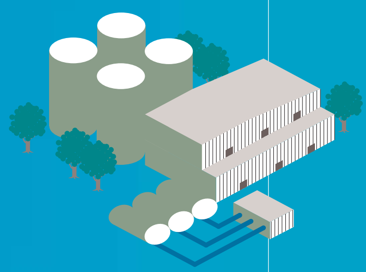
TAIYO NIPPON SANSO Corporation

Checklist for Maintaining a Consistent Strategic Direction



Our checklist for the future

- ☑ Capitalize on new opportunities for business growth and enhanced cash flows
- ☑ Reinforce compliance standards
- ☑ Expand operations in Japan and overseas
- ☑ Develop high-value-added products
- ☑ Realize full benefits of merger
- ☑ Invest strategically to maintain competitiveness
- ☑ Fulfill responsibilities to society
- ☑ Establish effective yardsticks for measuring growth
- ☑ Grow existing businesses

Meet the Gas Professionals

Annual Report

2006

For the year ended March 31, 2006

Profile

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

TAIYO NIPPON SANSO
The Gas Professionals

Management Philosophy

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

Financial Highlights

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries
Years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2006	2005	**2006**	
Operating Results				
Net sales	**¥397,308**	¥300,055	**$3,382,208**	32.4%
Net income	**14,444**	11,568	**122,959**	24.9

	Yen		U.S. dollars	Percentage change
Per share data:				
Net income[2]	**¥ 35.45**	¥ 32.76	**$ 0.302**	8.2%
Cash dividends	**10.00**	9.00	**0.085**	11.1

	Millions of yen		Thousands of U.S. dollars	Percentage change
	2006	2005	**2006**	
Corporate Position				
Total assets	**¥471,602**	¥404,668	**$4,014,659**	16.5%
Total shareholders' equity	**178,055**	154,207	**1,515,749**	15.5

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥117.47=U.S. $1, the approximate rate of exchange at March 31, 2006.
2. Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.
3. Since the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd., took place October 1, 2004, consolidated figures for fiscal 2005, ended March 31, 2005, exclude the figures for the former Taiyo Toyo Sanso for the six months ended September 30, 2004. Taiyo Nippon Sanso's results for fiscal 2005 are compared to the fiscal 2004, ended March 31, 2004, totals of the former Nippon Sanso.

Contents

Disclaimer Regarding Forward-Looking Statements

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

Operational Highlights

Strategic Steps Aimed at Achieving Initial Targets

During fiscal 2006, ended March 31, 2006, Taiyo Nippon Sanso took a number of key steps in Japan and overseas in line with a strategic business plan formulated to achieve the targets set at the time of the merger of its two predecessors, namely, consolidated net sales of ¥400,000 million and consolidated return on equity (ROE) of 10% for fiscal 2008.

Overseas, we proceeded with expansion of our production capacity in California—where we already have a presence thanks to our purchase in 2004 of a portion of the U.S. operations of the Air Liquide Group—by building a new plant. In the high-growth markets of China and Vietnam, we established new operational bases and expanded the capacity of existing plants.

In Japan, we accelerated efforts to realign our portfolio of ongoing businesses with the aim of realizing the full benefits of the merger as early as possible. We also sought to eliminate the problem of duplication among liquid petroleum (LP) gas sales companies operating in the same geographical areas by integrating companies and establishing a unified brand name, “Taiyo Nippon Sanso Energy,” beginning in Kyushu. With the aim of expanding our industrial gases business, we acquired controlling interests in Nippoku Sanso K.K. of Hokkaido and Hitachi Oxygen Co., Ltd., located in the northern part of the Kanto region, northeast of Tokyo.

Realignment of Business Portfolio

Merger of Three Medical Gas Sales Companies

Suzusho Medical Co., Ltd. + Ozawa Sanso K.K. + Yamato Sanki K.K.
↓
Nippon Megacare Corporation

Initial Step in the Reorganization of the Carbon Dioxide Business

Nippon Tansan Company Limited + Ekika Carbon Dioxide Co., Ltd.
↓
Nippon-Ekitan Holding Co., Ltd.

Supplementary Information

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries
Years ended March 31

	Billions of yen			
	2006	2005	Amount change	Percentage change
Net sales	**¥397.3**	¥364.9	¥32.3	8.9%
Operating profit	**26.7**	23.7	2.9	12.6
Net income	**14.4**	13.4	1.0	7.6

Note: The merger of Nippon Sanso and Taiyo Toyo Sanso took place on October 1, 2004. As the latter was the surviving entity, consolidated results for fiscal 2005 did not include the results of Taiyo Toyo Sanso for the first six months of the period. In this table, these results have been added to Taiyo Nippon Sanso’s reported consolidated results for fiscal 2005 for the purpose of comparison.

To Our Stakeholders

Capitalize on new opportunities for business growth and enhanced cash flows

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

Performance Highlights

In fiscal 2006—the first full-year period since the October 2004 merger that marked the creation of Taiyo Nippon Sanso—we maximized the earnings potential of our operating assets by increasing our presence in Japan and overseas, thus demonstrating the soundness of the merger strategy. Net sales exceeded ¥400,000 million after adding full-year sales of newly consolidated subsidiaries to sales generated by the ongoing operations of the Taiyo Nippon Sanso Group. At the time of the merger, we set ¥400,000 million as our sales target for fiscal 2008. Reaching this target two years ahead of schedule shows clearly that we have succeeded in taking full advantage of the opportunities for business growth provided by the merger.

During fiscal 2006, the steel industry worldwide benefited from firm demand for steel materials from the automobile and shipbuilding sectors and strong private-sector capital investment. The chemical industry also saw further growth in demand from China and other Asian countries, despite sharp rises in fuel and raw materials prices. In the electronics sector, there were fears of a temporary oversupply of conventional products in the first half of the period. However, demand flourished in the second half in the wake of recovery in consumer sentiment and growing sales of flat-panel display (FPD) televisions.

Against this backdrop, we strengthened our dominant market position while reorganizing our consolidated businesses. Consolidated net sales reached ¥397,308 million, owing to a strong performance by our gas business, coupled with solid growth of our plant and gas equipment business. Operating profit totaled ¥26,788 million, due to improved capacity utilization rates at our gas production facilities, which helped lower costs, and strong performances by Matheson Tri-Gas, Inc., and other subsidiaries. Net income amounted to ¥14,444 million, as extraordinary gains from sales of idle land were partially offset by an impairment loss accounted for as a special loss.

Changes in Top Management

The Board of Directors, at its meeting on April 25, 2006, decided to appoint Hiroshi Taguchi to the position of Chairman and Hirosuke Matsueda to the position of President. These appointments were ratified at the annual shareholders meeting, held on June 29, 2006, and approved by resolution of the Board of Directors at a meeting held immediately after the shareholders' meeting.

Three-Year Business Plan

Under our new structure, we intend to build a global presence that will secure our position as one of the world's top industrial gas producers. To achieve this objective, we recognize the need to achieve annual net sales of more than ¥500,000 million. As the first step in this process, we have formulated Global 5000: Stage 1—a medium-term business plan that will guide our efforts for the three years to March 31, 2009. The plan's two basic objectives are to further expand our businesses and improve operating efficiency. To these ends, we will focus on effectively utilizing cash flows to finance strategic mergers and acquisitions (M&As) and forward-looking capital investments that will position us to capitalize on emerging demand. At the same time, we will bolster operating efficiency by merging and integrating the operations of affiliated companies. For more details on these efforts, please refer to the special feature section of this report.

Outlook

For fiscal 2007, we project consolidated net sales of ¥430,000 million and net income of ¥16,000 million. Accordingly, a proposal by the Board of Directors to increase annual cash dividends to ¥10.0 per share was approved at the annual shareholders' meeting.

In fiscal 2007, we will also start laying the groundwork for establishing Taiyo Nippon Sanso as an Asian-born global leader in the industrial gas business. As fiscal 2007 is also the first year of our business plan, we will also target consistent year-on-year increases in net income.

In closing, on behalf of the Board of Directors we would like to reaffirm our commitment to satisfying the expectations of all our stakeholders by carving out our own destiny and increasing corporate value. We will also continue to contribute to society by addressing issues related to security, safety, quality assurance and the environment.

June 29, 2006

Hiroshi Taguchi
Chairman

Hirosuke Matsueda
President

Corporate Governance

Reinforce compliance standards

Corporate Governance Organization

Taiyo Nippon Sanso continues to assess ways to modify its corporate governance system to enhance transparency and suitability to the nature of its businesses.

Our management team consists of the Board of Directors, which has 16 members, and the Board of Auditors, comprising four standing corporate auditors. To further ensure objectivity on the full spectrum of management issues and prevent poorly considered decisions, one of the directors on the Board is external. During the period under review, the Board of Directors convened six times and the attendance rate was 50%. In a process designed to ensure transparency and stringent monitoring, we have also established a Board of Auditors, which includes two independent auditors and is tasked with conducting rigorous internal audits. This Board of Auditors convenes four times annually to hear the results of audits conducted by our independent accountants. They also meet to hear the Auditing Office's annual internal audit plans and results thereof.

Compensation for Directors

Compensation for directors and auditors in the period under review was as shown below. Regarding the granting of incentives to directors, we have adopted a scheme using cash dividends per share—a standard for calculating retirement benefits—thereby linking compensation to performance. This system is also designed to ensure directors act in the interest of shareholders by giving them a direct interest in the Company just like shareholders.

Compensation for Directors in Fiscal 2006

Breakdown

Compensation to directors	¥415 million
Compensation to corporate auditors	¥ 80 million
Retained earnings applied to directors' bonuses	¥ 93 million

Reference:

Compensation for audit certificate	¥ 36 million

Accountability

Taiyo Nippon Sanso recognizes ensuring the timely disclosure of corporate and financial information as a key component of corporate governance and is taking steps to fulfill its obligation to provide adequate explanations to investors as well and to ensure investor feedback is properly communicated to management. In an effort to translate this commitment into action, senior management attend two presentations for analysts and institutional investors annually, where they participate in question-and-answer sessions with participants on such topics as the Company's performance, forecasts for subsequent periods and the formulation and progress of medium-term management strategies and endeavor to respond in a manner that provides both information and insight.

Risk Management and Compliance

As a company engaged primarily in the provision of high-pressure gases, Taiyo Nippon Sanso recognizes the need to manage risks in four categories: security, safety, quality assurance and the environment. To oversee risk management and address related issues Companywide, we have established the Technology Risk Management Committee. In addition, as part of our effort to establish an effective internal control framework we have adopted a system that enables directors to more effectively fulfill their responsibilities. At the same time, we have tasked individual directors with setting targets at the beginning of each term for the divisions they oversee and tracking each division's progress toward achieving these targets on a quarterly basis, thereby enhancing efficiency.

Even with the best-conceived corporate governance policy, we risk losing public confidence and incurring incalculable damage to the entire Taiyo Nippon Sanso Group and our shareholders without an effective compliance system. Recognizing this, we have published the Taiyo Nippon Sanso Group Code of Conduct, which outlines standards of conduct for all employees to observe in relation to compliance with laws and ordinances, corporate ethics and internal guidelines. To enforce this code, we have also established a Compliance Committee, upon which all internal directors sit, and set up a compliance helpline, thereby enabling employees to promptly report suspected violations and enhancing management awareness.

Special Feature

An Interview with the President

- ✔ Expand operations in Japan and overseas
- ✔ Develop high-value-added products
- ✔ Realize full benefits of merger
- ✔ Invest strategically to maintain competitiveness
- ✔ Fulfill responsibilities to society

Q

Can you tell us about the management of Taiyo Nippon Sanso since you took over from President Taguchi and about the Company's goals?

A

After the merger, I was able to observe firsthand the everyday management of Taiyo Nippon Sanso in my position as executive vice president as I worked closely with Chairman Ose and President Taguchi. The smooth integration of the two companies has brought

The Power of One Company

us to a pivotal stage, where optimal use of our business resources will set us on a renewed growth path. The Company's goals are to become a global operator in the industrial gas market, comparable in scale with our top overseas rivals. We have set an eventual annual sales target of ¥500,000 million, which translates to a 10% share of the global market.

Q

What are the basic policies underpinning your efforts to attaining these goals?

A

Our primary strategy is outlined in our medium-term business plan, Global 5000: Stage 1. Quantitative targets of this plan include net sales of ¥450,000 million, operating profit of ¥38,000 million and net income of ¥20,000 million on a consolidated basis. The key to achieving our eventual target for annual net sales of ¥500,000 million will be to expand our operations, not only in Japan but also globally. By the time we achieve this target, we envisage that our overseas operations will account for approximately one quarter of consolidated net sales.

