio was 129%, up 7.0 percentage points from the fiscal 2011 year-end.

Property, plant and equipment, net, edged down 0.4%, to ¥255,499 million. Total investments and other assets declined 6.1%, to ¥132,316 million, owing to declines in investment securities and goodwill, among other factors.

Total current liabilities declined 6.0%, to ¥169,729 million, reflecting an increase in notes and accounts payable–trade and declines in provisions for loss on disaster and for government surcharge, the latter related to an alleged pricing cartel for air separator gases. Total noncurrent liabilities were down 5.2%, to ¥217,683 million, attributable to declines in long-term loans payable. As a consequence, interest-bearing debt fell ¥15,237 million, to ¥241,121 million.

Total net assets increased 5.9%, to ¥219,611 million. This result reflected a variety of factors, including a ¥16,396 million increase in retained earnings, adjusted for net income and dividends. The net asset ratio slipped 1.9 percentage points, to 33.1%, while net assets per share rose ¥24.31, to ¥506.02.

Cash Flows

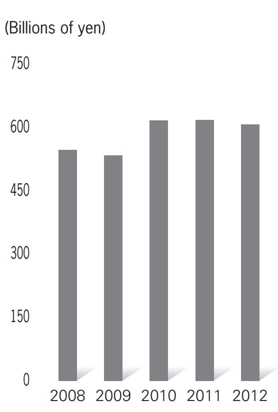
In fiscal year 2012, net cash provided by operating activities amounted to ¥45,986 million, a decrease of ¥19,911 million. Factors behind this result included changes in income before income taxes and minority interests, depreciation and amortization and notes and accounts receivable–trade. The interest coverage ratio weakened by 2.8 points, to 10.7 times.

Net cash used in investing activities, at ¥32,748 million, was down ¥12,086 million. This result primarily reflected the application of cash to purchases of property, plant and equipment.

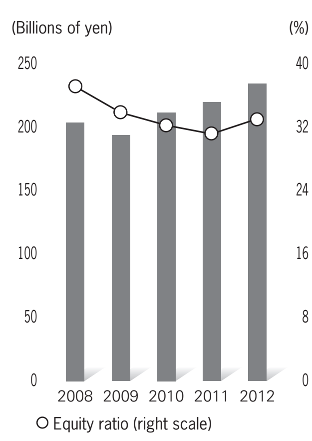
Net cash used in financing activities came to ¥23,536 million. Principal factors contributing to this result included a decline in interest-bearing debt.

As a consequence of the Company's operating, investing and financing activities in fiscal year 2012, cash and cash equivalents at end of period totaled ¥33,275 million, a decline of ¥10,602 million.

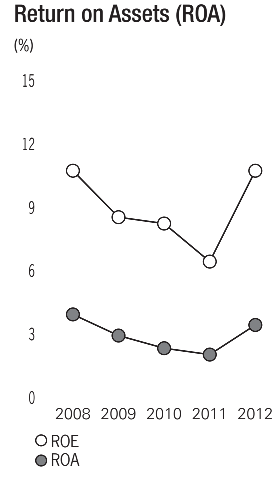
Total Assets



Equity



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



Business Risks

Management Policies, Business-Related Risks

Purchase of Property, Plant and Equipment

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

Reliance on Specific Industries

The Company supplies gases to a wide range of industries and its exposure to risks from reliance on specific industries is thus low. Nevertheless, changes in key electronics markets (semiconductors, liquid crystal display (LCD) panels, 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.

Technological 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 technologies. 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, LCD panels, 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 and 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.

Because the Company does business both in Japan and overseas, there is a risk that it may become involved in legal disputes or be the subject of investigations and/or legal action by relevant authorities in the markets in which we operate. Such legal and regulatory action may adversely affect the Company's operations, business performance, financial condition, reputation and reliability.

Medium-Term Business Plan

A number of factors—including changes in the operating environment—could render impossible the achievement of targets set forth in the Company's medium-term management plan.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2012**	2011	**2012**
Assets			
Current assets:			
Cash and deposits (Notes 15 and 23)	**¥ 34,596**	¥ 44,549	**$ 420,927**
Notes and accounts receivable—trade (Notes 6 and 15)	**132,176**	126,207	**1,608,176**
Merchandise and finished goods	**23,462**	16,750	**285,461**
Work in process	**7,827**	9,295	**95,231**
Raw materials and supplies	**6,439**	7,848	**78,343**
Deferred tax assets (Note 10)	**5,216**	6,390	**63,463**
Other	**10,332**	9,873	**125,709**
Allowance for doubtful accounts	**(842)**	(689)	**(10,245)**
Total current assets	**219,208**	220,227	**2,667,088**
Property, plant and equipment (Notes 8, 9 and 22)	**653,202**	635,455	**7,947,463**
Accumulated depreciation	**(397,703)**	(378,961)	**(4,838,825)**
Property, plant and equipment, net	**255,499**	256,494	**3,108,639**
Investments and other assets:			
Investment securities (Notes 5 and 15)	**50,871**	53,569	**618,944**
Long-term loans receivable	**5,103**	5,387	**62,088**
Goodwill	**39,735**	43,343	**483,453**
Other intangible assets	**16,376**	18,647	**199,246**
Prepaid pension cost (Note 13)	**10,790**	11,427	**131,281**
Deferred tax assets (Note 10)	**2,105**	2,221	**25,611**
Other	**9,089**	8,475	**110,585**
Valuation allowance for investments	**(865)**	(1,277)	**(10,524)**
Allowance for doubtful accounts	**(889)**	(839)	**(10,816)**
Total investments and other assets	**132,316**	140,953	**1,609,880**
Total assets	**¥ 607,024**	¥ 617,676	**$ 7,385,619**

See notes to consolidated financial statements.

