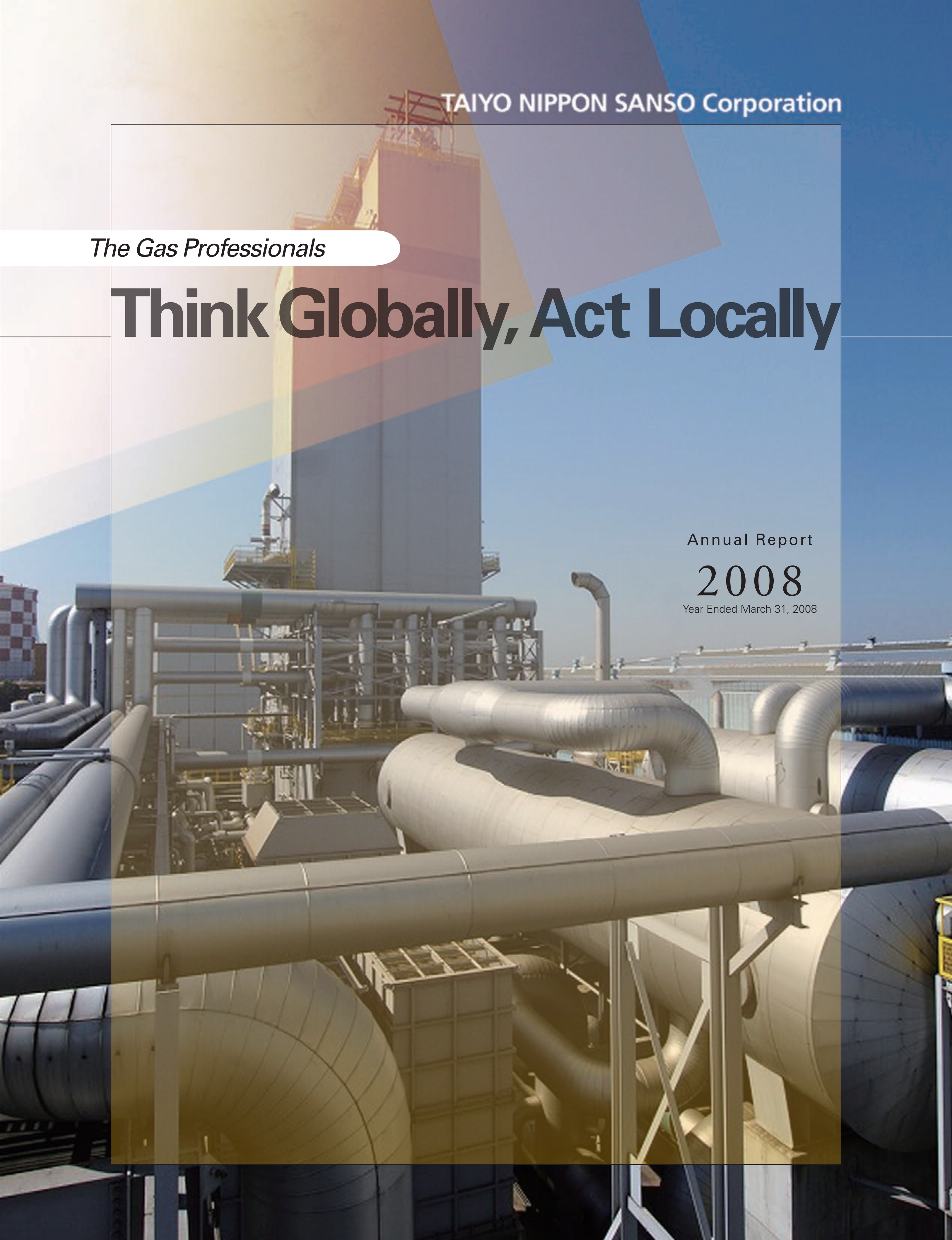
TAIYO NIPPON SANSO Corporation

The Gas Professionals

Think Globally, Act Locally



Annual Report

2008

Year Ended March 31, 2008

Profile

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

Management Philosophy

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

Financial Highlights

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2008	2007	**2008**	
Operating Results				
Net sales	**¥507,718**	¥458,587	**$5,067,552**	10.7%
Net income	**21,930**	20,094	**218,884**	9.1