Q

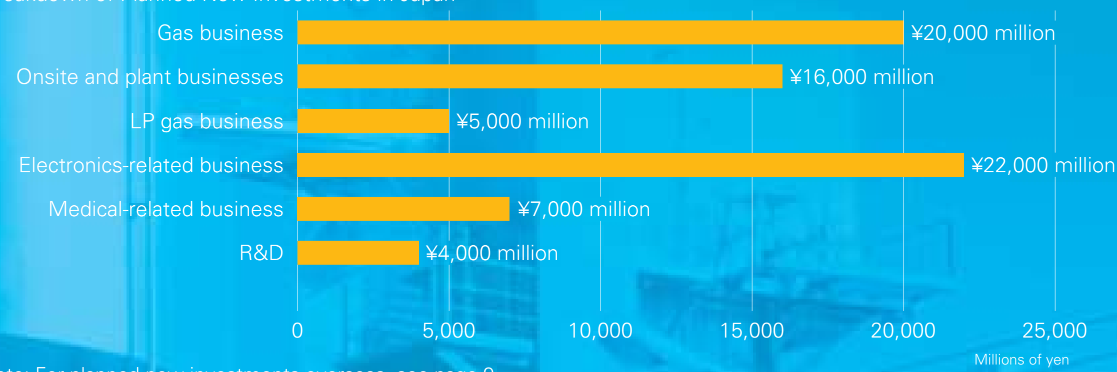
What do you think will serve as a springboard for this future growth?

A

To reinforce our competitiveness in the short term, we will focus on ways to improve our business. This will include identifying key M&A opportunities in the industrial gas business. Our primary focus, however, will be on effectively utilizing our domestic network of sales companies and forming closer relationships with major direct sales customers. Our next aim is to become the Asian-born industrial

Investment Program Under Global 5000: Stage 1 ¥115,000 million

Breakdown of Planned New Investments in Japan



Note: For planned new investments overseas, see page 9.

gas provider to break into the top ranks of the global market. With this in mind, we must strengthen our support services to various companies that have set up operations in Asia. Finally, we must form ties with growing companies in such advanced fields as electronics, medical treatment and health care, as well as other key industries, including steel and chemicals.

Q

Drawing on your previous business experience, what do you believe holds the key to expanding the Company's business?

A

In line with our corporate philosophy of "market-driven, collaborative innovation: improving the future through gases," we have successfully strengthened our market position by drawing on technologies that, prior to the merger, were beyond our reach. Today, sales of our industrial gas-related businesses are more than ¥350,000 million in Japan. By swiftly developing high-value-added products, we are confident of seizing a leading position in this market.

As a first step toward expanding our business, we are striving to realize the full benefits of the merger. Within the first three years, we aim to achieve net savings of approximately ¥10,000 million as a direct result of the merger. Broken down, this means savings of ¥6,000 million from lower logistics costs and cheaper procurement, the integration of sites and personnel cost reductions. We also aim to expand earnings approximately ¥4,000 million through M&As and related activities. We have already achieved 70% of our ¥10,000 million target—testimony to the success of the merger.

From a geographical perspective, we are focusing on North America and Asia. In North America, we are currently examining the acquisition of industrial gas distributors. In the field of electronic materials gases, we are also looking at M&A opportunities, targeting upstream manufacturers of chemicals and other raw materials, as well as firms with exceptional product development capabilities. In Asia, we are expanding our business through capital investments to meet growth in demand. We will accord top priority to areas in which we can fully exploit our business resources, seizing opportunities from a global perspective.

Q

In the current fiscal year, your major customers in the steel, semiconductor, liquid crystal (LC) and petrochemical industries are reporting comparatively solid results. While ongoing business investments are important, even at the bottom of the business cycle, your investments seem rather high. What are your thoughts on this?

A

In a rapidly changing operating environment, it is essential to maintain competitiveness through self-renewal, just as it is crucial to raise business results to new levels. During the term, we plan to replace a number of filling stations for package gas business and to increase gas facilities used to supply semiconductor and LC factories in Japan. Overseas, we plan to invest primarily in Matheson Tri-Gas' large plant in California, and in specialty gas filling stations in South Korea.

Q

Under the new medium-term business plan, you forecast depreciation expenses of ¥72,000 million over the next three years. With depreciation of ¥19,000 million in fiscal 2006, what sort of a trend do you see developing?

A

First, we are looking at making future-oriented investments of approximately ¥40,000 million annually, which we will fund from healthy cash flows. Depreciation will be around ¥20,000 million in the current period, but we expect it will rise to approximately ¥25,000 million annually for the following two years. Therefore, I believe the plan's target of ¥72,000 million is appropriate.

Q

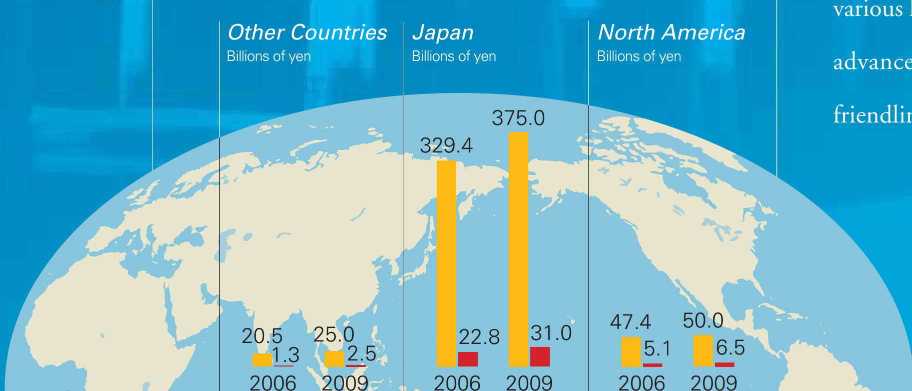
Taiyo Nippon Sanso's metal organic chemical vapor deposition (MOCVD) equipment, which uses gallium nitride for the blue laser diodes, has set a new benchmark for the industry. What has been the reaction of customers?

A

This has caused quite a stir, as we have received an extremely high number of inquiries concerning blue laser diodes for use in next-generation DVDs. We have also received requests for equipment that can have also received requests for equipment that can emit multiple high-quality lasers, with stringent requirements for both size and performance. Having completed development of a cutting-edge large-scale mass production system, we are projecting steady orders, including for equipment used to make light-emitting diodes.

Net Sales and Operating Profit by Country/Region

Years ended or ending March 31



Change	Other Countries	Japan	North America
Net sales	22.0%	13.8%	5.5%
Operating profit	92.3	36.0	27.5

Investment Program			
New investments	¥15,000 million	¥75,000 million	¥25,000 million

Q

Lastly, how do you see the Company's role with respect to corporate social responsibility?

A

Because selling gas is commensurate with selling safety and peace of mind, we are committed to activities founded on security, safety, quality assurance and compliance. In addition to complying with various laws and regulations, we continuously target advances in the safety, security and environment-friendliness of our products.

New Medium-Term Business Plan

Having successfully completed our merger, we have formulated Global 5000: Stage 1, a medium-term business plan that will guide our efforts for the three years to March 31, 2009. The plan is the first step in our quest to generate annual net sales of ¥500,000 million and capture a 10% share of the world market for industrial gas.

☑ Establish effective yardsticks for measuring growth

Basic Group Policy

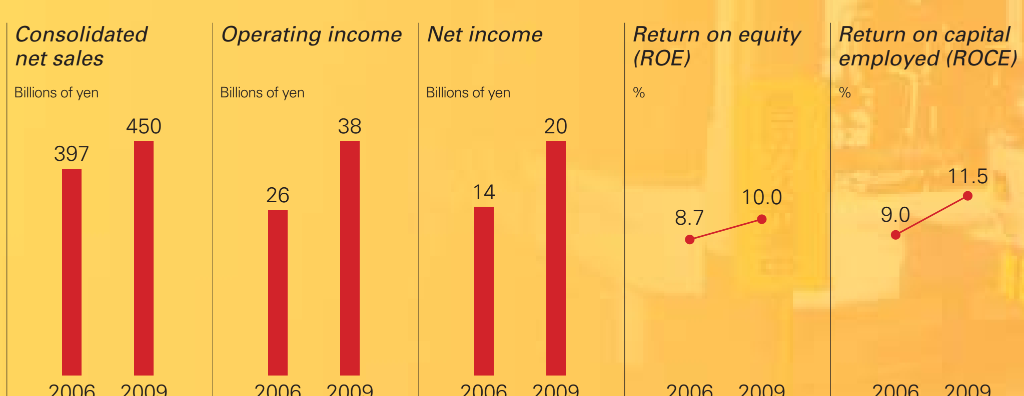
- Boost earnings while strengthening and expanding our industrial gas-related business
- Efficiently utilize cash flows to develop new businesses
- Pursue greater efficiency for existing consolidated business operations

Group Strategies

- Expand and upgrade operations by generating revenue from effective, efficient investments
- Enter markets for distinctive new products based on accurate understanding of customer needs
- Further raise efficiency by reorganizing business operations, including those of affiliates
- Improve profitability through structural reforms of low-profit businesses
- Rigorously pursue “zero incident” security, safety and quality assurance

Performance Targets for Fiscal 2009

Years ended or ending March 31



Basic Policies by Segment

Gas Business

Target for fiscal 2009: Net sales of ¥196,000 million (up 15.4% from fiscal 2006)

As a leading domestic producer of industrial gas, we will initiate structural reforms of our gas operations aimed at solidifying earnings, building a robust business foundation and reinforcing our leading position in the Japanese market. Overseas, we will broaden our operations by pursuing mergers and acquisitions (M&A) opportunities and expanding production facilities.

Electronics-Related Business

Target for fiscal 2009: Net sales of ¥126,000 million (up 10.1% from fiscal 2006)

As a prominent manufacturer of various materials gases and gas-related equipment for the electronics market, we will bolster our technological capabilities and deliver comprehensive solutions to customers' needs, with a particular focus on growth areas, such as FPDs and compound semiconductors. In the process, we will continue to fortify our business foundation.

Onsite and Plant Business

Target for fiscal 2009: Net sales of ¥51,000 million (up 4.1% from fiscal 2006)

In the onsite category, we will build a stable operating foundation by prioritizing harmonious coexistence with our onsite partners. At the same time, we will seek to broaden our businesses in efficient plant replacement and new piping. In the plant category, we will continue diverting resources to technological development, with the aim of raising productivity. We will also expand earnings through extensive cost reductions.

Medical-Related Business

Target for fiscal 2009: Net sales of ¥20,000 million (up 70.9% from fiscal 2006)

In the medical treatment field, we will actively seek M&A opportunities and alliances with prominent domestic corporations. We will also expand our operations by entering the overseas stable isotope market and tapping markets for new products.

LP Gas Business

Target for fiscal 2009: Net sales of ¥45,000 million (up 8.4% from fiscal 2006)

We will strengthen earnings while swiftly rebuilding our operations through integration and consolidation of our LP gas sales affiliates. At the same time, we will exploit Groupwide merits of scale to reinforce our procurement capabilities and thus further stabilize earnings.

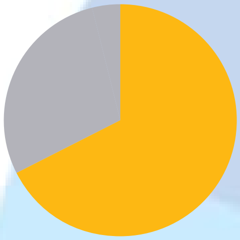
Segment Overview

Gas Business

In fiscal 2006, shipments of mainstay oxygen, nitrogen and argon were boosted by solid capital investments in related industries, resulting in higher year-on-year sales, both in unit and value terms. Sales of oxygen were sustained by favorable shipments of liquefied gas to the steel and shipbuilding sectors, while sales of nitrogen benefited from onsite supplies to the electronics sector. We also reported increased shipments of liquefied nitrogen to a broad spectrum of industries, including chemicals, steel and food. Shipments of argon increased to silicon crystal manufacturers, reflecting brisk production of 300mm wafers. Demand for argon for diverse industrial applications, such as welding, also grew. Consequently, sales of argon were high in both volume and value terms. Sales of electronics materials gases also rose, reflecting higher demand in the United States, China and elsewhere.

As a result, sales to outside customers in the Gas Business segment climbed to ¥268,284 million. Operating income grew to ¥21,494 million.

Sales Share
¥268,284 million
(67.5% of net sales)



Plant and Gas Equipment Business

Sales of electronics-related equipment increased favorably, benefiting from growing investment sentiment in the electronics industry. By contrast, sales of compound semiconductor fabrication equipment languished due to shrinking investment budgets of customers. Sales of air separation plants increased thanks to continued solid capital investments in the domestic electronics and steel industries. We also attracted major interest from steel and petrochemical companies in South Korea and Taiwan looking to expand their production facilities. Sales of cutting and welding equipment increased, both in Japan and overseas, led by laser cutters and numerically controlled (NC) cutters, owing to steady demand from steelmakers, shipbuilders and construction machinery makers.

Consequently, segment sales jumped to ¥113,626 million, and operating income rose to ¥5,901 million.