March 31	Millions of yen 2012	2011	Thousands of U.S. dollars (Note 4) 2012
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable—trade (Note 15)	**¥ 75,927**	¥ 66,896	**$ 923,799**
Short-term loans payable (Notes 7 and 15)	**60,517**	64,002	**736,306**
Income taxes payable (Note 10)	**5,242**	8,173	**63,779**
Provision for loss on disaster (Note 20)	**—**	1,263	**—**
Provision for government surcharge	**—**	5,193	**—**
Other	**28,040**	34,997	**341,161**
Total current liabilities	**169,729**	180,527	**2,065,081**
Noncurrent liabilities:			
Long-term loans payable (Notes 7 and 15)	**172,469**	182,398	**2,098,418**
Pension and severance indemnities (Note 13)	**4,948**	5,003	**60,202**
Deferred tax liabilities (Note 10)	**26,398**	27,740	**321,183**
Negative goodwill	**335**	757	**4,076**
Lease obligations (Note 7)	**6,030**	6,563	**73,367**
Other	**7,500**	7,268	**91,252**
Total noncurrent liabilities	**217,683**	229,732	**2,648,534**
Contingent liabilities (Note 14)			
Total liabilities	**387,413**	410,259	**4,713,627**
Net assets (Notes 11 and 24):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**328,982**
Capital surplus	**44,909**	44,910	**546,405**
Retained earnings	**166,835**	150,439	**2,029,870**
Treasury stock, at cost—			
6,197,947 shares in 2012 and 3,326,579 shares in 2011	**(4,125)**	(2,321)	**(50,189)**
Total shareholders' equity	**234,659**	220,068	**2,855,080**
Accumulated other comprehensive income:			
Valuation differences on available-for-sale securities	**4,432**	6,428	**53,924**
Deferred gains or losses on hedges	**(26)**	(163)	**(316)**
Foreign currency translation adjustments	**(38,035)**	(33,621)	**(462,769)**
Pension liability adjustment of foreign subsidiaries	**(193)**	(140)	**(2,348)**
Total accumulated other comprehensive income (loss)	**(33,823)**	(27,496)	**(411,522)**
Minority interests	**18,775**	14,845	**228,434**
Total net assets	**219,611**	207,416	**2,671,992**
Total liabilities and net assets	**¥607,024**	¥617,676	**$7,385,619**

Consolidated Statements of Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

Years ended March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 4) 2012
Net sales	¥477,451	¥483,620	$5,809,113
Cost of sales (Note 17)	320,857	321,885	3,903,845
Gross profit	156,593	161,734	1,905,256
Selling, general and administrative expenses (Note 17)	125,526	126,265	1,527,266
Operating income	31,067	35,468	377,990
Other income (expenses):			
Interest and dividend income	1,036	1,080	12,605
Interest expenses	(4,292)	(4,873)	(52,220)
Amortization of negative goodwill	507	616	6,169
Gain on sales of noncurrent assets (Note 18)	3,385	57	41,185
Loss on sales and retirement of noncurrent assets (Note 18)	(5,206)	(374)	(63,341)
Foreign exchange losses	(6)	(182)	(73)
Loss on valuation of investment securities	(312)	(608)	(3,796)
Loss on valuation of golf club memberships	(48)	(55)	(584)
Equity in earnings of affiliates	1,158	1,541	14,089
Impairment loss (Note 19)	(213)	(94)	(2,592)
Provision of valuation allowance for investments	(70)	(40)	(852)
Reversal of valuation allowance for investments	—	120	—
Loss on liquidation of subsidiaries and affiliates	(215)	—	(2,616)
Gain on transfer of business	6,733	—	81,920
Provision of allowance for government surcharge	—	(5,193)	—
Loss on disaster (Note 20)	(429)	(1,600)	(5,220)
Other	844	891	10,269
	2,868	(8,717)	34,895
Income before income taxes and minority interests	33,935	26,751	412,885
Income taxes (Note 10):			
Current	9,428	13,756	114,710
Deferred	2,106	(963)	25,624
	11,535	12,792	140,346
Income before minority interests	22,400	13,959	272,539
Minority interests in income	1,199	1,222	14,588
Net income	¥ 21,200	¥ 12,736	$ 257,939

	Yen 2012	Yen 2011	U.S. dollars (Note 4) 2012
Amounts per share:			
Net assets	¥506.02	¥481.71	$6.16
Net income	53.33	31.86	0.65
Cash dividends	12.00	12.00	0.15

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

Year ended March 31	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 4) 2012
Income before minority interests	¥22,400	¥ 13,959	$272,539
Other comprehensive income (Note 21):			
Valuation differences on available-for-sale securities	(2,005)	(4,433)	(24,395)
Deferred gains or losses on hedges	136	(191)	1,655
Foreign currency translation adjustments	(3,815)	(9,137)	(46,417)
Pension liability adjustment of foreign subsidiaries	(53)	(15)	(645)
Share of other comprehensive income of associates accounted for using the equity method	(440)	(631)	(5,353)
Total other comprehensive income (loss)	(6,177)	(14,408)	(75,155)
Comprehensive income (loss)	¥16,222	¥ (449)	$197,372
Total comprehensive income (loss) attributable to:			
Owners of the Company	¥14,874	¥ (1,770)	$180,971
Minority interests	1,348	1,320	16,401

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

		Millions of yen											
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2010	403,092,837	¥27,039	¥44,910	¥142,426	¥(2,307)	¥212,068	¥10,880	¥ 27	¥(23,773)	¥(124)	¥(12,990)	¥13,317	¥212,396
Disposal of treasury stock	—	—	0	—	15	15	—	—	—	—	—	—	15
Dividends from surplus	—	—	—	(4,798)	—	(4,798)	—	—	—	—	—	—	(4,798)
Net income	—	—	—	12,736	—	12,736	—	—	—	—	—	—	12,736
Purchase of treasury stock	—	—	—	—	(30)	(30)	—	—	—	—	—	—	(30)
Change of scope of consolidation	—	—	—	54	—	54	—	—	—	—	—	—	54
Increase by merger	—	—	—	21	—	21	—	—	—	—	—	—	21
Net changes of items other than shareholders' equity	—	—	—	—	—	—	(4,452)	(191)	(9,847)	(15)	(14,506)	1,528	(12,978)
Balance at March 31, 2011	403,092,837	¥27,039	¥44,910	¥150,439	¥(2,321)	¥220,068	¥ 6,428	¥(163)	¥(33,621)	¥(140)	¥(27,496)	¥14,845	¥207,416
Disposal of treasury stock	**—**	**—**	**(0)**	**—**	**3**	**3**	**—**	**—**	**—**	**—**	**—**	**—**	**3**
Dividends from surplus	**—**	**—**	**—**	**(4,781)**	**—**	**(4,781)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,781)**
Net income	**—**	**—**	**—**	**21,200**	**—**	**21,200**	**—**	**—**	**—**	**—**	**—**	**—**	**21,200**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(1,807)**	**(1,807)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,807)**
Decrease by merger	**—**	**—**	**—**	**(23)**	**—**	**(23)**	**—**	**—**	**—**	**—**	**—**	**—**	**(23)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**(1,995)**	**136**	**(4,413)**	**(53)**	**(6,326)**	**3,930**	**(2,396)**
Balance at March 31, 2012	**403,092,837**	**¥27,039**	**¥44,909**	**¥166,835**	**¥(4,125)**	**¥234,659**	**¥ 4,432**	**¥ (26)**	**¥(38,035)**	**¥(193)**	**¥(33,823)**	**¥18,775**	**¥219,611**