	Yen		U.S. dollars[1]	Percentage change
	2008	2007	**2008**	
Per share data:				
Net income[2]	**¥ 54.48**	¥ 49.93	**$ 0.54**	9.1%
Cash dividends	**12.00**	12.00	**0.12**	—

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2008	2007	**2008**	
Corporate Position				
Total assets	**¥547,237**	¥547,791	**$5,461,992**	(0.1)%
Total shareholders' equity	**203,696**	201,297	**2,033,197**	1.2

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥100.19=U.S.$1, the approximate rate of exchange at March 31, 2008.
2. Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.

Contents

Disclaimer Regarding Forward-Looking Statements

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

New Medium-Term Business Plan and Outlook for Fiscal 2009 and Beyond

Industrial gases are used widely today and producers use a variety of methods to provide gas to their customers around the world, including via pipeline, tanker truck and cylinder. At present, there are five industrial gas producers with global operations—of which the Taiyo Nippon Sanso Group is one—and these five companies account for approximately 80% of the global market. The Taiyo Nippon Sanso Group currently ranks fifth in the world.

Having surpassed the targets set forth in our previous Global 5000: Stage I medium-term business plan a full two years ahead of schedule, we have introduced a new plan, Stage 10: The Challenge of Becoming a Global Player (II), designed to accelerate our progression to the next stage of growth. Looking ahead, we will continue to implement decisive measures aimed at accommodating customer needs in promising markets worldwide and enabling us to maintain and eventually expand our customer base. We will also work to address crucial issues as we step up the pace of growth.

For more information on our strategies and efforts, see the special feature section of this report, beginning on page 4.

Specific Strategies Outlined in Our New Medium-Term Business Plan

Strategy 1

We will decisively allocate management resources and strengthen our presence in growing markets and regions. Tailoring efforts to accommodate the supply and demand balance in different markets, we will promote selective, ongoing investment with the aim of optimizing facilities in our core businesses. Based on the outcome of these efforts, we will seek to concentrate the allocation of management resources in key growth markets and regions.

Strategy 2

We have positioned electronics as a key growth industry and a target for the continued, decisive allocation of management resources. In particular, we will focus on specialty gases, including helium and monosilane, and will work to enhance profitability and ensure a stable supply by expanding production activities and reinforcing strategic efforts to expand upstream businesses.

Strategies 3–7

We will promote an active merger and acquisition (M&A) strategy to avail ourselves of favorable opportunities that will reinforce our operating foundation in Japan and overseas. We will also strive to ensure an appropriate level of financial resources, building on our basic and applied technologies to launch and expand activities in new business areas. Additionally, we will implement initiatives aimed at raising operating efficiency by reducing costs and strengthening Group management. Furthermore, we will endeavor to foster human resources capable of supporting globalization and realizing our vision for the future.

To Our Stakeholders

Achieving Performance Targets

In fiscal 2008, ended March 31, 2008, the second year of our Global 5000: Stage I medium-term business plan, we continued to focus on further expanding our business and improving management efficiency, with the aim of achieving our vision of becoming an Asian-born major global player in the industrial gas industry. We also undertook strategic M&As, forward-looking capital investment and other measures aimed at cultivating new businesses. Owing to such efforts, our mainstay gas business registered firm results both in Japan and overseas. Our plant and gas equipment business also reported an increase in sales. The inclusion of the results of Linweld Inc., of the United States, and the helium gas business of the former BOC Group plc, both acquired in fiscal 2007, also contributed to our fiscal 2008 performance. As a consequence, consolidated net sales rose 10.7%, to ¥507,718 million. Operating income rose 6.3%, to ¥38,783 million, owing to improved capacity utilization rates at our gas production facilities and successful efforts to revise product prices to counter rising raw materials prices. Net income advanced 9.1%, to ¥21,930 million.*

Having already surpassed the targets of Global 5000: Stage I (consolidated net sales of ¥450,000 million and net income of ¥20,000 million in fiscal 2009) in fiscal 2007—a full two years ahead of schedule—and our long-range target of annual consolidated net sales of ¥500,000 million in the period under review, we mapped out a new medium-term business plan that sets forth a new basic strategy designed to accelerate our progression to the next stage of growth.