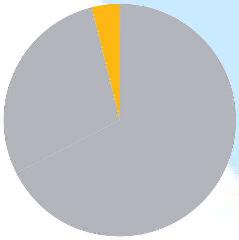
Sales Share
¥113,626 million
(28.6% of net sales)

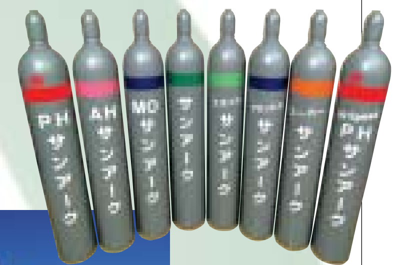
Housewares Business and Others

Thermos K.K. spearheads the manufacture and sale of our housewares. Sales of these items increased in fiscal 2006, owing to higher sales of sports bottles, as well as stronger demand for fall and winter items, notably lunch jars, which sold well during a cold snap at the end of 2005.

Accordingly, segment sales surged to ¥15,397 million, and operating income jumped to ¥1,859 million.

Sales Share
¥15,397 million
(3.9% of net sales)





Main Products
- Oxygen
- Nitrogen
- Argon
- Carbon dioxide
- Hydrogen
- Helium
- Medical-related gases
- Electronics materials gases
- Stable isotopes (SIs)

Topics
- Merged domestic carbon dioxide business and medical gas sales company
- Acquired regional gas makers
- Expanded gas production systems in the United States and South Korea

R&D Highlights
- Gas technology: Commercialized “MG Shield,” a cover gas with a global warming potential (GWP) of approximately 1, for use in the production of magnesium alloys
- Electronics: Concentrated on practical development of electron-hexafluoropropene (C3F6) as an alternative gas for plasma chemical vapor deposition (CVD) chamber cleaning in the semiconductor fabrication process

Main Products
- Large air separation plants
- Compact nitrogen generators
- MOCVD equipment
- Cutting and welding equipment

Topic
- Completed construction of cylinder cabinet manufacturing plant in Taiwan

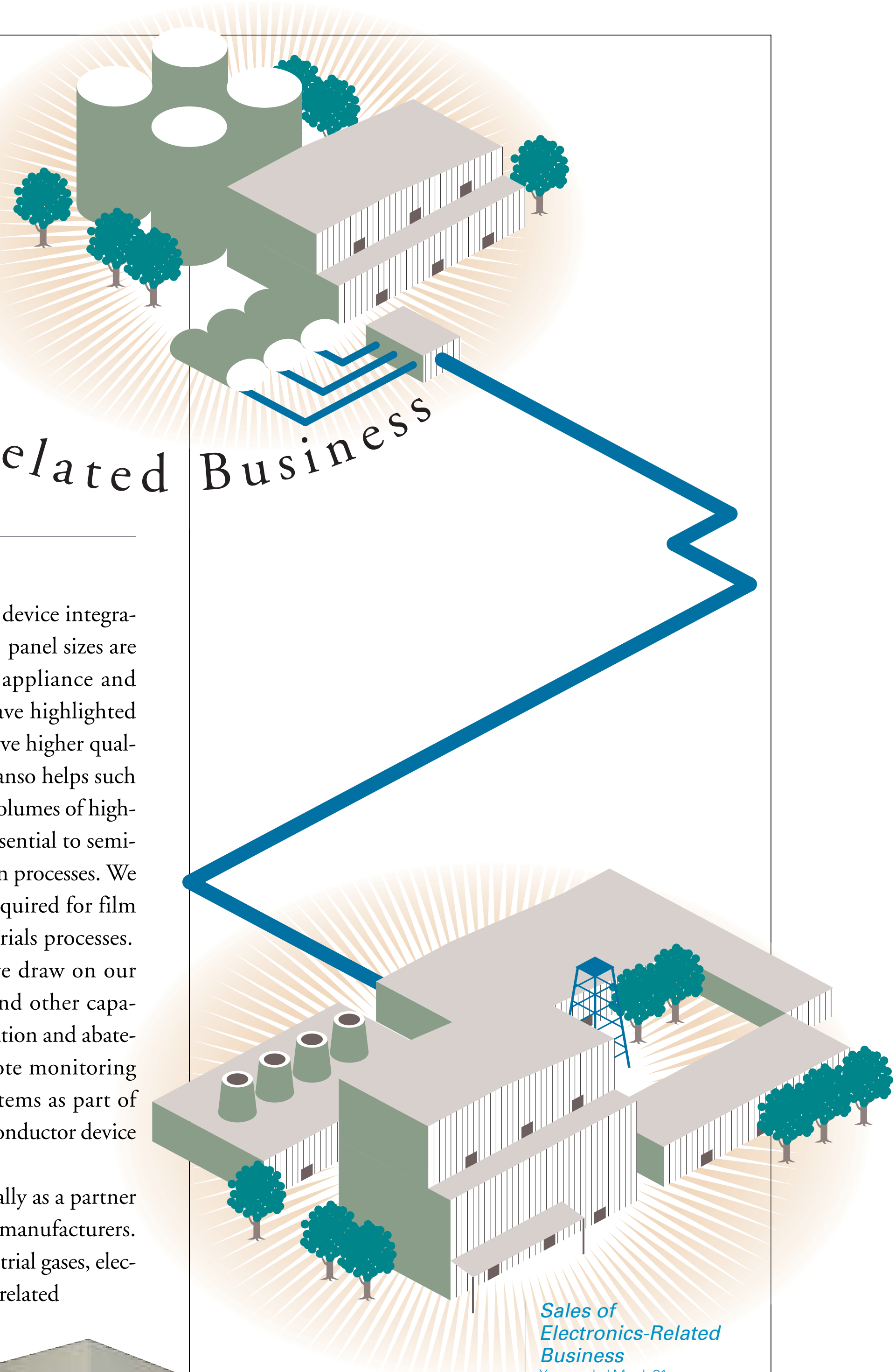
R&D Highlights
- Completed development and launched sales of equipment enabling collective deposition of multiple LED wafers
- Developed attractive products for customers in close collaboration with our R&D department, as the only domestic gas manufacturer with its own plant engineering center
- Successfully tested and operated hydrogen station for large buses at EXPO 2005 Aichi, Japan

Main Products
- Stainless steel vacuum bottles
- Cooking implements

Topics
- Launch of two new portable mug versions of the “Easy Drink” thermal insulation bottle prompted by firm demand
- Line of tabletop pots augmented to increase market share
- Two new thermal insulation lunch jars unveiled to meet demand in the lunchbox market

R&D Highlights
- Actively developed products in the home electrical appliance category (a new market) by launching two coffeemakers, each with tabletop pot and mug

Electronics-Related Business



✔ Grow existing businesses

Ongoing advances in semiconductor device integration and liquid crystal display (LCD) panel sizes are driving new demand in the digital appliance and automotive markets. These trends have highlighted the need for electronics firms to achieve higher quality and productivity. Taiyo Nippon Sanso helps such firms by supplying via pipeline large volumes of high-purity nitrogen, an inert gas that is essential to semiconductor device and LCD fabrication processes. We also deliver stable supplies of gases required for film deposition and other electronic materials processes.

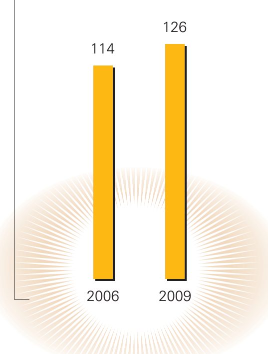
In constructing special piping, we draw on our industrial gas supply technologies and other capabilities to optimally install gas purification and abatement systems. We also provide remote monitoring of safety levels and design alarm systems as part of our broad range of solutions for semiconductor device and LCD manufacturing processes.

Taiyo Nippon Sanso operates globally as a partner for Japanese and overseas electronics manufacturers. We produce and sell high-purity industrial gases, electronic materials gases and electronics-related equipment in the United States, Taiwan, South Korea, China and Singapore.

Sales of Electronics-Related Business

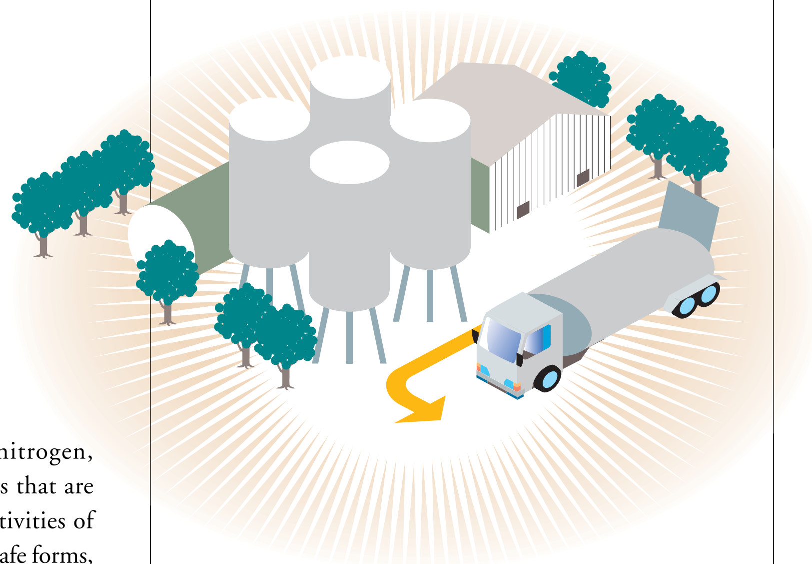
Years ended March 31

Billions of yen



Annual sales	Approximately ***¥114,400 million***
Principal products and operations	High-purity nitrogen and argon Electronic materials gases, including Safe Delivery Source (SDS) MOCVD equipment Semiconductor and LCD purification and abatement systems High-purity gas supply facility installation and construction
Market needs	Comprehensive gas supplies Total gas and equipment solutions Global supply capabilities
Our advantages	Strong ties with domestic electronics manufacturers Close relationships with users who employ advanced technologies Superior marketing strength through the provision of total solutions for gas and equipment Comprehensive solutions through world-class technologies Engineering operations and gas center network Supply structure covering key world markets—Japan, East Asia (South Korea, China and Taiwan), Southeast Asia, the United States and Europe
Fiscal 2006 highlights	Secured onsite supply contracts for large users Strengthened our position with manufacturers thanks to M&A activities in the electronic materials gas sector Maintained strong orders for equipment installation owing to expansion of production facilities Recorded strong sales of electronic materials gases, consumables and related equipment Focused mainly on projects in Asian region Integrated operations of Taiyo Nippon Sanso Taiwan, Inc. and set up gas-related equipment center
Targets	Sales of ***¥126,000 million*** in fiscal 2009 Focus marketing on growing LCD FPD and compound semiconductor markets

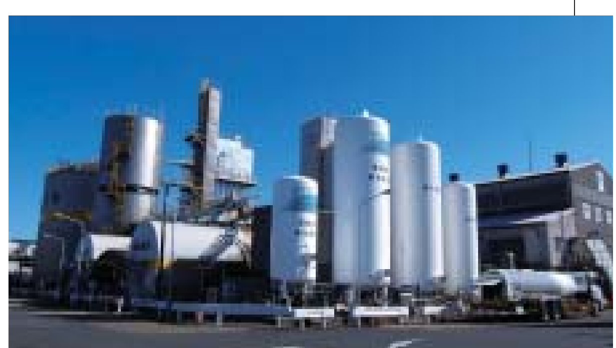
Gas Business



Taiyo Nippon Sanso supplies oxygen, nitrogen, argon and a host of other industrial gases that are indispensable to advanced production activities of modern industry. We supply these gases in safe forms, including via pipeline, tank trucks and cylinders, for such purposes as cutting, welding, combusting, melting, chilling and freezing. We also provide a wide range of equipment and systems for the manufacture, supply, transportation and storage of gases.

We have built a strong technological base over many years, gaining particular expertise in high temperatures and pressures, vacuums and gas controls. Drawing on these capabilities, we provide a diverse range of equipment for the manufacture, supply, transport and storage of various types of gases. In these ways, we help industrial customers enhance their productivity and quality while supporting efforts to improve the environment.

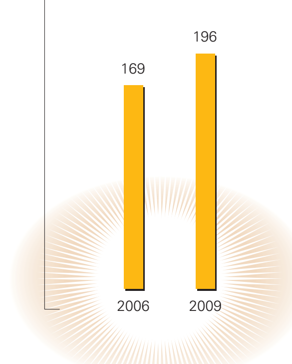
We maintain the largest industrial gas supply network in Japan. We are also expanding our overseas manufacturing and supply bases in the United States, China and Southeast Asia.