	Thousands of U.S. dollars (Note 4)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2011	$328,982	$546,417	$1,830,381	$(28,239)	$2,677,552	$78,209	$(1,983)	$(409,064)	$(1,703)	$(334,542)	$180,618	$2,523,616
Disposal of treasury stock	**—**	**(0)**	**—**	**37**	**37**	**—**	**—**	**—**	**—**	**—**	**—**	**37**
Dividends from surplus	**—**	**—**	**(58,170)**	**—**	**(58,170)**	**—**	**—**	**—**	**—**	**—**	**—**	**(58,170)**
Net income	**—**	**—**	**257,939**	**—**	**257,939**	**—**	**—**	**—**	**—**	**—**	**—**	**257,939**
Purchase of treasury stock	**—**	**—**	**—**	**(21,986)**	**(21,986)**	**—**	**—**	**—**	**—**	**—**	**—**	**(21,986)**
Decrease by merger	**—**	**—**	**(280)**	**—**	**(280)**	**—**	**—**	**—**	**—**	**—**	**—**	**(280)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(24,273)**	**1,655**	**(53,693)**	**(645)**	**(76,968)**	**47,816**	**(29,152)**
Balance at March 31, 2012	**$328,982**	**$546,405**	**$2,029,870**	**$(50,189)**	**$2,855,080**	**$ 53,924**	**$ (316)**	**$(462,769)**	**$(2,348)**	**$(411,522)**	**$228,434**	**$2,671,992**

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 4)
Years ended March 31	**2012**	2011	**2012**
Operating activities			
Income before income taxes and minority interests	**¥ 33,935**	¥ 26,751	**$ 412,885**
Depreciation and amortization	**30,471**	32,167	**370,739**
Impairment loss	**213**	94	**2,592**
Amortization of goodwill	**2,472**	3,635	**30,077**
Gain from transfer of business	**(6,733)**	—	**(81,920)**
Interest and dividends income	**(1,036)**	(1,080)	**(12,605)**
Interest expense	**4,292**	4,873	**52,220**
Equity in earnings of affiliates	**(1,158)**	(1,541)	**(14,089)**
Loss on sales and retirement of noncurrent assets	**1,686**	244	**20,513**
Gain on sales of investment securities	**(28)**	(18)	**(341)**
Loss on sales of subsidiaries' stocks	**—**	6	**—**
Loss on disaster	**429**	1,600	**5,220**
Provision of allowance for government surcharge	**—**	5,193	**—**
(Increase) decrease in notes and accounts receivable—trade	**(1,838)**	4,869	**(22,363)**
(Increase) decrease in accounts receivable—other	**(958)**	816	**(11,656)**
Decrease in advance payments	**466**	1,657	**5,670**
(Increase) decrease in inventories	**(2,223)**	1,891	**(27,047)**
Increase (decrease) in notes and accounts payable—trade	**7,196**	(4,006)	**87,553**
(Decrease) increase in accrued expenses	**(2,500)**	2,121	**(30,417)**
Increase (decrease) in advances received	**555**	(159)	**6,753**
Decrease in provision for retirement benefits	**(204)**	(94)	**(2,482)**
Decrease (increase) in prepaid pension costs	**637**	(196)	**7,750**
Other, net	**1,740**	3,409	**21,170**
	67,415	82,237	**820,234**
Interest and dividends income received	**1,499**	1,410	**18,238**
Interest expenses paid	**(4,294)**	(4,864)	**(52,245)**
Payments for loss on disaster	**(1,560)**	—	**(18,980)**
Payments for surcharges	**(5,144)**	—	**(62,587)**
Income taxes paid	**(11,929)**	(12,885)	**(145,139)**
Net cash provided by operating activities	**45,986**	65,897	**559,508**
Investing activities			
Increase in short-term investments	**(530)**	(12)	**(6,448)**
Proceeds from sales of marketable securities	**—**	390	**—**
Purchases of property, plant and equipment	**(35,101)**	(29,915)	**(427,071)**
Proceeds from sales of property, plant and equipment	**5,542**	496	**67,429**
Purchases of intangible assets	**(166)**	(474)	**(2,020)**
Purchases of investment securities	**(2,683)**	(1,843)	**(32,644)**
Proceeds from sales of investment securities	**75**	42	**913**
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 23)	**(4,151)**	(10,672)	**(50,505)**
Payments of loans receivable	**(187)**	(2,655)	**(2,275)**
Payments for assets purchase (Note 23)	**(1,013)**	—	**(12,325)**
Proceeds from transfer of business (Note 23)	**6,585**	—	**80,119**
Other, net	**(1,118)**	(191)	**(13,603)**
Net cash used in investing activities	**(32,748)**	(44,834)	**(398,443)**
Financing activities			
Net (decrease) increase in short-term loans payable	**¥ (2,321)**	¥ 6,561	**$ (28,239)**
Proceeds from long-term loans payable	**18,727**	27,106	**227,850**
Repayment of long-term loans payable	**(24,642)**	(30,157)	**(299,817)**
Proceeds from issuance of bonds	**10,000**	—	**121,669**
Redemption of bonds	**(15,000)**	—	**(182,504)**
Proceeds from issuance of common stock	**—**	10	**—**
Repayments of lease obligations	**(3,406)**	(1,678)	**(41,441)**
Purchase of treasury stock	**(1,811)**	(41)	**(22,034)**
Proceeds from sales of treasury stock	**3**	1	**37**
Cash dividends paid	**(4,781)**	(4,799)	**(58,170)**
Cash dividends paid to minority shareholders	**(303)**	(346)	**(3,687)**
Net cash used in financing activities	**(23,536)**	(3,343)	**(286,361)**
Effect of exchange rate change on cash and cash equivalents	**(394)**	583	**(4,794)**
Net (decrease) increase in cash and cash equivalents	**(10,692)**	18,302	**(130,089)**
Cash and cash equivalents at beginning of period	**43,877**	23,723	**533,848**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**—**	1,343	**—**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**90**	508	**1,095**
Cash and cash equivalents at end of period (Note 23)	**¥ 33,275**	¥ 43,877	**$ 404,855**

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 (“Japanese GAAP”), 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 111 significant subsidiaries (75 in 2011). 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 available-for-sale securities. The Company and certain consolidated subsidiaries have marketable securities classified as available-for-sale securities, which are carried at fair value with any changes in valuation difference on available-for-sale securities, net of the applicable income taxes, reported as a separate component of net assets. Cost of marketable securities sold is determined by the moving-average method. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method. Under the Companies Act of Japan (the “Act”), unrealized gain or loss on available-for-sale 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 principally computed by the straight-line method.