* Changes in Japanese tax regulations in fiscal 2008 resulted in an increase in depreciation expenses of ¥1,892 million on a consolidated basis and ¥1,344 million on a nonconsolidated basis.

Stage 10: The Challenge of Becoming a Global Player (II)

On the basis of our achievements under our previous medium-term business plan, we formulated a new plan, Stage 10: The Challenge of Becoming a Global Player (II), to run from fiscal 2009 through fiscal 2011. The new plan sets forth three key ("Triple 10") indicators—a global market share of 10%, an operating margin of 10% or higher and a return on capital employed (ROCE) of at least 10%—and two principal targets for fiscal 2011, namely, consolidated net sales of at least ¥600,000 million-plus and operating income of at least ¥54,000 million. The plan also outlines four strategic themes, which are to accelerate growth and achieve commensurate increase in income, promote further globalization, implement cost-cutting measures and strengthen Group management.

Looking Ahead

While the escalating subprime loan crisis remains a cause for concern, the impact on the industrial gases business in Japan, China and elsewhere in Asia, and in North America, is expected to be relatively insignificant. We also expect that key user industries, including steel, chemicals and electronics, will continue to perform well. From the electronics industry, in particular, we expect to see a sharp increase in demand for electronic materials gases,

Becoming an Asian-Born Major Global Player

Global 5000: Stage I (April 2006–March 2008)

The success of Taiyo Nippon Sanso's previous medium-term business plan, Global 5000: Stage I, is attributable to robust demand in principal customer industries, together with an assertive M&A program in Japan and overseas; strategic, forward-looking steps to strengthen and expand its business in growth regions, particularly North America and China; and the horizontal integration of its carbon dioxide gas business, and reorganization of its cryogenic equipment and semiconductor engineering subsidiaries. These efforts enabled Taiyo Nippon Sanso to achieve the operating profit target it had set a full two years ahead of schedule. The Company also achieved its Global 5000: Stage I net sales target of ¥500,000 million in fiscal 2008.

among others, spurred by major ongoing projects aimed at developing liquid crystal displays (LCDs) and solar cells. To ensure stable supplies of these gases, we intend to further broaden our focus to include upstream businesses, a move that we believe will enhance our overall supply capabilities.

While demand for gases in Japan is expected to outpace gross national product by a slight margin in fiscal 2009, the persistently high price of crude oil is likely to continue driving up electricity and gasoline prices, thus increasing gas production and transportation costs and the likelihood of further product price revisions. As a consequence of these and other factors, we currently forecast consolidated net sales of ¥527,000 million, operating income of ¥38,400 million and net income of ¥21,000 million. The operating income and net income forecasts represent declines from fiscal 2008, owing to an anticipated increase in operating expenses—the result of an additional ¥1,300 million in expenses related to the amortization of goodwill generated by overseas subsidiaries due to the unification of accounting procedures for these subsidiaries—and a ¥2,500 million increase in depreciation expenses resulting from a change in the useful life of equipment arising from amendments to Japanese tax regulations.

In June 2008, a proposal by the Board of Directors to maintain annual cash dividends at ¥12.00 per share was approved at the annual meeting of shareholders.

On behalf of the Board of Directors, we thank our stakeholders for their ongoing understanding and confidence. We hope that this annual report will enhance your understanding of the shift in our strategic focus—transforming Taiyo Nippon Sanso from an Asian market leader into a major global player—and our efforts to achieve renewed growth. In all our efforts, we look forward to your further guidance and support.