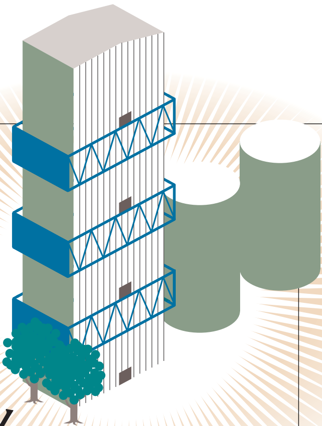
Sales of Gas Business

Years ended March 31

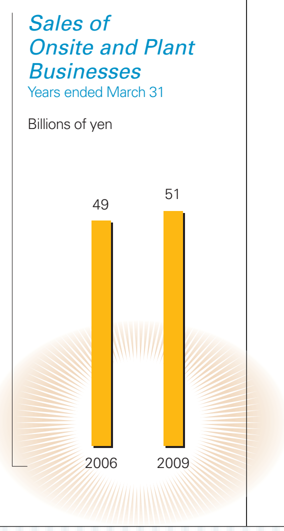
Billions of yen



Annual sales	Approximately **¥169,900 million**
Principal products and operations	Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium and other industrial gases Gas supply (filling, transportation, storage) equipment, facilities installation and construction Gas equipment (including for cutting, welding, combustion and freezing)
Market needs	Use of gas to raise productivity, enhance quality, save energy and enhance the environment Optimal, stable, economic supply of gas
Our advantages	*Japan's largest and strongest industrial gas producer, offering increased cost advantages and price competitiveness* Production and supply capabilities Balanced, nationwide network of production bases Liquefaction capacity accounting for approximately 33% of domestic market Logistics capabilities Approximately 500 filling stations capable of serving around 40% of the domestic market Tank truck fleet and extensive network of shipping bases Growing marketing network, including around 250 sales agents *Further strengthening of operations in China and the United States* Operations in Shanghai and Suzhou Expanding U.S. businesses of Matheson Tri-Gas Gas distribution services *High market shares for other industrial gases* In Japan, No. 1 in carbon dioxide and No. 2 in helium and acetylene
Fiscal 2006 highlights	Reinforced production capacity in regular high-pressure gases in the United States Strengthened gas and production operations in China Upgraded large air-separation plant in Vietnam, doubling its supply capacity Successfully raised price of liquefied gas products amid high logistics costs caused by sharp rise in crude oil prices Bolstered Southeast Asian operations managed by Singapore-based subsidiary National Oxygen Pte. Ltd.
Targets	Sales of **¥196,000 million** in fiscal 2009 Focus on new demand for gas and expand business overseas



Onsite and Plant Businesses

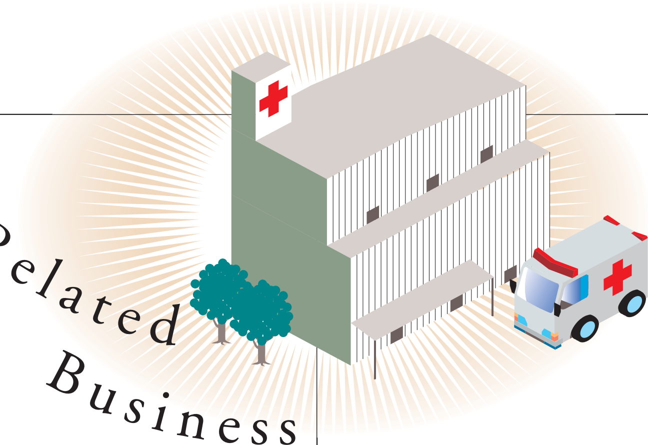


In the onsite business, we construct large cryogenic air separation plants on the premises of major industrial gas users, notably steel mills and chemical complexes. The largest of our plants can produce up to 65,000 cubic meters of gas per hour. We also provide stable supplies of oxygen and nitrogen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

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

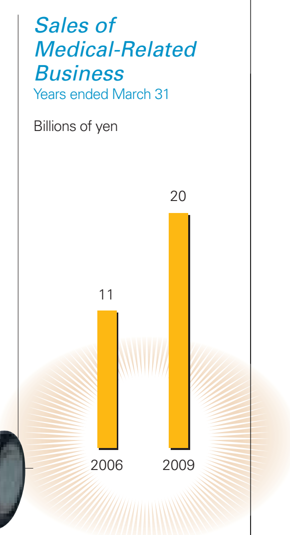
Annual sales	Approximately **¥49,000 million**
Principal products	Onsite: Supplies of oxygen, nitrogen and argon via pipeline Plant: Cryogenic air separation plants, pressure swing adsorption (PSA) air separation plants/cryogenic vacuum equipment and other chemical equipment
Market needs	Onsite: Large, stable supply systems Plant: Production and installation of high-performance facilities
Our advantages	With onsite and plant businesses, we can provide support for both plant and engineering on a global scale, drawing on our capabilities as a manufacturer of industrial gases Ability to optimize facilities and boost operating efficiency
Fiscal 2006 highlight	Received healthy orders from steelmakers, electronics manufacturers and overseas customers
Targets	Sales of **¥51,000 million** in fiscal 2009 Secure new demand for gases and expand sales in overseas markets

Medical-Related Business

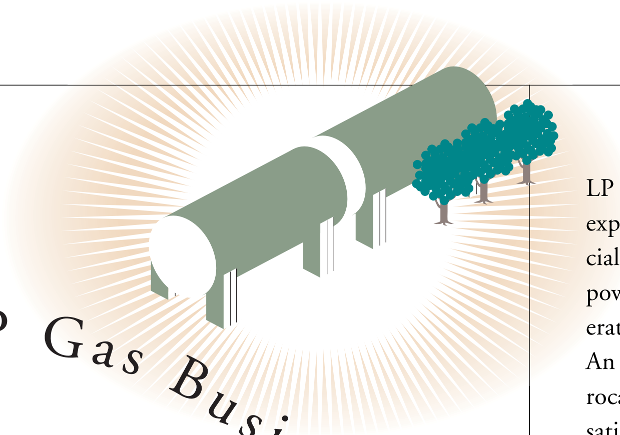


We build special filling facilities for medical gases within our industrial gas production and sales networks to ensure stable supplies of medical oxygen and other high-quality gases used by medical institutions. We help improve safety and reliability of medical treatment by developing pure air supply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

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



Annual sales	Approximately ***¥11,700 million***
Principal products	Medical-related oxygen and other gases Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors SIs
Market needs	Quality control and assurance for medical-use gases Mass production and stable supply of SIs used in cancer diagnostic agents
Our advantages	Production and sales of pharmaceutical ingredients for positron emission tomography (PET) diagnostics Strong position as a manufacturer of Water –18O, a pharmaceutical ingredient for reagents used in PET diagnostics, with an 80% domestic market share Have commenced shipments of world-class pharmaceutical ingredients to leading manufacturers of fluorodeoxyglucose (FDG) PET reagents in Europe and the United States
Fiscal 2006 highlights	Expanded medical gas sales business in response to Pharmaceutical Affairs Law revisions Established Nippon Megacare Corporation through integration of three subsidiaries (annual sales target of ¥7,000 million within three years)
Targets	Sales of ***¥20,000 million*** in fiscal 2009 Expand SI sales; strengthen marketing capabilities in medical gases and equipment via M&A initiatives

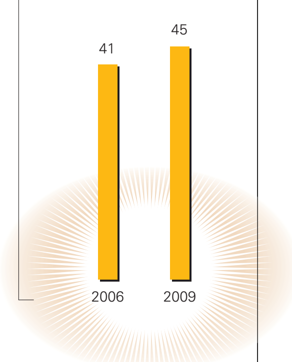


LP Gas Business

Sales of LP Gas Business

Years ended March 31

Billions of yen



LP gas is highly valued as a clean energy source. Its expanding range of applications includes commercial air conditioning and heating equipment, home power generation and hot water systems using generators and waste heat, as well as fuel for taxi fleets. An environment-friendly alternative to chlorofluorocarbons, LP gas is also used as an aerosol gas. We satisfy a broad range of industrial needs through an integrated structure, which encompasses everything from tank truck deliveries of bulk LP gas to the design and installation of air conditioning and cogeneration systems.

We supply 450,000 households around Japan with LP gas for heating, hot water and air conditioning. Our energy business will likely become a focus of attention in the years ahead as fuel cells proliferate the residential market.

Annual sales	Approximately **¥41,500 million**
Principal products	Supply of LP gas for residential and industrial customers Annual unit sales of around 460,000 metric tons
Market needs	Stable supply of household fuel to 25 million households in areas not adequately served by electric power and town gas services
Our advantages	450,000 customers (ranked 6th in Japan)
Fiscal 2006 highlights	Streamlined efficiency by transferring filling and sales operations and merging LP gas affiliates Strengthened procurement capabilities by exploiting Groupwide economies of scale
Targets	Sales of **¥45,000 million** in fiscal 2009 Annual unit sales of around 500,000 metric tons Expand cogeneration business

Corporate Social Responsibility

As a producer of industrial gases, Taiyo Nippon Sanso recognizes its principal obligation to society as being to ensure the safety of its products and preventing related accidents.

With the aim of fulfilling this obligation, we participate in a number of programs. These include high-pressure gas accident emergency drills organized by local governments with the aim of increasing employee awareness and enhancing the effectiveness of such drills by providing related materials and equipment.

We also contribute to related efforts in the cultural and academic arenas. As an example, for many years we have provided liquid nitrogen to the Science Museum, Tokyo, a facility established by the Japan Science Foundation to promote public understanding of science and technology. We also cooperate in experiments that use liquid nitrogen at –196°C to freeze flower petals and rubber balls, as well as test its superconductivity. We also strive to contribute to public education by sharing our unique expertise, as well as our experiences and views, on the uses of nitrogen—one of our core businesses—through a wide range of efforts, including cooperating with Japan Broadcasting Corporation (NHK), the country's national broadcaster, in the production of science-related television programs, offering plant tours and providing gas free-of-charge to universities.

Our commitment to corporate social responsibility also encompasses a number of environment-related initiatives. Our operations use significant amounts of energy and electric power, with 97% of the CO_2 emissions from our operations generated in the production of gases. Accordingly, we have set a target for reducing consumption of electric power per unit of production of 20% from the fiscal 1990 level by fiscal 2010 and are implementing a variety of measures to achieve this target. We have also set a target for reducing chlorofluorocarbon (CFC) emissions from our air separation plants by 30% from the fiscal 1990 level by fiscal 2010.

On another front, we continue to develop and promote products that help protect the environment. For example, we developed a combustion-type waste gas abatement system that eliminates the risk explosion of silane gas (SiH4), a spontaneously combustible gas, as well as prevents damage to the environment caused by the release of perfluorocarbons (PFCs), thereby enabling the stable treatment of waste gas released during the semiconductor fabrication process.

As a corporate citizen, we also strive to serve community needs. We responded decisively in the aftermath of the Sumatra earthquake and resulting tsunamis and the earthquake that struck Japan's Niigata Prefecture, both in 2004, donating funds and providing oxygen cylinders for home oxygen therapy patients. We also donated funds to assist in the aftermath of the devastating 2005 Kashmir earthquake, which caused widespread damage, particularly in northern Pakistan.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

Executive Vice Presidents
Yasunobu Kawaguchi
Kazuya Ito
Keiji Futamatsu

Executive Director/Advisor
Konosuke Ose

Senior Managing Directors
Soichi Hirabayashi
Hiroyuki Miura
Yutaka Kurosawa
Kenichiro Ebisawa

Managing Directors
Fumio Hara
Toyoo Go
Masashi Yamashita
Kenichi Kasuya

Executive Directors
Ryuichi Tomizawa *1
William J. Kroll

Corporate Auditors

Toshiro Hatagami
Yoshinori Kobayashi *2
Yasusuke Nakanishi *2
Kiyoshi Fujita

Corporate Officers

Corporate Executive Officers
Kazuhiro Yoshida
Katsuji Tsukada
Hiroshi Kanno
Toshio Sato
Akira Ito
Shinji Tanabe
Yoshihisa Shibata

Corporate Officers
Junichi Ishimaru
Toshio Suwa
Kunishi Hazama
Tadashige Maruyama
Yasuharu Kamioka
Yoshikazu Yamano
Shigeto Umatani
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada
Shuichi Yoshida
Masakazu Naruo
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shinichiro Hiramine
Akihiko Umekawa

(As of June 29, 2006)

Note: *1 Outside Director
*2 Outside Corporate Auditor

Financial Section

Contents

Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

The Taiyo Nippon Sanso Group consists of Taiyo Nippon Sanso Corporation (the parent company), 60 consolidated subsidiaries (44 in Japan and 16 overseas) and 28 equity-method affiliates (10 in Japan and 18 overseas).

Operating Results

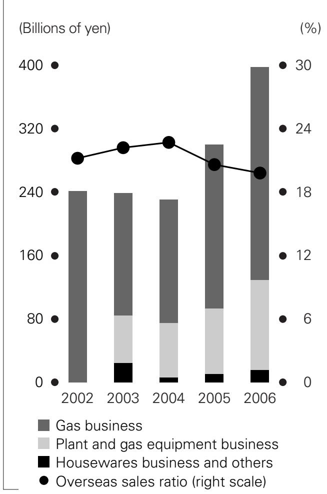
In fiscal 2006, consolidated net sales amounted to ¥397,308 million, up 32.4% from fiscal 2005.

Cost of sales jumped 33.8%, to ¥275,326 million, while selling, general and administrative expenses climbed 29.3%, to ¥95,193 million. Accordingly, operating profit grew 29.2%, to ¥26,788 million, and the operating margin edged down 0.2 percentage point, to 6.7%.