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 20 years

As for consolidated overseas subsidiaries, depreciation is also principally computed by the straight-line method based on the estimated useful lives of the respective assets.

(Change in accounting policy)
Effective from the beginning of fiscal year, April 1, 2011, the Company changed its depreciation method from the declining balance method to the straight-line method for certain property, plant and equipment. Leased machinery and buildings (except for attachments) acquired on or after April 1, 1998 continue to be depreciated by the straight-line method.

Based on its new medium-term business plan, the Company intends to concentrate management resources and increase capital investments into growth markets such as the electronics industry. In these circumstances, however, where the demands of existing users of industrial gas are expected to grow steadily amid decreased investments by new entrants, property, plant and equipment, which principally consists of small to medium-sized gas supply plants, which were depreciated by the declining balance method, are expected to operate stably for long periods through replacement and renewal investments. The Company therefore determined that matching annual profit or loss calculations based on a cost allocation using the straight-line method is more reasonable.

As a result of this change, depreciation included in cost of sales and selling, general and administration expenses decreased by ¥2,165 million ($26,341 thousand) and operating income and income before income taxes and minority interests increased by the same amount.

(f) Intangible assets

Goodwill and other intangible assets are stated at cost. As for the Company and its consolidated domestic subsidiaries, goodwill is amortized by the straight-line method over 5 years and software is amortized by the straight-line method over its estimated useful life of 5 years. Consolidated overseas subsidiaries record goodwill according to Accounting Standards Codification 350, issued by the Financial Accounting Standards Board of the USA (“Goodwill and Other Intangible Assets”).

(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 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 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.

(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 ¥505 million ($6,144 thousand) and ¥439 million for corporate officers at March 31, 2012 and 2011, 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, 2012 and 2011.

(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" (Statement No. 10, issued by the Accounting Standards Board of Japan (the "ASBJ") 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
Revenues and costs of construction contracts 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.

3. Additional Information

Accounting changes and error corrections
Effective from the beginning of the fiscal year, April 1, 2011, the Company has adopted the "Accounting Standard for Accounting Changes and Error Corrections" (Statement No. 24, issued by the ASBJ on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (Guidance No. 24, issued by the ASBJ on December 4, 2009).

4. 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 ¥82.19=U.S.$1, the approximate rate of exchange at March 31, 2012. 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.

5. Investment Securities

At March 31, 2012 and 2011, information with respect to available-for-sale securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥19,305**	**¥10,951**	**¥ 8,353**	**$234,883**	**$133,240**	**$101,630**
Unrecognized loss items: Stock	**10,147**	**11,647**	**(1,499)**	**123,458**	**141,708**	**(18,238)**
Total	**¥29,453**	**¥22,599**	**¥ 6,853**	**$358,353**	**$274,960**	**$ 83,380**

	Millions of yen		
	2011		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥31,902	¥20,411	¥11,490
Unrecognized loss items: Stock	2,078	2,516	(437)
Total	¥33,981	¥22,927	¥11,053

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥36 million ($438 thousand) and ¥59 million with an aggregate gain on sales of ¥8 million ($97 thousand) and ¥18 million for the years ended March 31, 2012 and 2011, respectively, and an aggregate loss on sales of ¥1 million ($12 thousand) and ¥9 million for the years ended March 31, 2012 and 2011, respectively.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Accounts receivable transferred by liquidation	**¥3,809**	¥4,074	**$46,344**
Notes receivable transferred by liquidation	**6,177**	1,399	**75,155**

(b) Notes receivable discounted at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Notes receivable discounted	**¥5**	¥70	**$61**

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

At March 31, 2012 and 2011, 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
	2012	2011	2012
Bank loans	**¥20,699**	¥23,356	**$251,843**
Current portion of long-term loans payable	**29,818**	25,645	**362,794**
Total	**¥50,517**	¥49,002	**$614,637**

The average interest rates applicable to bank loans outstanding at March 31, 2012 and 2011 are 1.18% and 1.26%, respectively.

Long-term loans payable at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Loans from banks due through 2019 at average interest rates of 1.84% in 2012 and 1.89% in 2011	**¥147,469**	¥157,398	**$1,794,245**
1.58% unsecured bonds, payable in yen, due 2012	**—**	10,000	**—**
1.13% unsecured bonds, payable in yen, due 2014	**15,000**	15,000	**182,504**
0.55% unsecured bonds payable in yen, due 2017	**10,000**	—	**121,669**
	¥172,469	¥182,398	**$2,098,418**

Short-term lease obligations at March 31, 2012 and 2011 included in other current liabilities were ¥2,017 million ($24,541 thousand) and ¥3,392 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2012 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥ 29,818	$ 362,794
2014	50,781	617,849
2015	39,368	478,988
2016	22,607	275,058
2017	27,278	331,890
2018 and thereafter	7,435	90,461
	¥177,287	$2,157,039

The annual maturities of lease obligations subsequent to March 31, 2012 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013	¥2,103	$25,587
2014	2,422	29,648
2015	924	11,242
2016	670	8,152
2017	520	6,327
2018 and thereafter	1,494	18,177
	¥8,133	$98,954

8. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥120 million ($1,460 thousand) and ¥191 million, long-term loans payable of ¥425 million ($5,171 thousand) and ¥643 million, accounts payable-trade of ¥142 million ($1,728 thousand) and ¥114 million and other of ¥53 million ($645 thousand) and ¥85 million at March 31, 2012 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment, at net book value	**¥982**	¥1,156	**$11,948**

9. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Property, plant and equipment	**¥411**	¥411	**$5,001**

10. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of 40.69% for the years ended March 31, 2012 and 2011.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,048**	¥ 2,509	**$ 24,918**
Loss from valuation of inventory	**339**	334	**4,125**
Accrued expenses	**1,361**	1,755	**16,559**
Provision for loss on disaster	**—**	513	**—**
Other	**1,764**	1,928	**21,462**
Deferred tax assets—subtotal	**5,513**	7,041	**67,076**
Valuation allowance	**(250)**	(650)	**(3,042)**
Deferred tax assets—net	**5,262**	6,391	**64,022**
Deferred tax liabilities	**(46)**	(1)	**(560)**
Net deferred tax assets	**¥ 5,216**	¥ 6,390	**$ 63,463**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (112)**	¥ (82)	**$ (1,363)**
Deferred tax liabilities—subtotal	**(112)**	(82)	**(1,363)**
Offset by deferred tax assets	**46**	1	**560**
Net deferred tax liabilities	**¥(66)**	¥ (81)	**$ (803)**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,451**	¥ 1,551	**$ 17,654**
Reserve for retirement benefits	**1,295**	1,305	**15,756**
Net operating loss carryforward for tax purposes	**—**	58	**—**
Other	**8,085**	8,617	**98,370**
Deferred tax assets—subtotal	**10,832**	11,533	**131,792**
Valuation allowance	**(4,983)**	(5,195)	**(60,628)**
Deferred tax assets—net	**5,848**	6,337	**71,152**
Deferred tax liabilities	**(3,743)**	(4,115)	**(45,541)**
Net deferred tax assets	**¥ 2,105**	¥ 2,221	**$ 25,611**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (2,445)**	¥ (4,503)	**$ (29,748)**
Reserve for replacement of fixed assets	**(4,984)**	(5,082)	**(60,640)**
Reserve for special depreciation	**(68)**	(109)	**(827)**
Reserve for replacement of fixed assets—special	**(385)**	(365)	**(4,684)**
Depreciation	**(11,811)**	(10,363)	**(143,704)**
Other	**(10,446)**	(11,432)	**(127,096)**
Deferred tax liabilities—subtotal	**(30,142)**	(31,856)	**(366,736)**
Offset by deferred tax assets	**3,743**	4,115	**45,541**
Net deferred tax liabilities	**¥(26,398)**	¥(27,740)	**$(321,183)**

Reconciliations between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Statutory tax rate	**40.69%**	40.69%
Entertainment expenses and others not deductible permanently	**0.98**	1.15
Dividends received and others	**(5.08)**	(7.48)
Valuation allowance for deferred tax assets	**(1.80)**	3.08
Provision of allowance for loss on disaster	**—**	1.79
Provision of allowance for government surcharge	**—**	7.90
Income tax rate changes	**(2.70)**	—
Other	**1.90**	0.70
Effective tax rate	**33.99%**	47.82%

Effects of changes in the corporate income tax rates to determine deferred tax assets and liabilities:

The "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for fiscal years beginning on or after April 1, 2012.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.69% to 38.01% for the temporary differences expected to be realized or settled in the fiscal years beginning on April 1, 2012 to April 1, 2014 and from 40.69% to 35.64% for the temporary differences expected to be realized or settled in the fiscal year beginning on April 1, 2015 and thereafter. The effect of the announced reduction of the effective statutory tax rate was to decrease net deferred tax liabilities and deferred income taxes by ¥1,263 million ($15,367 thousand) and ¥916 million ($11,145 thousand), respectively, and increase valuation difference on available-for-sale securities by ¥346 million ($4,210 thousand) as of and for the year ended March 31, 2012.

11. 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.

12. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2012 and 2011, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Acquisition costs:			
Property, plant and equipment	**¥3,140**	¥4,448	**$38,204**
Other assets	**235**	255	**2,859**
	¥3,375	¥4,704	**$41,063**
Accumulated depreciation:			
Property, plant and equipment	**¥2,541**	¥3,288	**$30,916**
Other assets	**228**	202	**2,774**
	¥2,769	¥3,491	**$33,690**
Net book value:			
Property, plant and equipment	**¥ 598**	¥1,159	**$ 7,276**
Other assets	**7**	53	**85**
	¥ 606	¥1,212	**$ 7,373**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥692 million ($8,420 thousand) and ¥718 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, 2012 and 2011, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 and 2011 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012		
2013	**¥ 251**	**$3,054**
2014 and thereafter	**354**	**4,307**
Total	**¥ 606**	**$7,373**
2011		
2012	¥ 582	
2013 and thereafter	630	
Total	¥1,212	

(b) Future minimum lease payments subsequent to March 31, 2012 and 2011 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012		
2013	**¥ 1,355**	**$ 16,486**
2014 and thereafter	**8,613**	**104,794**
Total	**¥ 9,969**	**$121,292**
2011		
2012	¥ 1,904	
2013 and thereafter	10,896	
Total	¥12,801	

13. Pension and Severance Indemnities

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

The Company's 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, 2012 and 2011 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Projected benefit obligation	**¥ 34,578**	¥ 34,610	**$ 420,708**
Plan assets at fair market value	**(30,055)**	(29,454)	**(365,677)**
Unfunded retirement benefit liabilities	**4,523**	5,156	**55,031**
Net unrecognized actuarial losses	**(11,940)**	(12,779)	**(145,273)**
Difference at change of accounting standard	**(1,375)**	(1,839)	**(16,730)**
Unrecognized prior service cost	**1,585**	1,821	**19,285**
Prepaid pension cost	**10,790**	11,427	**131,281**
Allowance for employees' retirement benefits	**(3,583)**	(3,787)	**(43,594)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Current service cost	**¥1,346**	¥1,526	**$16,377**
Interest cost	**597**	594	**7,264**
Expected return on plan assets	**(716)**	(693)	**(8,712)**
Expense of actuarial loss	**1,364**	1,214	**16,596**
Net loss on change in accounting standard for employees' retirement benefits	**461**	475	**5,609**
Adjustment for prior service cost	**(235)**	(237)	**(2,859)**
Total of retirement benefit expenses	**¥2,817**	¥2,879	**$34,274**
Other	**851**	843	**10,354**
Total	**¥3,668**	¥3,722	**$44,628**

(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:

	2012	2011
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 costs	**13 to 16 years**	13 to 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

14. Contingent Liabilities

At March 31, 2012 and 2011, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥7,424 million ($90,327 thousand) and ¥6,686 million, which included reguarantees by joint investors amounting to ¥489 million ($5,950 thousand) and ¥458 million and commitments to guarantees amounting to ¥181 million ($2,202 thousand) and ¥279 million, respectively.