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

June 27, 2008

Hiroshi Taguchi
Chairman

Hirosuke Matsueda
President

Operating Highlights in Fiscal 2008

- Record-high results across the board
- Consolidated net sales: ¥507,718 million; operating income: ¥38,783 million; net income: ¥21,930 million

Key Acquisitions

- Fiscal 2007: Nippoku Sanso K.K. (Japan), Linweld Inc. (U.S.), helium business of the former BOC Group plc (U.S.)
- Fiscal 2008: Kariya Sanso K.K. (Japan), Five Star Gas & Gear, Inc. (U.S.)

Principal Business Integrations

- Nippon Ekitan Corporation (carbon dioxide gas business)
- Shikoku Taiyo Nippon Sanso Co., Ltd. (gas business)
- Saan-Tech Corporation (welding equipment and gas business)

Strategic Themes

- Accelerate growth and achieve commensurate increase in income
- Promote further globalization
- Implement cost-cutting measures
- Strengthen Group management

Topics

- U.S. joint venture with Air Products and Chemicals, Inc., plans to begin production of helium
- Agreement signed with SKC Co., Ltd., to establish first industrial gas joint venture in South Korea
- Official approval secured to establish industrial gas production and sales business in China's Dalian Changxing Island Harbor Industrial Zone

Special Feature

New Medium-Term Business Plan

Stage 10: The Challenge of Becoming a Global Player (II)

- *Building on our achievements under our previous medium-term business plan, Global 5000: Stage I, Taiyo Nippon Sanso continues to rise to the challenge of becoming a major global player.*

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Duration

- Fiscal 2009–Fiscal 2011 (three years)

"Triple 10"

- Achieve a global market share of 10%
- Secure an operating margin of 10% or higher
- Maintain an ROCE* of at least 10%

* As a measure of efficiency

Performance Targets

- Consolidated net sales of at least ¥600,000 million
- Consolidated operating income of at least ¥54,000 million (¥56,000 million*)

* Excluding goodwill resulting from a change in accounting procedures

Four Strategic Themes

- Accelerate growth and achieve commensurate increase in income
- Promote further globalization
- Implement cost-cutting measures
- Strengthen Group management

Seven Specific Strategies

(1) Allocate management resources and strengthen our presence in growing markets and regions

Electronics

Taiyo Nippon Sanso will establish the Sakai Gas Center as part of a "manufacturing complex for the 21st century" to be established in Sakai, Osaka. The Sakai Gas Center will begin producing and supplying industrial gases in fiscal 2010 and will position Taiyo Nippon Sanso to step up its efforts in the growing liquid crystal display (LCD)-, semiconductor- and solar cell-related markets.

North America

The acquisition of Southern California's Five Star Gas & Gear, Inc., will enable Taiyo Nippon Sanso to reinforce its operations in that state. The Company will also begin construction of two major air separation plants in the United States, in Iowa and Texas, and commence production of helium in the state of Wyoming. Such efforts will help strengthen the Company's operations in North America.

China/Asia

In China, Taiyo Nippon Sanso signed an agreement to manufacture industrial gases in the Dalian Changxing Island Harbor Industrial Zone. In South Korea, the Company has signed an agreement with local firm SKC Co., Ltd., to establish its first joint venture for piping major gases in that country. In July 2007, subsidiary National Oxygen Pte. Ltd., in Singapore, commenced operations at its third air separation plant, while in February 2008 subsidiary Ingasco Inc. in the Philippines brought its second air separation plant on line. These and other efforts underscore the importance of Asia—particularly China—and the Company thus plans to continue making strategic investments in this region.

(2) Strengthen upstream strategies

In addition to helium production in the United States, the Company will attempt to position itself as an upstream manufacturer of special and rare gases used in the electronics industry, thereby enabling it to expand into new business areas.

(3) Promote M&As

Taiyo Nippon Sanso will seek out favorable M&A opportunities that align with its business strategies both in Japan and overseas.

(4) Cultivate and expand new business areas

By building on its basic and applied technologies, the Company will endeavor to stimulate new demand for gases, as well as cultivate and expand new businesses.