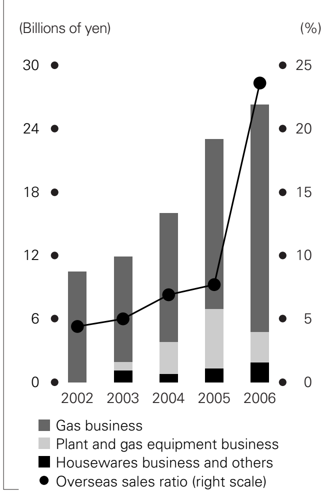
Other income amounted to ¥6,246 million, down 19.3%, while other expenses were ¥4,967 million, down 31.2%, resulting in a net gain of ¥1,279 million, up from ¥520 million.

Net income grew 24.9%, to ¥14,444 million. Net income per share was ¥35.45, and return on equity (ROE) was 8.7%.

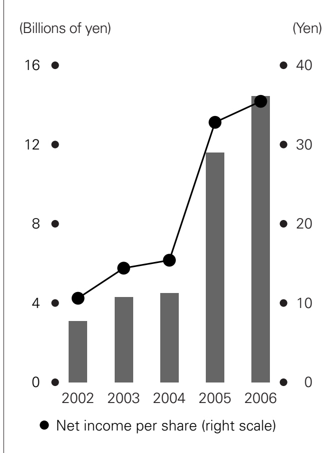
Net Sales



Operating Income



Net Income



Notes: 1. Since the merger of Nippon Sanso and Taiyo Toyo Sanso took place October 1, 2004, consolidated figures for fiscal 2005, ended March 31, 2005, exclude the figures for the former Taiyo Toyo Sanso for the six months ended September 30, 2004. Taiyo Nippon Sanso's results for fiscal 2005 are compared to the fiscal 2002 to 2004 totals of the former Nippon Sanso.
2. In fiscal 2001 and 2002, Nippon Sanso reported results in two segments: gases, gas equipment and gas-related business, and living and housewares business. Accordingly, only gross figures are available for these two periods.

Financial Position

At fiscal year-end, total assets stood at ¥471,602 million, up 16.5% from a year earlier. The increase stemmed mainly from rises in notes and accounts receivable—trade and investment securities. The current ratio edged up 0.1 point, to 1.28 times.

Property, plant and equipment, net, climbed 13.0%, to ¥190,196 million, owing mainly to an increase in construction in progress. Total investments and other assets jumped 32.3%, to ¥100,064 million, due largely to a ¥18,806 million rise in investment securities.

Total current liabilities rose 3.9%, to ¥142,064 million. This was the net result of a ¥16,682 million decline in short-term banks loans and current portion of long-term debt, and a ¥13,195 million increase in notes and accounts payable—trade.

Total long-term liabilities were up 26.7%, to ¥134,570 million, owing mainly to increases in deferred income taxes and long-term debt.

Total shareholders' equity grew ¥23,847 million, to ¥178,055 million. The equity ratio slipped 0.3 percentage point, to 37.8%.

Cash Flow Analysis

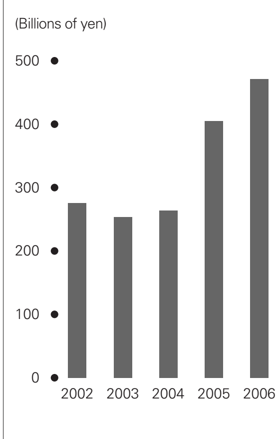
In fiscal 2006, net cash provided by operating activities amounted to ¥31,937 million, up ¥4,234 million from fiscal 2005. Major factors included a ¥6,821 million increase in income before income taxes and minority interests and a ¥6,610 million increase in payables, compared with a ¥3,668 million decrease in the previous period. The interest coverage ratio was down 2.0 points, to 14.7 times.

Net cash used in investing activities totaled ¥25,238 million, ¥6,997 million less than in the previous year. This was due mainly to an outlay of ¥23,074 million for purchase of property, plant and equipment.

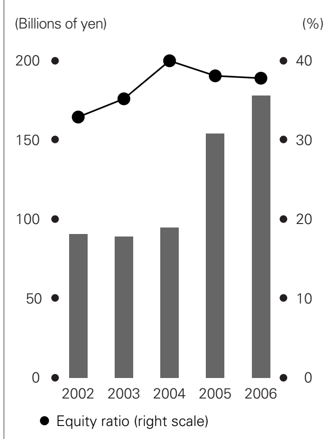
Net cash used in financing activities was ¥8,977 million. Major factors were a combined total of ¥29,283 million in repayments of short-term bank loans and long-term debt and ¥4,040 million in cash dividends to shareholders.

As a result, cash and cash equivalents at end of the year amounted to ¥17,416 million, down ¥422 million from a year earlier.

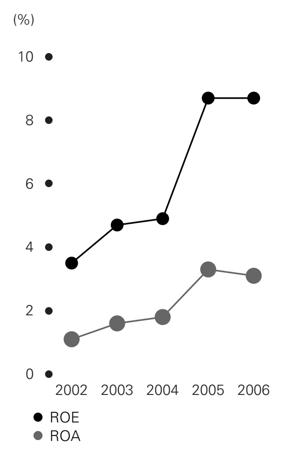
Total Assets



Shareholders' Equity



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



Business Risks

External Factors

Foreign Exchange and Interest Rates

The Company uses various means to minimize the effect of currency fluctuations on its import and export transactions, including the purchase of foreign exchange forward contracts. Nonetheless, sudden fluctuations in exchange rates could negatively affect the Company's business performance.

In addition, interest-rate trends could have a material impact on performance, as the Company maintains large-scale supply facilities for large customers and needs to spend heavily to maintain and upgrade these facilities.

Reliance on Specific Industries

Changes in the semiconductor market, a core sector, could have a significant impact on the Company's business performance.

Changes in Oil Prices

Electricity is the major component of the cost of manufacturing such core products as oxygen, nitrogen and argon. Surging oil prices could lead to a substantial increase in electricity charges, and it may be impossible for the Company to reflect such charges in the pricing of its products.

Competition

Gas Prices

The Company's business performance may be affected if it is unable to curb declines in the prices of its products due to intense competition.

Overseas Factors

The Company maintains gas operations overseas, primarily in the United States and Asia. Political and economic changes in other countries, including China, which continues to see rapid economic growth, may have an adverse impact on the Company's business performance.

A number of other factors could also affect the Company's business performance. These include unforeseen revisions to existing laws and the enactment of new ones.

Technical and Safety Factors

Technological Development

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

Intellectual Property

The Company obtains intellectual property rights required for its proprietary technological development activities. However, there are no guarantees that its technologies are completely protected.

Product Defects

The Company works in various ways to enhance product safety, having introduced a product safety assessment system as part of its response to the enactment of the Product Liability Law. However, the Company cannot guarantee that all of its products are free of defects.

Other Factors

Retirement Benefit Liabilities

Further decreases in the discount rate and a sudden deterioration in retirement plan returns may materially affect the Company's business performance.

Natural Disasters

The occurrence of natural disasters in areas where the Company has 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.

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2006**	2005	2004	2003	2002	2001
Net sales	**¥397,308**	¥300,055	¥230,272	¥238,445	¥241,546	¥257,804
Operating profit	**26,788**	20,727	14,317	10,313	9,758	13,679
Net income	**14,444**	11,568	4,541	4,263	3,134	1,736
Selling, general and administrative expenses/Net sales (%)	**24.0%**	24.5%	24.1%	24.8%	25.0%	24.0%
Return on equity (%)	**8.7%**	8.7%[2]	4.9%	4.7%	3.5%	1.9%
Return on assets (%)	**3.1%**	3.3%[2]	1.8%	1.6%	1.1%	0.6%
Capital expenditure	**22,176**	38,092	7,413	17,693	17,284	11,948
Depreciation and amortization	**18,982**	14,592	11,627	13,709	14,213	14,317
Research and development expenses	**2,223**	2,056	2,296	2,508	3,454	3,451
Interest-bearing debt	**122,196**	122,089	86,325	90,489	106,021	115,073
Total shareholders' equity	**178,055**	154,207	94,802	89,182	90,704	87,027
Total assets	**471,602**	404,668	263,595	253,698	275,649	303,950

	Yen					
Per share data:						
Net income[1]	**¥35.45**	¥32.76	¥15.38	¥14.36	¥10.58	¥5.86
Cash dividends	**10.00**	9.00	6.00	6.00	6.00	3.00

	Times					
Price earnings ratio	**24.54**	19.17	31.21	22.98	31.19	82.59

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

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

3. Since the merger of Nippon Sanso and Taiyo Toyo Sanso took place October 1, 2004, consolidated figures for fiscal 2005 exclude the figures for the former Taiyo Toyo Sanso for the six months ended September 30, 2004. Taiyo Nippon Sanso's results for fiscal 2005 are compared to the fiscal 2001 to 2004 totals of the former Nippon Sanso.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

March 31	Millions of yen 2006	Millions of yen 2005	Thousands of U.S. dollars (Note 3) 2006
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 17,416**	¥ 17,839	**$ 148,259**
Short-term investments (Notes 4 and 5)	**1,669**	1,260	**14,208**
Notes and accounts receivable—trade (Note 6)	**119,390**	102,378	**1,016,345**
Inventories (Note 7)	**31,316**	29,156	**266,587**
Deferred income taxes (Note 11)	**5,803**	4,333	**49,400**
Other current assets	**6,492**	6,386	**55,265**
Allowance for doubtful receivables	**(748)**	(704)	**(6,368)**
Total current assets	**181,340**	160,651	**1,543,713**
Property, plant and equipment (Notes 9, 10 and 19)	**495,176**	443,621	**4,215,340**
Accumulated depreciation	**(304,979)**	(275,249)	**(2,596,229)**
Property, plant and equipment, net	**190,196**	168,372	**1,619,103**
Investments and other assets:			
Investment securities (Note 5)	**63,738**	44,931	**542,590**
Long-term loans receivable	**1,249**	1,414	**10,633**
Intangible assets, net	**17,009**	14,474	**144,794**
Prepaid pension expenses (Note 14)	**12,821**	10,123	**109,143**
Deferred income taxes (Note 11)	**1,339**	1,066	**11,399**
Other assets	**6,066**	5,042	**51,639**
Valuation allowance for investments	**(865)**	(270)	**(7,364)**
Allowance for doubtful receivables	**(1,294)**	(1,137)	**(11,016)**
Total investments and other assets	**100,064**	75,645	**851,826**
Total assets	**¥471,602**	¥404,668	**$4,014,659**

See notes to consolidated financial statements.

March 31	Millions of yen 2006	2005	Thousands of U.S. dollars (Note 3) 2006
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Notes 8 and 9)	**¥ 23,768**	¥ 40,451	**$ 202,333**
Notes and accounts payable—trade	**77,979**	64,783	**663,821**
Accrued income taxes (Note 11)	**7,752**	4,853	**65,991**
Other current liabilities	**32,565**	26,623	**277,220**
Total current liabilities	**142,064**	136,712	**1,209,364**
Long-term liabilities:			
Long-term debt (Notes 8 and 9)	**84,599**	71,495	**720,175**
Pension and severance indemnities (Note 14)	**5,432**	5,672	**46,242**
Deferred income taxes (Note 11)	**33,135**	18,990	**282,072**
Consolidation adjustment account	**1,318**	407	**11,220**
Other liabilities	**10,085**	9,644	**85,852**
Total long-term liabilities	**134,570**	106,210	**1,145,569**
Contingent liabilities (Note 15)			
Minority interests in consolidated subsidiaries	**16,910**	7,537	**143,952**
Shareholders' equity (Notes 12 and 22):			
Common stock:			
Authorized—600,000,000 shares			
Issued—405,892,837 shares	**27,039**	27,039	**230,178**
Capital surplus	**44,833**	44,807	**381,655**
Retained earnings	**93,425**	83,672	**795,309**
Unrealized holding gain on securities	**19,452**	9,300	**165,591**
Foreign currency translation adjustments	**(5,038)**	(10,132)	**(42,888)**
Less:			
Treasury common stock, at cost—3,171,053 shares in 2006 and 1,094,323 shares in 2005	**(1,657)**	(479)	**(14,106)**
Total shareholders' equity	**178,055**	154,207	**1,515,749**
Total liabilities and shareholders' equity	**¥471,602**	¥404,668	**$4,014,659**