15. Financial Instruments

(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 short-term deposits and obtains necessary borrowings through short-term loans. 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 manages 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 and foreign currency 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 16. "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 sheets as of March 31, 2012 and 2011 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2012			2012		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	¥ 34,596	¥ 34,596	¥ —	$ 420,927	$ 420,927	$ —
Notes and accounts receivable—trade	132,176	132,176	—	1,608,176	1,608,176	—
Investment securities:						
Available-for-sale securities	29,453	29,453	—	358,353	358,353	—
Total assets	¥196,226	¥196,226	¥ —	$2,387,468	$2,387,468	$ —
Notes and accounts payable—trade	¥ 75,927	¥ 75,927	¥ —	$ 923,799	$ 923,799	$ —
Short-term loans payable	20,699	20,699	—	251,843	251,843	—
Long-term loans payable	212,288	215,322	3,035	2,582,893	2,619,808	36,927
Total liabilities	¥308,914	¥311,950	¥3,035	$3,758,535	$3,795,474	$36,927

	Millions of yen		
	2011		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 44,549	¥ 44,549	¥ —
Notes and accounts receivable—trade	126,207	126,207	—
Investment securities:			
Available-for-sale securities	33,981	33,981	—
Total assets	¥204,738	¥204,738	¥ —
Notes and accounts payable—trade	¥ 66,896	¥ 66,896	¥ —
Short-term loans payable	23,356	23,356	—
Long-term loans payable	223,044	226,030	2,986
Total liabilities	¥313,297	¥316,283	¥2,986

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 sheets 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 5. "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 as of March 31, 2012 and 2011 for which it is extremely difficult to determine the fair value:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Unlisted stocks	**¥21,417**	¥19,588	**$260,579**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
	Due in one year or less		
Cash and deposits	**¥ 34,596**	¥ 44,549	**$ 420,927**
Notes and accounts receivable—trade	**132,176**	126,207	**1,608,176**

(4) Redemption schedule for long-term loans payable is disclosed in Note 7. "Short- Term Loans Payable, Long-Term Loans Payable and Lease Obligations."

(5) Unused overdraft agreements and loan commitment lines were ¥55,771 million ($678,562 thousand) and ¥49,556 million as of March 31, 2012 and 2011, respectively.

16. Derivative and Hedging Activities

Derivative transactions for which hedge accounting is applied for the years ended March 31, 2012 and 2011 were as follows:

(a) Currency-related

		Millions of yen		
		2012		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**¥ 80**	**¥ —**	*
TWD		**25**	**—**	
MYD		**754**	**—**	
Buy:	Accounts payable—trade			
USD		**2,899**	**—**	
EUR		**300**	**—**	
GBP		**12**	**—**	
CHF		**184**	**—**	
SGD		**76**	**—**	
TWD		**747**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**863**	**863**	
Buy:				
SGD		**704**	**704**	
Total		**¥6,648**	**¥1,568**	

* 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.

		Millions of yen		
		2011		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		¥ 147	¥ —	*
TWD		3	—	
MYD		1,079	—	
Buy:	Accounts payable—trade			
USD		3,111	—	
EUR		157	—	
GBP		10	—	
CHF		40	—	
TWD		703	—	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		975	975	
Buy:				
SGD		931	931	
Total		¥7,161	¥1,907	

	Hedged item	Thousands of U.S. dollars 2012 Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		$ 973	$ —	*
TWD		304	—	
MYD		9,174	—	
Buy:	Accounts payable—trade			
USD		35,272	—	
EUR		3,650	—	
GBP		146	—	
CHF		2,239	—	
SGD		925	—	
TWD		9,089	—	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		10,500	10,500	
Buy:				
SGD		8,566	8,566	
Total		$80,886	$19,078	

* 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 2012 Contract amount	Due after one year	Fair value	Thousands of U.S. dollars 2012 Contract amount	Due after one year	Fair value
Short-cut method							
Interest-rate swap agreements:							
Receive floating/Pay fix	Long-term loans payable	¥58,075	¥45,873	*	$706,594	$558,134	*

	Hedged item	Millions of yen 2011 Contract amount	Due after one year	Fair value
Short-cut method				
Interest-rate swap agreements:				
Receive floating/Pay fix	Long-term loans payable	¥66,453	¥57,521	*

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

17. 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, 2012 and 2011 totaled ¥3,458 million ($42,073 thousand) and ¥3,924 million, respectively.

18. Gain and Loss on Sales and Retirement of Noncurrent Assets

Significant components of the gain on sales of noncurrent assets of ¥3,385 million ($41,185 thousand) and ¥57 million for the years ended March 31, 2012 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Land	**¥3,385**	¥57	**$41,185**

Significant components of the loss on sales and retirement of noncurrent assets of ¥5,206 million ($63,341 thousand) and ¥374 million for the years ended March 31, 2012 and 2011, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Land and buildings	**¥4,623**	¥—	**$56,248**

19. 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 a decrease in the 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 ¥213 million ($2,592 thousand) and ¥94 million for the years ended March 31, 2012 and 2011, 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).

20. Loss on Disaster

The amount recorded in loss on disaster in the accompanying consolidated statements of income corresponds to expenses required for recovery of assets damaged by the Great East Japan Earthquake, such as repair expenses of property, plant and equipment, and loss on disposal of inventories.

The amount includes ¥1,263 million recorded on the accompanying consolidated balance sheet for an allowance for loss on disaster as of March 31, 2011.

21. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Valuation difference on available-for-sale securities:		
Amount arising during the year	¥(3,794)	$(46,161)
Reclassification adjustments for gains and losses included in net income	312	3,796
Amount before tax effects	(3,481)	(42,353)
Tax effects	1,476	17,958
Valuation difference on available-for-sale securities	(2,005)	(24,395)
Deferred gains or losses on hedges:		
Amount arising during the year	80	973
Reclassification adjustments for gains and losses included in net income	133	1,618
Amount before tax effects	213	2,592
Tax effects	(77)	(937)
Deferred gains or losses on hedges	136	1,655
Foreign currency translation adjustments:		
Amount arising during the year	(4,167)	(50,700)
Reclassification adjustments for gains and losses included in net income	253	3,078
Amount before tax effects	(3,914)	(47,621)
Tax effects	99	1,205
Foreign currency translation adjustments	(3,815)	(46,417)
Pension liability adjustment of foreign subsidiaries:		
Amount arising during the year	(124)	(1,509)
Reclassification adjustments for gains and losses included in net income	35	426
Amount before tax effects	(89)	(1,083)
Tax effects	36	438
Pension liability adjustment of foreign subsidiaries	(53)	(645)
Share of other comprehensive income of associates accounted for using the equity method:		
Amount arising during the year	(440)	(5,353)
Total other comprehensive income (loss)	¥(6,177)	$(75,155)

22. Segment Information

(a) Overview of reportable segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Company is made up of segments based on individual business headquarters classified by products, services and sales markets. Therefore, the reportable segments of the Company consist of "Industrial gas," "Electronics," "Energy" and "Other."