(5) Implement cost-cutting initiatives

Improve efficiency and optimize logistics

The Company will reexamine logistics from the ground up, with the aim of enhancing efficiency and optimizing procedures.

Improve efficiency of plants

Recognizing the reduction of costs as crucial to further enhancing its global competitiveness, Taiyo Nippon Sanso will implement initiatives across all aspects of its operations, from planning and design through to manufacturing and maintenance, and will endeavor to raise efficiency and optimize practices by promoting production and procurement overseas.

(6) Reinforce Group management

Integrate and reorganize sales and production bases

Taiyo Nippon Sanso will promote the integration and reorganization of subsidiaries with common business portfolios. Example: Refilling stations in Kawaguchi, Saitama, will be integrated.

Consolidate and integrate affiliated companies

The Company will continue to promote consolidation and integration in a bid to strengthen the functions and roles of its affiliated companies. Example: In October 2007, the Company merged its carbon dioxide gas business with those of Nippon Tansan Co., Ltd., and Ekika Carbon Dioxide Co., Ltd., in a horizontal integration that led to the establishment of Nippon Ekitan Corporation, Japan's largest carbon dioxide gas manufacturer. This move was aimed at maximizing synergies between the two companies and ensuring increased profitability for the merged entity.

(7) Cultivate human resources

Foster human resources capable of supporting globalization

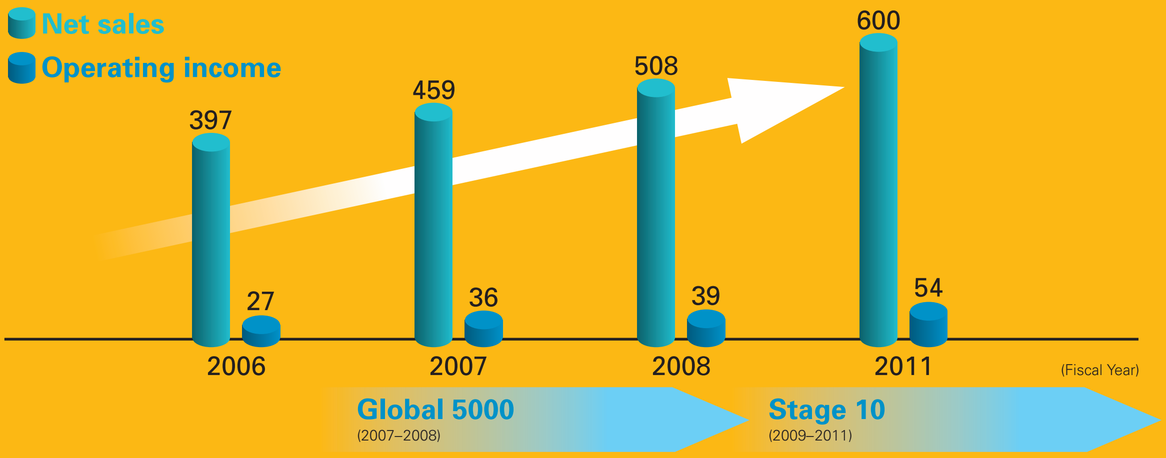
Taiyo Nippon Sanso will initiate training programs to improve management skills and build expertise, enabling it to cultivate human resources capable of functioning in a global business environment.

Maximize human resources throughout the Group

The Company will strive to maximize the capabilities of its employees throughout the Taiyo Nippon Sanso Group.

Progress in Achievement of Performance Targets

- **Net sales:** **¥600,000 million +**
- **Operating income:** **¥54,000 million +**
- **ROCE:** **10% +**



Q. Your new medium-term business plan sets forth three key indicators, which are referred to as the "Triple 10." What are these and why were they chosen?