Consolidated Statements of Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
Years ended March 31	**2006**	2005	**2006**
Net sales	**¥397,308**	¥300,055	**$3,382,208**
Cost of sales	**275,326**	205,713	**2,343,798**
Gross profit	**121,981**	94,341	**1,038,401**
Selling, general and administrative expenses (Note 17)	**95,193**	73,614	**810,360**
Operating profit	**26,788**	20,727	**228,041**
Other income (expenses):			
Interest and dividend income	**842**	517	**7,168**
Interest expense	**(1,982)**	(1,824)	**(16,872)**
Amortization of consolidation adjustment account	**395**	282	**3,363**
Gain on sale of property, plant and equipment (Note 18)	**3,044**	4,802	**25,913**
Loss on sale and disposal of property, plant and equipment (Note 18)	**(964)**	(2,496)	**(8,206)**
Gain on sales of investment securities	**107**	280	**911**
Early retirement expense	**—**	(192)	**—**
Loss on devaluation of golf club memberships	**(155)**	—	**(1,319)**
Equity in earnings of affiliates	**779**	1,053	**6,631**
Income on receiving of national subsidy	**—**	411	**—**
Loss on replacement of fixed assets	**—**	(411)	**—**
Impairment loss (Note 19)	**(738)**	—	**(6,282)**
Loss on liquidation of affiliates	**(128)**	(149)	**(1,090)**
Loss on revaluation of investments	**(725)**	(270)	**(6,172)**
Merger expense	**(275)**	(1,873)	**(2,341)**
Gain from prior period adjustments	**161**	—	**1,371**
Gain from reversal of allowance for doubtful receivables	**149**	—	**1,268**
Gain from termination of part of the retirement benefit plan (Note 14)	**51**	—	**434**
Other, net	**718**	391	**6,112**
	1,279	520	**10,888**
Income before income taxes and minority interests	**28,068**	21,246	**238,938**
Income taxes (Note 11):			
Current	**10,551**	5,921	**89,819**
Deferred	**1,843**	2,884	**15,689**
	12,395	8,805	**105,516**
Minority interests in earnings of consolidated subsidiaries	**1,228**	872	**10,454**
Net income	**¥ 14,444**	¥ 11,568	**$ 122,959**

	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net assets	**¥ 441.86**	¥ 380.70	**$ 3.76**
Net income	**35.45**	32.76	**0.302**
Cash dividends	**10.00**	9.00	**0.085**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Shareholders' Equity

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

		Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	292,892,053	¥27,039	¥19,502	¥51,274	¥ 6,544	¥ (9,492)	¥ (66)
Increase by merger	113,000,784	—	25,200	18,458	—	—	—
Gain on disposal of treasury stock	—	—	104	—	—	—	—
Adjustments of retained earnings for newly consolidated subsidiaries	—	—	—	4,181	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(42)	—	—	—
Cash dividends paid	—	—	—	(1,756)	—	—	—
Other	—	—	—	(11)	—	—	—
Net income for the year ended March 31, 2005	—	—	—	11,568	—	—	—
Unrealized holding gain on securities	—	—	—	—	2,756	—	—
Foreign currency translation adjustments	—	—	—	—	—	(640)	—
Net change in treasury stock	—	—	—	—	—	—	(413)
Balance at March 31, 2005	405,892,837	27,039	44,807	83,672	9,300	(10,132)	(479)
Gain on disposal of treasury stock	—	—	**25**	—	—	—	—
Increase due to merger of subsidiaries	—	—	—	**22**	—	—	—
Decrease due to decrease of ownership ratio	—	—	—	**(499)**	—	—	—
Bonuses to directors and corporate auditors	—	—	—	**(146)**	—	—	—
Cash dividends paid	—	—	—	**(4,040)**	—	—	—
Other	—	—	—	**(27)**	—	—	—
Net income for the year ended March 31, 2006	—	—	—	**14,444**	—	—	—
Unrealized holding gain on securities	—	—	—	—	**10,151**	—	—
Foreign currency translation adjustments	—	—	—	—	—	**5,094**	—
Net change in treasury stock	—	—	—	—	—	—	**(1,177)**
Balance at March 31, 2006	**405,892,837**	**¥27,039**	**¥44,833**	**¥93,425**	**¥19,452**	**¥ (5,038)**	**¥(1,657)**

	Thousands of U.S. dollars (Note 3)					
	Common stock	Capital surplus	Retained earnings	Unrealized holding gain on securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	$230,178	$381,434	$712,284	$ 79,169	$(86,252)	$ (4,078)
Gain on disposal of treasury stock	—	**213**	—	—	—	—
Increase due to merger of subsidiaries	—	—	**187**	—	—	—
Decrease due to decrease of ownership ratio	—	—	**(4,248)**	—	—	—
Bonuses to directors and corporate auditors	—	—	**(1,243)**	—	—	—
Cash dividends paid	—	—	**(34,392)**	—	—	—
Other	—	—	**(230)**	—	—	—
Net income for the year ended March 31, 2006	—	—	**122,959**	—	—	—
Unrealized holding gain on securities	—	—	—	**86,414**	—	—
Foreign currency translation adjustments	—	—	—	—	**43,364**	—
Net change in treasury stock	—	—	—	—	—	**(10,020)**
Balance at March 31, 2006	**$230,178**	**$381,655**	**$795,309**	**$165,591**	**$(42,888)**	**$(14,106)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
Years ended March 31	**2006**	2005	**2006**
Operating activities			
Income before income taxes and minority interests	**¥28,068**	¥ 21,246	**$238,938**
Depreciation and amortization	**18,982**	14,592	**161,590**
Impairment loss	**738**	—	**6,282**
Amortization of consolidation adjustment account	**(207)**	(122)	**(1,762)**
Interest and dividend income	**(842)**	(517)	**(7,168)**
Interest expense	**1,982**	1,824	**16,872**
Equity in earnings of affiliates	**(779)**	(1,053)	**(6,631)**
Gain on disposal and sale of property, plant and equipment	**(2,201)**	(2,340)	**(18,737)**
Gain on sales of investment securities	**(108)**	(292)	**(919)**
(Increase) decrease in receivables	**951**	(870)	**8,096**
Decrease (increase) in accounts receivable	**(8,741)**	10,583	**(74,410)**
Decrease in inventories	**(466)**	(4,219)	**(3,967)**
(Decrease) increase in payables	**6,610**	(3,668)	**56,270**
(Decrease) increase in accrued expenses	**1,489**	(582)	**12,676**
(Decrease) increase in advances received	**(1,544)**	1,620	**(13,144)**
Increase in prepaid pension expenses	**(2,697)**	(1,996)	**(22,959)**
Increase in pension and severance indemnities	**(1,786)**	170	**(15,204)**
Other	**837**	1,349	**7,125**
	40,282	35,723	**342,913**
Interest and dividend received	**1,155**	897	**9,832**
Interest paid	**(2,173)**	(1,654)	**(18,498)**
Income taxes paid	**(7,325)**	(7,263)	**(62,356)**
Net cash provided by operating activities	**31,937**	27,703	**271,874**
Investing activities			
(Decrease) increase in short-term investments	**303**	(14)	**2,579**
Proceeds from redemption of investment securities	**506**	—	**4,307**
Purchase of property, plant and equipment	**(23,074)**	(30,263)	**(196,425)**
Proceeds from sales of property, plant and equipment	**4,298**	2,274	**36,588**
Purchase of intangible assets	**(418)**	(5,402)	**(3,558)**
Proceeds from sales of intangible assets	**171**	17	**1,456**
Payment for purchase of investment securities	**(1,883)**	(295)	**(16,030)**
Proceeds from sales of investment securities	**151**	741	**1,285**
Payment for acquisition of subsidiaries' stocks with change in scope of consolidataion	**(5,158)**	—	**(43,909)**
Other	**(135)**	706	**(1,149)**
Net cash used in investing activities	**(25,238)**	(32,235)	**(214,846)**
Financing activities			
Repayments of short-term bank loans	**(5,873)**	(689)	**(49,996)**
Proceeds from commercial paper	**3,000**	5,000	**25,538**
Proceeds from issuance of long-term debt	**22,440**	14,467	**191,027**
Repayment of long-term debt	**(23,410)**	(14,182)	**(199,285)**
Proceeds from issuance of stock	**150**	—	**1,277**
Proceeds from issuance of bonds	**—**	15,000	**—**
Redemption of bonds	**—**	(20,300)	**—**
Cash dividends to shareholders	**(4,040)**	(1,756)	**(34,392)**
Dividends paid to minority interests	**(183)**	(132)	**(1,558)**
Redemption of treasury stock	**(1,186)**	(356)	**(10,096)**
Proceeds from sales of treasury stocks	**125**	270	**1,064**
Net cash used in financing activities	**(8,977)**	(2,679)	**(76,420)**
Effect of exchange rate changes on cash and cash equivalents	**190**	39	**1,617**
Net decrease in cash and cash equivalents	**(2,087)**	(7,172)	**(17,766)**
Cash and cash equivalents at beginning of the year	**17,839**	13,260	**151,860**
Increase by merger	**—**	6,032	**—**
Increase by change in the scope of consolidation	**830**	749	**7,066**
Increase by newly consolidated subsidiaries	**458**	4,970	**3,899**
Increase by merger of subsidiaries	**376**	—	**3,201**
Cash and cash equivalents at end of the year (Note 4)	**¥17,416**	¥ 17,839	**$148,259**

See notes to consolidated financial statements.

1. Basis of Consolidated Financial Statements

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

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in 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 60 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

The differences at the dates of acquisition between the cost and the underlying net equity in investments in consolidated subsidiaries and the companies accounted for by the equity method are amortized by the straight-line method over a period of five years.

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) Marketable and investment securities

Marketable securities and investment in securities are classified by their holding objectives into held-to-maturity and other securities. Held-to-maturity securities are stated at amortized cost. Amortization is calculated by the straight-line method. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Other securities are stated at cost, which is determined by moving average method. Non-marketable securities classified as other securities are carried at cost.

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost determined by the average method, the specific identification method or the moving average method.

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

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

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 15 years

(f) Translation of foreign currency transactions

All monetary assets and liabilities, regardless of short-term or long-term, denominated in foreign currencies other than receivables and payables hedged by qualified foreign exchange forward contract 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 subsidiaries are translated into yen at the year-end exchange rates, except for shareholders' equity, which is translated at historical rates. Differences arising from the translations are stated under "Foreign currency translation adjustments" and minority interests in consolidated subsidiaries in the accompanying consolidated balance sheets.

(g) 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 as 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, past service cost, the project unit credit method was used.

Actuarial gains or losses and past service cost are recognized for each defined benefit plan over a period not exceeding the expected average remaining service years of the employees participating in the plan. The Company and its domestic subsidiaries recognize actuarial gains or losses evenly over the 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 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.

The Company introduced the new retirement benefit plan effective October 1, 2005, and shifted part of the retirement benefits to the defined contribution benefit plan. As a result, the Company recognized termination of a part of the retirement benefit plan and recorded ¥51 million as gain on termination of a part of the retirement benefit plan under other income. In the new retirement benefit plan, the defined benefit pension plan has also shifted from the qualified retirement benefit plan to the cash balance plan (market rate linked pension plan). Due to this change, past service liabilities (decrease of liabilities) arose, which were prorated for certain years within the average remaining service period (13 years) and treated as a deductible item under retirement benefit expenses.

(h) Allowance for directors' and corporate auditors' retirement benefits

The allowance for directors' and corporate auditors' retirement benefits of the Company and certain of its domestic subsidiaries is provided at the amount which would have been required to be paid if all directors and corporate auditors had 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 ¥193 million ($1,643 thousand) for corporate officers at March 31, 2006.

(i) Research and development expenses

Research and development expenses are charged to operations as incurred.

(j) 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.

(k) 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, 2006 and 2005.

(l) Allowance for doubtful receivables

To cover possible losses on collection of receivables, the Company and its 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.

(m) Valuation allowance for investments

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

(n) Derivative and hedging transactions

The Company and certain of its subsidiaries have used foreign exchange forward contract in order to solely 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 in order to solely hedge against risks of fluctuations in interest rates relating to its long-term debt, and also have used currency exchange swap agreement in order to solely hedge against risks of fluctuations in foreign exchange of long-term debt denominated in foreign currencies, in compliance with the internal rules of respective companies.

Under the "Accounting Standard for Financial Instruments," 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 contract are translated at the corresponding foreign exchange forward contract rates.

(o) Impairment of fixed assets

In the year ended March 31, 2006, the Company and its consolidated domestic subsidiaries adopted the "Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002, and implementation guidance for accounting standards for impairment of fixed assets (Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standard Board of Japan on October 31, 2004). The effect of this change was to decrease income before income taxes by ¥738 million ($6,282 thousand) for the year ended March 31, 2006. Less accumulated impairment loss is deducted directly.

3. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥117.47=U.S.$1, the approximate rate of exchange at March 31, 2006. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Cash and Cash Equivalents

The components of cash and cash equivalents at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Cash and deposits	**¥18,714**	¥18,593	**$159,309**
Time deposits with maturities of more than three months	**(1,669)**	(754)	**(14,208)**
Short-term investments	**371**	—	**3,158**
	¥17,416	¥17,839	**$148,259**

5. Marketable and Investment Securities

At March 31, 2006 and 2005, information with respect to other securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2006			**2006**		
	Cost	Balance sheet amount	Unrecognized gain (loss)	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:						
Stock	**¥11,263**	**¥44,472**	**¥33,208**	**$95,880**	**$378,582**	**$282,693**
Unrecognized loss items:						
Stock	**181**	**156**	**(24)**	**1,541**	**1,328**	**(204)**
Total	**¥11,445**	**¥44,628**	**¥33,183**	**$97,429**	**$379,910**	**$282,481**

	Millions of yen		
	2005		
	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:			
Stock	¥10,609	¥26,300	¥15,691
Unrecognized loss items:			
Stock	208	200	(8)
Total	¥10,818	¥26,501	¥15,682

Proceeds from sales of securities classified as other securities amount to ¥127 million ($1,081 thousand) with an aggregate gain on sales of ¥108 million ($919 thousand) for the year ended March 31, 2006.