The "Industrial gas" segment produces and sells gases and related equipment used in the domestic and overseas steel and chemical industry. The plant engineering business is included in this segment considering the similarities of major customers.

The "Electronics" segment produces and sells gases and related equipment used in the domestic and overseas electronics industry.

The "Energy" segment sells liquefied petroleum gas in Japan.

The "Other" segment mainly consists of the medical-related business which sells medial gas, and the thermos business which produces and sells housewares.

(b) Method of calculating net sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies of the reportable segments are consistent to those described in Note 2. "Summary of Significant Accounting Policies." Segment income is based on operating income. Intersegment sales or transfers are based on prevailing market price.

(Change in depreciation method for significant property, plant and equipment)
Effective from the beginning of fiscal year, April 1, 2011, the Company changed its depreciation method from the declining balance method to the straight-line method for certain property, plant and equipment. Leased machinery and buildings (except for attachments) acquired on or after April 1, 1998 continue to be depreciated by the straight-line method.

Based on its new medium-term business plan, the Company intends to concentrate management resources and increase capital investments into growth markets such as the electronics industry. In these circumstances, however, where the demands of existing users of industrial gas are expected to grow steadily amid decreased investments by new entrants, property, plant and equipment, which principally consists of small to medium-sized gas supply plants, which were depreciated by the declining balance method, are expected to operate stably for long periods through replacement and renewal investments. The Company therefore determined that matching annual profit or loss calculations based on a cost allocation using the straight-line method is more reasonable.

As a result of this change, segment income for “Industrial gas,” “Electronics,” “Energy,” “Other” and “Adjustments” increased by ¥1,057 million ($12,860 thousand), ¥850 million ($10,342 thousand), ¥34 million ($414 thousand), ¥115 million ($1,399 thousand) and ¥107 million ($1,302 thousand), respectively.

(c) Net sales, income (loss), assets, liabilities and other items by reportable segment

	Millions of yen						
	2012						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥291,057**	**¥115,294**	**¥38,881**	**¥32,218**	**¥477,451**	**¥ —**	**¥477,451**
Intersegment sales or transfers	**2,143**	**107**	**2,431**	**2,696**	**7,379**	**(7,379)**	**—**
Total	**293,201**	**115,402**	**41,312**	**34,914**	**484,830**	**(7,379)**	**477,451**
Segment income (operating income)	**¥ 21,712**	**¥ 5,914**	**¥ 1,667**	**¥ 2,723**	**¥ 32,018**	**¥ (950)**	**¥ 31,067**
Other item:							
Depreciation expenses	**¥ 18,501**	**¥ 10,360**	**¥ 534**	**¥ 1,511**	**¥ 30,907**	**¥ (435)**	**¥ 30,471**

	Millions of yen						
	2011						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	¥288,644	¥126,495	¥37,643	¥30,836	¥483,620	¥ —	¥483,620
Intersegment sales or transfers	1,724	102	1,848	2,768	6,442	(6,442)	—
Total	290,368	126,597	39,491	33,604	490,062	(6,442)	483,620
Segment income (operating income)	¥ 24,128	¥ 8,453	¥ 1,400	¥ 3,041	¥ 37,024	¥(1,555)	¥ 35,468
Other item:							
Depreciation expenses	¥ 19,594	¥ 9,607	¥ 837	¥ 1,628	¥ 31,668	¥ 499	¥ 32,167

	Thousands of U.S. dollars						
	2012						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$3,541,270**	**$1,402,774**	**$473,062**	**$391,994**	**$5,809,113**	**$ —**	**$5,809,113**
Intersegment sales or transfers	**26,074**	**1,302**	**29,578**	**32,802**	**89,780**	**(89,780)**	**—**
Total	**3,567,356**	**1,404,088**	**502,640**	**424,796**	**5,898,893**	**(89,780)**	**5,809,113**
Segment income (operating income)	**$ 264,168**	**$ 71,955**	**$ 20,282**	**$ 33,131**	**$ 389,561**	**$(11,559)**	**$ 377,990**
Other item:							
Depreciation expenses	**$ 225,100**	**$ 126,049**	**$ 6,497**	**$ 18,384**	**$ 376,043**	**$ (5,293)**	**$ 370,739**

Notes: 1. Adjustments for segment income of ¥(950) million ($(11,559) thousand) and ¥(1,555) million as of March 31, 2012 and 2011 include intersegment eliminations of ¥85 million ($1,034 thousand) and ¥(186) million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,035) million ($(12,593) thousand) and ¥(1,369) million, respectively.
2. The Company does not allocate assets to reportable segments.

(d) **Information by geographical area**

(1) Net sales

Millions of yen			
2012			
Japan	The United States	Others	Total
¥352,727	**¥81,684**	**¥43,039**	**¥477,451**

Millions of yen			
2011			
Japan	The United States	Others	Total
¥358,978	¥78,586	¥46,054	¥483,620

Thousands of U.S. dollars			
2012			
Japan	The United States	Others	Total
$4,291,605	**$993,844**	**$523,653**	**$5,809,113**

(2) Property, plant and equipment

Millions of yen			
2012			
Japan	The United States	Others	Total
¥160,907	**¥69,122**	**¥25,469**	**¥255,499**

Millions of yen			
2011			
Japan	The United States	Others	Total
¥167,331	¥68,627	¥20,535	¥256,494

Thousands of U.S. dollars			
2012			
Japan	The United States	Others	Total
$1,957,744	**$841,003**	**$309,880**	**$3,108,639**

(e) **Information about major customers**

Information about major customers is not disclosed since there are no outside customers that make up more than 10% of net sales on the consolidated statements of income.