A. The "Triple 10" were chosen to gauge our success in maintaining an optimum balance among growth, profitability and efficiency. These indicators are a global market share of 10%, selected as a measure of growth; an operating margin of 10% or higher, as a measure of profitability; and an ROCE of at least 10%, as a measure of efficiency. In fiscal 2008, the Taiyo Nippon Sanso Group was the world's fifth-largest industrial gas producer, with a global market share of approximately 7%. The top four companies in the market all have shares in excess of 10%. Accordingly, this is the minimum we must aspire to if we are to be recognized as having joined the top ranks globally. Our previous medium-term business plan was designed as the first stage in the process of our evolution into the first Asian-born major global player. Under our new plan, which began in April 2008, we aim to accelerate our progression to the next stage.

Q. Can you tell us a little about the new plan's seven specific strategies?

A. The seven specific strategies are designed to address the challenges necessary for us to progress to the next stage.

To grow Taiyo Nippon Sanso into a company that stacks up well alongside existing major global players, we must step up efforts to grow and expand our core businesses. To this end, we will decisively allocate management resources and strengthen our presence in growing markets and regions. Growth industries include electronics, which encompasses semiconductors, LCDs, solar cells and light-emitting diodes (LEDs), while growth regions encompass both established markets, notably the United States, and such emerging markets as Asia, including China. We must also aggressively leverage our basic and applied technologies to cultivate new demand for industrial gases, as well as expand into new business fields. Additionally, in the area of electronic materials gases, we intend to further broaden our focus to include upstream businesses, which we believe will help us expand operations and bolster our competitiveness. One example of efforts to date is our helium gas refining and liquefaction business in the United States.

Another key strategy will be to improve the efficiency of Group management, which we recognize as crucial to reinforcing our operating foundation. In Japan, we will continue to promote the integration and reorganization of our subsidiaries and affiliates to maximize their respective strengths, regional characteristics and business attributes with the aim of reinforcing their functions and roles and optimizing efficiency.

Stage

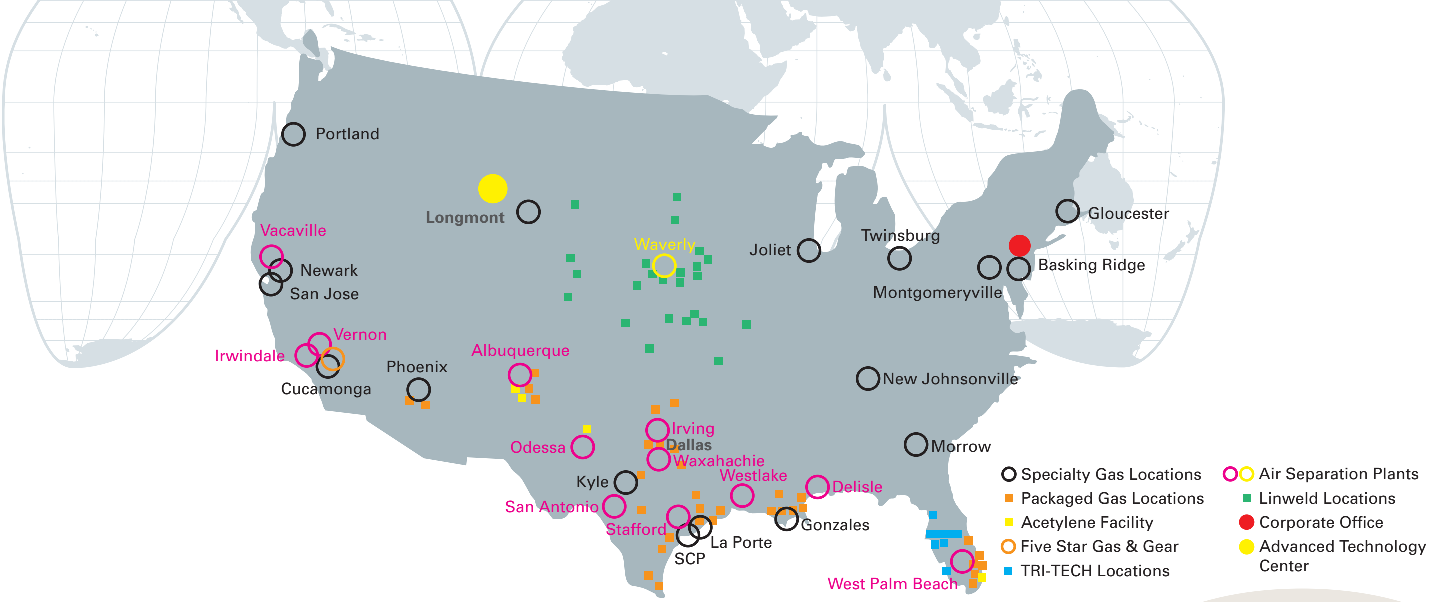
Q. What are your strategies for upstream businesses?