The balance sheet amount of non-marketable securities classified as held-to-maturity securities and other securities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Held-to-maturity securities:			
Discounted bank debentures	**¥ —**	¥ 506	**$ —**
Other securities:			
Unlisted securities (except for OTC securities)	**2,337**	2,355	**19,894**
Preferred securities	**1,000**	1,000	**8,513**
Preferred stock	**1,000**	1,000	**8,513**
Money market fund	**371**	—	**3,158**

The redemption schedule for securities with maturity dates classified as held-to-maturity securities and other securities at March 31, 2005 is summarized as follows:

	Millions of yen	
	2005	
	Due in one year or less	Due after one year through five years
Bonds:		
Bank debenture	¥506	—
Other	—	—
	¥506	—

There are no securities with maturity dates classified as held-to-maturity securities and other securities at March 31, 2006.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Accounts receivable transferred by liquidation	**¥3,059**	**$26,041**
Notes receivable transferred by liquidation	**¥6,160**	**$52,439**

(b) Notes receivable discounted at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Notes receivable discounted	**¥617**	¥35	**$5,252**
Notes receivable endorsed	**67**	—	**570**

7. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Merchandise	**¥12,027**	¥10,172	**$102,384**
Finished products	**1,698**	2,773	**14,455**
Semifinished products and work in process	**13,178**	11,973	**112,182**
Raw materials and supplies	**4,413**	4,236	**37,567**
	¥31,316	¥29,156	**$266,587**

8. Short-Term Borrowings and Long-Term Debt

At March 31, 2006 and 2005, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Bank loans	**¥13,130**	¥17,676	**$111,773**
Current portion of long-term debt	**10,637**	22,774	**90,551**
Total	**¥23,768**	¥40,451	**$202,333**

The average interest rates applicable to short-term bank loans outstanding at March 31, 2006 and 2005 were 0.96% and 1.23%, respectively.

Long-term debt at March 31, 2006 and 2005 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Loans from banks due through 2016 at average interest rate of 1.92% in 2006 and 1.69% in 2005	**¥59,599**	¥46,495	**$507,355**
0.92% unsecured bonds, payable in yen, due 2007	**10,000**	10,000	**85,128**
0.95% unsecured bonds, payable in yen, due 2009	**15,000**	15,000	**127,692**
	¥84,599	¥71,495	**$720,175**

0.13% commercial paper (¥8,000 million ($68,102 thousand)) at March 31, 2006 and 0.22% commercial paper (¥5,000 million) at March 31, 2005 were included in other current liabilities.

The annual maturities of long-term debt are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥10,637	$ 90,551
2008	10,021	85,307
2009	22,628	192,628
2010	5,071	43,168
2011	19,016	161,880
2012 and thereafter	2,862	24,364
	¥70,236	$597,906

9. Pledged Assets

Assets pledged as collateral for short-term bank loans of ¥1,192 million ($10,147 thousand), long-term debt of ¥857 million ($7,295 thousand) and other liabilities of ¥3,156 million ($26,866 thousand) at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	**¥6,119**	**$52,090**

10. Assets Replaced by National Subsidy

Assets replaced by national subsidy were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	**¥411**	**$3,499**

11. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 40.69% for 2006 and 40.7% for 2005.

The effective tax rate reflected in the statements of income for the year ended March 31, 2006 differs from the statutory tax rate for the following reasons:

	2006
Statutory tax rate	**40.69%**
Effect of:	
Expenses not deductible for income tax purposes	**1.72**
Dividend income deductible for income tax purposes	**(1.04)**
Change in valuation allowance	**3.14**
Other, net	**(0.35)**
Effective tax rate	**44.16%**

Significant components of the Company's deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,036**	¥1,802	**$17,332**
Loss from valuation of inventory	**143**	229	**1,217**
Accrued expenses	**1,266**	945	**10,777**
Tax losses carried forward	**2,169**	—	**18,464**
Other	**2,222**	1,356	**18,915**
Deferred tax assets—subtotal	**7,837**	4,333	**66,715**
Valuation allowance	**(2,033)**	—	**(17,307)**
Deferred tax assets—net	**5,804**	4,333	**49,408**
Deferred tax liabilities	**(1)**	—	**(9)**
Net deferred tax assets	**¥ 5,803**	¥4,333	**$49,400**
Deferred tax liabilities:			
Adjustment of allowance for doubtful receivables	**¥ (61)**	¥ (2)	**$ (519)**
Deferred tax liabilities—subtotal	**(61)**	(2)	**(519)**
Deferred tax assets	**1**	—	**9**
Net deferred tax liabilities	**¥ (60)**	¥ (2)	**$ (511)**

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Non-current deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 760**	¥ 586	**$ 6,470**
Reserve for retirement benefits	**1,341**	1,581	**11,416**
Net operating loss carryforward for tax purposes	**37**	2,608	**315**
Other	**6,573**	6,624	**55,955**
Deferred tax assets—subtotal	**8,713**	11,400	**74,172**
Valuation allowance	**(3,514)**	(4,485)	**(29,914)**
Deferred tax assets—net	**5,199**	6,914	**44,258**
Deferred tax liabilities	**(3,859)**	(5,848)	**(32,851)**
Net deferred tax assets	**¥ 1,339**	¥ 1,066	**$ 11,399**
Deferred tax liabilities:			
Valuation difference on other securities	**¥(13,609)**	¥ (6,448)	**$(115,851)**
Reserve for replacement of fixed assets	**(6,403)**	(5,097)	**(54,508)**
Reserve for replacement of fixed assets—special	**(1,545)**	(1,375)	**(13,152)**
Depreciation	**(5,930)**	(4,670)	**(50,481)**
Other	**(9,506)**	(7,247)	**(80,923)**
Deferred tax liabilities—subtotal	**(36,994)**	(24,838)	**(314,923)**
Deferred tax assets	**3,859**	5,848	**32,851**
Net deferred tax liabilities	**¥(33,135)**	¥(18,990)	**$(282,072)**

The reconciliation between the effective tax rate and the statutory tax rate has been omitted for the year ended March 31, 2005 because the difference was less than 5% of the statutory tax rate.

12. Shareholders' Equity

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock account.

The Code provides that neither the additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of the additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's share had a par value of ¥50.

13. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2006 and 2005 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
	2006	2005	**2006**
Acquisition costs:			
Property, plant and equipment	**¥7,941**	¥7,419	**$67,600**
Other assets	**318**	327	**2,707**
	¥8,260	¥7,747	**$70,316**
Accumulated depreciation:			
Property, plant and equipment	**¥3,577**	¥3,340	**$30,450**
Other assets	**153**	144	**1,302**
	¥3,730	¥3,485	**$31,753**
Net book value:			
Property, plant and equipment	**¥4,363**	¥4,077	**$37,141**
Other assets	**165**	183	**1,405**
	¥4,529	¥4,261	**$38,555**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,234 million ($10,505 thousand) and ¥1,194 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, 2006 and 2005, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 and 2005 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ended/ending March 31	Millions of yen	Thousands of U.S. dollars
2006		
2007	**¥1,162**	**$ 9,892**
2008 and thereafter	**3,367**	**28,663**
Total	**¥4,529**	**$38,555**
2005		
2006	¥1,050	
2007 and thereafter	3,210	
Total	¥4,261	

(b) Future minimum lease payments subsequent to March 31, 2006 and 2005 for non-cancelable operating leases are summarized as follows:

Years ended/ending March 31	Millions of yen	Thousands of U.S. dollars
2006		
2007	**¥1,940**	**$16,515**
2008 and thereafter	**6,796**	**57,853**
Total	**¥8,737**	**$74,376**
2005		
2006	¥1,465	
2007 and thereafter	5,300	
Total	¥6,765	

14. Pension and Severance Indemnities

The Company introduced the new retirement benefit plan as of October 1, 2005, and shifted part of the retirement benefits to the defined contribution benefit plan. In the new retirement benefit plan, the defined benefit pension plan has also shifted from the qualified retirement benefit plan to the cash balance plan (market rate linked pension plan).

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

Certain foreign subsidiaries have the defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2006 and 2005 and the components of net retirement benefit expenses recognized in the accompanying consolidated statement of income for the year ended March 31, 2006 and 2005 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Projected benefit obligation	**¥ 35,293**	¥ 40,652	**$ 300,443**
Plan assets at fair market value	**(45,712)**	(35,614)	**(389,138)**
Unfunded retirement benefit liabilities	**(10,418)**	5,038	**(88,686)**
Net unrecognized actuarial losses	**2,385**	(7,786)	**20,303**
Difference at change of accounting standard	**(4,199)**	(5,391)	**(35,745)**
Unrecognized prior service cost	**3,097**	2,590	**26,364**
Prepaid pension expenses	**12,821**	10,123	**109,143**
Allowance for employees' retirement benefits	**(3,686)**	(4,573)	**(31,378)**

The effect by the shift of a part of the retirement benefits to the defined contribution benefit plan in the year ended March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Decrease in projected benefit obligation	**¥ 1,416**	**$12,054**
Difference at change of accounting standard	**(681)**	**(5,797)**
Net unrecognized actuarial losses	**381**	**3,243**
Unrecognized prior service cost	**(1,064)**	**(9,058)**
Decrease in retirement benefit plan	**¥ 51**	**$ 434**

Plan assets transferred to defined contribution benefit plan were ¥4,224 million ($35,958 thousand).

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2006	2005	**2006**
Current service cost	**¥1,463**	¥1,449	**$12,454**
Interest cost	**660**	636	**5,618**
Expected return on plan assets	**(639)**	(502)	**(5,440)**
Expense of actuarial loss	**775**	761	**6,597**
Net loss on change in accounting standard for employees' retirement benefits	**609**	589	**5,184**
Adjustment for prior service cost	**(213)**	(185)	**(1,813)**
Total of retirement benefit expenses	**¥2,656**	¥2,748	**$22,610**
Gain on termination of part of the retirement benefit plan	**(51)**	—	**(434)**
Other	**462**	—	**3,933**
Total	**¥3,067**	¥2,748	**$26,109**

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

	2006	2005
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Rate of return on assets	**Mainly 2.5%**	Mainly 2.5%
Period of recognition of actuarial gains or losses	**Mainly 16 years**	Mainly 16 years
Period of recognition of transition gains or losses	**15 years**	Mainly 15 years
Period of recognition of prior service cost	**Mainly 16 years**	16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

15. Contingent Liabilities

At March 31, 2006, the Company and certain of its subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥10,584 million ($90,100 thousand) which included reguarantees by joint investors amounting ¥938 million ($7,985 thousand) and commitments to guarantee amounting ¥1,803 million ($15,349 thousand).

16. Derivative and Hedging Activities

(a) Outline of transactions and conditions

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

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

The Company and certain of its subsidiaries do not anticipate non-performance by any of the counterparties to the above transactions, all of whom are leading financial institutions which are deemed highly creditworthy.

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

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

(b) Interest-related derivatives

At March 31, 2006 and 2005 the contracted amounts, market value and unrealized loss on derivatives were as follows:

	Millions of yen		
March 31, 2006	Contracted amounts	Market value	Unrealized loss
Interest rate swaps:			
Receive/floating and pay/fixed	**¥177**	**¥ 1**	**¥ 1**
	¥177	**¥ 1**	**¥ 1**

	Millions of yen		
March 31, 2005	Contracted amounts	Market value	Unrealized loss
Interest rate swaps:			
Receive/floating and pay/fixed	¥413	¥(1)	¥(1)
	¥413	¥(1)	¥(1)

	Thousands of U.S. dollars		
March 31, 2006	Contracted amounts	Market value	Unrealized loss
Interest rate swaps:			
Receive/floating and pay/fixed	**$1,507**	**$ 9**	**$ 9**
	$1,507	**$ 9**	**$ 9**

The market value and unrealized loss presented above represent the amounts furnished by the respective financial institutions.

(c) Currency-related derivatives

Market value information at March 31, 2006 and 2005 is not required as all of the Company and certain of its subsidiaries' derivative transactions are accounted for as hedging transactions.

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, 2006 and 2005 totaled ¥2,223 million ($18,924 thousand) and ¥2,056 million, respectively.