(f) **Information on impairment loss by reportable segments**

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**¥213**	**¥—**	**¥—**	**¥—**	**¥—**	**¥213**

	Millions of yen					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	¥—	¥39	¥—	¥—	¥55	¥94

	Thousands of U.S. dollars					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**$2,592**	**$—**	**$—**	**$—**	**$—**	**$2,592**

(g) **Information on amortization and unamortized balance of goodwill by reportable segments**

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥ 2,735**	**¥—**	**¥243**	**¥—**	**¥—**	**¥ 2,979**
Unamortized balance	**39,383**	**—**	**351**	**—**	**—**	**39,735**

	Millions of yen					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	¥ 3,996	¥0	¥255	¥—	¥—	¥ 4,252
Unamortized balance	42,831	6	505	—	—	43,343

	Thousands of U.S. dollars					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$ 33,277**	**$—**	**$2,957**	**$—**	**$—**	**$ 36,245**
Unamortized balance	**479,170**	**—**	**4,271**	**—**	**—**	**483,453**

(h) Information on amortization and unamortized balance of negative goodwill which resulted from business combinations prior to April 1, 2010 by reportable segments

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥371**	**¥30**	**¥25**	**¥80**	**¥—**	**¥507**
Unamortized balance	**226**	**34**	**35**	**39**	**—**	**335**

	Millions of yen					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	¥538	¥30	¥25	¥22	¥—	¥616
Unamortized balance	570	65	60	60	—	757

	Thousands of U.S. dollars					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$4,514**	**$365**	**$304**	**$973**	**$—**	**$6,169**
Unamortized balance	**2,750**	**414**	**426**	**475**	**—**	**4,076**

23. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2012 and 2011 were reconciled to cash and deposits reported in the consolidated balance sheets at March 31, 2012 and 2011 as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	**2012**
Cash and deposits	**¥34,596**	¥44,549	**$420,927**
Time deposits with maturities of more than three months	**(1,321)**	(672)	**(16,073)**
Cash and cash equivalents	**¥33,275**	¥43,877	**$404,855**

The acquisition cost and net payments for assets and liabilities of Leeden Limited, acquired through stock purchase, for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 9,864**	**$120,015**
Noncurrent assets	**5,941**	**72,284**
Goodwill	**591**	**7,191**
Current liabilities	**(5,963)**	**(72,551)**
Noncurrent liabilities	**(1,860)**	**(22,630)**
Minority interests	**(2,217)**	**(26,974)**
Acquisition cost of assets	**(6,356)**	**(77,333)**
Cash and cash equivalents	**1,163**	**14,150**
Transferred shares	**1,041**	**12,666**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥(4,151)**	**$ (50,505)**

The acquisition cost and net payments for assets and liabilities of Quimby, acquired through assets purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2012 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 221	$ 2,689
Noncurrent assets	947	11,522
Current liabilities	(154)	(1,874)
Acquisition cost of assets	(1,013)	(12,325)
Cash and cash equivalents	—	—
Payments for assets purchase	¥(1,013)	$(12,325)

The decrease in assets due to the transfer of the SDS and VAC businesses of Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2012 was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥20	$243
Noncurrent assets	3	37
Total assets	¥24	$292

The acquisition cost and net payments for assets and liabilities of Matheson K-Air India Pte. Ltd. and Western International Gas & Cylinders Inc. acquired through stock purchase, for the year ended March 31, 2011 were as follows:

	Millions of yen
Current assets	¥ 1,944
Noncurrent assets	6,680
Goodwill	4,451
Current liabilities	(602)
Noncurrent liabilities	(1,618)
Acquisition cost of assets	(10,855)
Cash and cash equivalents	183
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(10,672)

24. Subsequent Events

(a) 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, 2012, were approved at the shareholders' meeting held on June 28, 2012.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.073) per share	¥2,382	$28,982

(b) Issuance of domestic unsecured bonds

The Company approved a comprehensive resolution regarding the following issuance of domestic unsecured bonds at the Board of Directors' meeting held on May 9, 2012 and issued the bonds on June 14, 2012.

Total amount of issuance:	¥10,000 million ($121,669 thousand)
Issue price:	¥100 per ¥100 of the face value
Interest rate:	0.437% per annum
Date of issue	June 14, 2012
Redemption price:	¥100 per ¥100 of the face value
Maturity date:	June 14, 2017
Purpose of issuance:	Redemption of bonds

Report of Independent Auditors

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Independent Auditor's Report

The Board of Directors
TAIYO NIPPON SANSO CORPORATION

We have audited the accompanying consolidated financial statements of TAIYO NIPPON SANSO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO NIPPON SANSO CORPORATION and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 2. "Summary of Significant Accounting Policies" to the consolidated financial statements, which describes that TAIYO NIPPON SANSO CORPORATION changed its depreciation method from the declining balance method to the straight-line method for certain property, plant and equipment. Leased machinery and buildings (except for attachments) acquired on or after April 1, 1998 continue to be depreciated by the straight-line method. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 28, 2012

A member firm of Ernst & Young Global Limited

Investor Information

(At March 31, 2012)

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

Number of Employees:
11,588

Date of Incorporation:
October 1910

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

Minimum Trading Unit:
1,000 shares

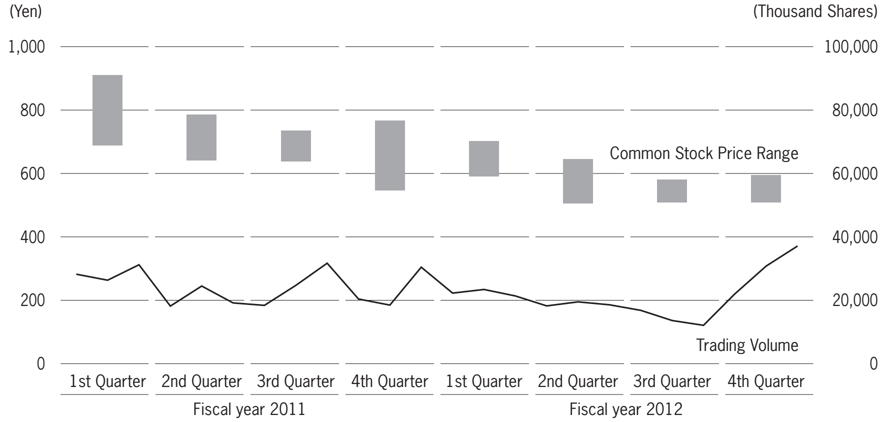
Number of Stockholders:
24,113

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	19,385	4.80
Meiji Yasuda Life Insurance Company	16,007	3.97
Mizuho Corporate Bank, Ltd.	14,484	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	14,455	3.58
National Mutual Insurance Federation of Agricultural Cooperatives	12,031	2.98
The Norinchukin Bank	10,000	2.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,397	2.33
Dai-ichi Mutual Life Insurance Company	7,537	1.86
	189,497	47.01%

Common Stock Price Range and Trading Volume:



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