18. Gain and Loss on Sales or Disposal of Property, Plant and Equipment

Significant components of the gain on sales of property, plant and equipment of ¥ 3,044 million ($25,913 thousand) for the year ended March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥3,039	$25,870

Significant components of the loss on sales and disposal of property, plant and equipment of ¥425 million ($3,600 thousand) for the year ended March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥222	$1,890
Buildings and structures	130	1,107
Machinery	184	1,566

19. Impairment Loss

The Company and its subsidiaries categorize business assets by business segmentation and idle assets without a specific future use are categorized separately. For idle assets affected by decrease of fair market value of land, the book values are written down to the recoverable amount and such writedowns are recorded as impairment loss of ¥738 million ($6,282 thousand) (of which land account for ¥726 million ($6,180 thousand) and buildings for ¥12 million ($102 thousand) in other expenses due to luck of recovery provability of market value or provability in the near future. Recoverable amounts for relevant assets are net selling price (appraisal reports by real estate agencies or valuation by inheritance tax).

20. Segment Information

The business, geographic and overseas segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

(a) Business Segments

	Millions of yen					
Year ended or as of March 31, 2006	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
I. Sales:						
(1) Sales to third parties	**¥268,284**	**¥113,626**	**¥15,397**	**¥397,308**	**¥ —**	**¥397,308**
(2) Intersegment sales	**162**	**6,251**	**73**	**6,486**	**(6,486)**	**—**
Total sales	**268,447**	**119,877**	**15,470**	**403,795**	**(6,486)**	**397,308**
Operating costs and expenses	**246,952**	**113,975**	**13,611**	**374,539**	**(4,019)**	**370,520**
Operating income	**¥ 21,494**	**¥ 5,901**	**¥ 1,859**	**¥ 29,255**	**¥(2,467)**	**¥ 26,788**
II. Assets, depreciation expenses, capital expenditure:						
Assets	**¥309,469**	**¥ 67,238**	**¥17,627**	**¥394,334**	**¥77,267**	**¥471,602**
Depreciation expenses	**¥ 16,517**	**¥ 1,243**	**¥ 709**	**¥ 18,470**	**¥ 512**	**¥ 18,982**
Impairment loss	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ 738**	**¥ 738**
Capital expenditure	**¥ 19,455**	**¥ 2,055**	**¥ 741**	**¥ 22,252**	**¥ (76)**	**¥ 22,176**

Year ended or as of March 31, 2005	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
	Millions of yen					
I. Sales:						
(1) Sales to third parties	¥207,049	¥82,697	¥10,308	¥300,055	¥ —	¥300,055
(2) Intersegment sales	241	8,626	81	8,949	(8,949)	—
Total sales	207,290	91,323	10,389	309,004	(8,949)	300,055
Operating costs and expenses	191,228	85,698	9,086	286,013	(6,686)	279,327
Operating income	¥ 16,062	¥ 5,625	¥ 1,303	¥ 22,990	¥ (2,263)	¥ 20,727
II. Assets, depreciation expenses, capital expenditure:						
Assets	¥275,396	¥47,422	¥23,061	¥345,880	¥58,787	¥404,668
Depreciation expenses	¥ 12,501	¥ 1,317	¥ 547	¥ 14,366	¥ 225	¥ 14,592
Capital expenditure	¥ 36,376	¥ 551	¥ 348	¥ 37,276	¥ 815	¥ 38,092

Year ended or as of March 31, 2006	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	**$2,283,851**	**$ 967,277**	**$131,072**	**$3,382,208**	**$ —**	**$3,382,208**
(2) Intersegment sales	**1,379**	**53,214**	**621**	**55,214**	**(55,214)**	**—**
Total sales	**2,285,239**	**1,020,490**	**131,693**	**3,437,431**	**(55,214)**	**3,382,208**
Operating costs and expenses	**2,102,256**	**970,248**	**115,868**	**3,188,380**	**(34,213)**	**3,154,167**
Operating income	**$ 182,974**	**$ 50,234**	**$ 15,825**	**$ 249,042**	**$(21,001)**	**$ 228,041**
II. Assets, depreciation expenses, capital expenditure:						
Assets	**$2,634,451**	**$ 572,384**	**$150,055**	**$3,356,891**	**$657,759**	**$4,014,659**
Depreciation expenses	**$ 140,606**	**$ 10,581**	**$ 6,036**	**$ 157,232**	**$ 4,359**	**$ 161,590**
Impairment loss	**$ —**	**$ —**	**$ —**	**$ —**	**$ 6,282**	**$ 6,282**
Capital expenditure	**$ 165,617**	**$ 17,494**	**$ 6,308**	**$ 189,427**	**$ (647)**	**$ 188,780**

(b) Geographic Segments

Year ended or as of March 31, 2006	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Millions of yen					
Sales:						
Sales to third parties	**¥329,413**	**¥47,369**	**¥20,524**	**¥397,308**	**¥ —**	**¥397,308**
Intersegment sales	**3,968**	**6,804**	**1,754**	**12,526**	**(12,526)**	**—**
Total sales	**333,382**	**54,174**	**22,278**	**409,834**	**(12,526)**	**397,308**
Operating costs and expenses	**310,607**	**49,091**	**21,027**	**380,725**	**(10,205)**	**370,520**
Operating income	**¥ 22,774**	**¥ 5,082**	**¥ 1,251**	**¥ 29,108**	**¥ (2,320)**	**¥ 26,788**
Assets	**¥304,390**	**¥63,125**	**¥25,497**	**¥393,013**	**¥ 78,588**	**¥471,602**

Year ended or as of March 31, 2005	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Millions of yen					
Sales:						
Sales to third parties	¥247,129	¥37,393	¥15,531	¥300,055	¥ —	¥300,055
Intersegment sales	2,647	6,809	1,385	10,842	(10,842)	—
Total sales	249,777	44,203	16,917	310,897	(10,842)	300,055
Operating costs and expenses	232,148	40,462	15,810	288,421	(9,093)	279,327
Operating income	¥ 17,628	¥ 3,741	¥ 1,106	¥ 22,476	¥ (1,749)	¥ 20,727
Assets	¥265,967	¥53,553	¥23,367	¥342,888	¥ 61,780	¥404,668

Year ended or as of March 31, 2006	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
Sales:						
Sales to third parties	**$2,804,231**	**$403,243**	**$174,717**	**$3,382,208**	**$ —**	**$3,382,208**
Intersegment sales	**33,779**	**57,921**	**14,931**	**106,631**	**(106,631)**	**—**
Total sales	**2,838,018**	**461,173**	**189,648**	**3,488,840**	**(106,631)**	**3,382,208**
Operating costs and expenses	**2,644,139**	**417,902**	**178,999**	**3,241,040**	**(86,873)**	**3,154,167**
Operating income	**$ 193,871**	**$ 43,262**	**$ 10,650**	**$ 247,791**	**$ (19,750)**	**$ 228,041**
Assets	**$2,591,215**	**$527,371**	**$217,051**	**$3,345,646**	**$669,005**	**$4,014,659**

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2006 and 2005 are summarized as follows:

Year ended or as of March 31, 2006	North America	Other	Total	North America	Other	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	**¥40,998**	**¥37,946**	**¥ 78,945**	**$349,008**	**$323,027**	**$ 672,004**
Consolidated net sales			**397,308**			**3,382,208**
Ratio of overseas sales to consolidated net sales	**10.3%**	**9.5%**	**19.8%**			

Year ended or as of March 31, 2005	North America	Other	Total
	Millions of yen		
Overseas sales	¥32,032	¥29,881	¥ 61,914
Consolidated net sales			300,055
Ratio of overseas sales to consolidated net sales	10.6%	9.9%	20.6%

21. Assets and Liabilities Acquired by Merger

Assets and liabilities acquired by merger with Taiyo Toyo Sanso Co., Ltd., effective in fiscal year 2005 consisted of following:

	Millions of yen
Current assets	¥42,843
Fixed assets	47,517
Total assets	¥90,361
Current liabilities	¥25,284
Fixed liabilities	18,898
Total liabilities	¥44,182

Capital surplus increased ¥26,625 million by the merger.

22. Assets and Liabilities of Newly Consolidated Subsidiaries by Acquisition of Stock

Assets and liabilities of newly consolidated subsidiaries, TAIYO NIPPON SANSO HIGASHI KANTO Corporation and NIPPOKU SANSO CORPORATION through the acquisition of stock, acquisition cost and net payments for the acquisition effective in fiscal year 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 5,481**	**$ 46,659**
Fixed assets	**3,161**	**26,909**
Total assets	**¥ 8,642**	**$ 73,568**
Current liabilities	**¥ 4,062**	**$ 34,579**
Fixed liabilities	**719**	**6,121**
Total liabilities	**¥ 4,781**	**$ 40,700**
Acquisition cost of newly consolidated subsidiaries' stock	**¥(6,993)**	**$(59,530)**
Cash and cash equivalents of newly consolidated subsidiaries	**1,835**	**15,621**
Payments for acquisition of subsidiaries' stock with change in scope of consolidation	**¥(5,158)**	**$(43,909)**

23. Subsequent Events

(a) Appropriation of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2006, were approved at a shareholders' meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.051) per share	¥2,416	$20,567
Bonuses to directors	100	851

(b) Issuance of domestic straight bonds

The Company made a comprehensive resolution regarding issuance of domestic bonds at the Board meeting on May 17, 2006.

The outline is as follows:

(1) Total amount of issuance:	Within ¥15 billion
(2) Period of issuance:	From May 18, 2006 to Sep. 30, 2006
(3) The value of the bond:	¥100 per ¥100 of the face value
(4) Term:	Within five (5) years
(5) Interest rate:	Fixed interest rate, swap rate corresponding to the term to maturity of the corporate bond with 0.5% or less added.
(6) Intended usage of the fund:	Capital investment, loan and investment, repayment of borrowed funds, and redemption of commercial paper

The determination of the specific conditions of issuance, as well as the necessary issues regarding this corporate bond, shall be entrusted to the representative director within the above-mentioned range.

Report of Independent Auditors

The Board of Directors
Taiyo Nippon Sanso Corporation

We have audited the accompany consolidated balance sheets of Taiyo Nippon Sanso Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiyo Nippon Sanso Corporation and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006, are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 29, 2006

Investor Information

(At March 31, 2006)

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

Number of Employees:
7,496

Date of Incorporation:
October 1910

Number of Shares:
Authorized—600,000,000 Issued—405,892,837

At the annual meeting of shareholders on June 29, 2006, shareholders approved a proposal to amend the Company's articles of incorporation. As a consequence, the number of authorized shares increased 200,000,000, to 800,000,000, effective the same day, and the following sentence was deleted: "However, should shares of common stock be cancelled, the total number of shares shall be reduced by an equivalent number."

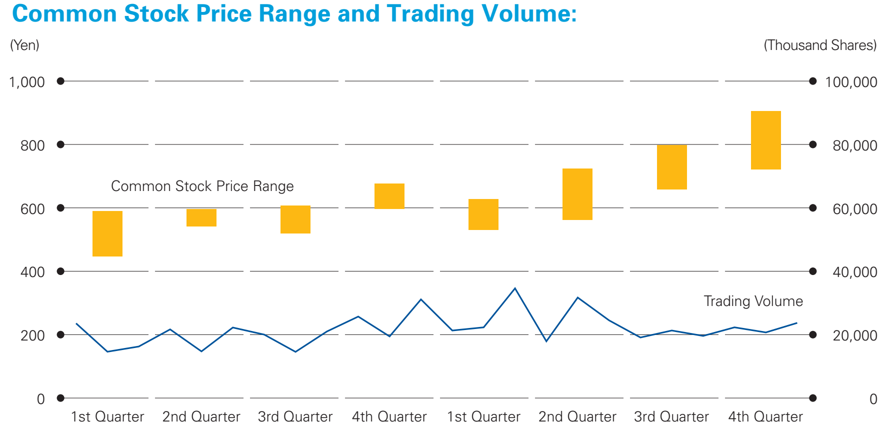
Minimum Trading Unit:
1,000 shares

Number of Stockholders:
21,392

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	40,947	10.09%
Taiyo Nippon Sanso Client Shareholding Society	17,231	4.25
Meiji Yasuda Life Insurance Company	16,491	4.06
JFE Steel Corporation	15,293	3.77
Mizuho Corporate Bank, Ltd.	14,484	3.57
Japan Trustee Services Bank, Ltd. (Trust Account)	13,225	3.26
The Norinchukin Bank	11,000	2.71
The Master Trust Bank of Japan Ltd. (Trust Account)	10,137	2.50
Dai-ichi Mutual Life Insurance Company	10,037	2.47
State Street Bank and Trust Company	6,858	1.69
	155,703	38.37%

Common Stock Price Range and Trading Volume:



Note: Data for the third and fourth quarters of fiscal 2005 and beyond is for Taiyo Nippon Sanso. Data for prior quarters is for the former Nippon Sanso.

TAIYO NIPPON SANSO
The Gas Professionals

Toyo Building, 1-3-26, Koyama,
Shinagawa-ku, Tokyo 142-8558, Japan
Tel: 81-3-5788-8000
www.tn-sanso.co.jp

Printed in Japan