A. A good example to illustrate our strategies is electronic materials gases, which are used in the manufacture of semiconductors and solar cells, among others. Rather than simply sourcing gases for distribution to end-users, we are exploring the possibility of producing these gases ourselves. Our current business model positions us as a middleman, and we are quite literally stuck in the middle, with very little recourse in the event of an unexpected problem with the manufacturer. Establishing ourselves as a producer of electronic materials gases will position us better to respond to fluctuations in demand, as well as make us more cost-competitive. We are currently in negotiations with manufacturers with the technology for producing monosilane gas, for instance, which is expected to see a huge increase in demand for use in the manufacture of solar cells. We are looking to establish ourselves as a producer of monosilane gas—as we have already done for helium gas—thereby securing us a position further up the supply chain. To this end, we are expanding the production capacity of pertinent facilities in Japan and overseas.

Q. Is it fair to say that the current strong performance of your helium gas business is evidence that your strategy of expanding upstream businesses through M&As has been a success?

A. Consumption of helium gas by major end-users, including manufacturers of optical fibers, semiconductors and LCD panels, continues to expand rapidly. Our acquisition last year of the helium gas business of the former BOC Group plc has already yielded considerable results, enabling us to capitalize on demand. We are also currently in the process of establishing a helium gas production facility in the U.S. state of Wyoming in a joint venture with Air Products and Chemicals, Inc., a major U.S. gas provider. The new facility will process natural gas from a nearby gas field.

Promote Ambitious M&A Strategy



Q. Is the primary focus of your M&A strategy also growth industries and growth regions?

A. Yes, it is. In considering M&A opportunities, our basic concern is to ensure effective investments in growth industries and growth regions. In the United States, which is a massive market, our focus is on mid-tier, independent gas distributors. Asia, including China, is also crucial. We continue to actively seek out M&A potential candidates based on scale and business portfolio, but we do not pursue hostile takeovers. We prefer to take the time necessary to negotiate in good faith. I believe firmly that the success of any M&A deal is evidence of an honest, upfront approach.

Stage

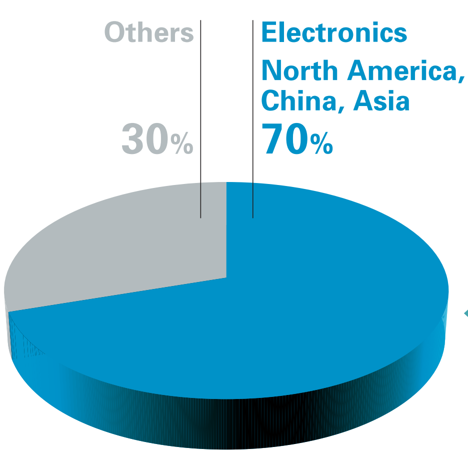
Q. What steps will you take to lower costs?

A. We are already implementing a number of cost-cutting initiatives. By reducing the cost of transporting liquefied gas by tanker truck, we are working to enhance the efficiency of logistics. In the past, tanker trucks would go to a weigh station after filling, increasing the distance and time required for delivery. With the aim of increasing the efficiency of tanker truck transport, we have installed liquefied gas load indicators (LIs) in 90% of our tanker trucks. We have set a target for reducing consumption of fuel for transport per unit of product delivered of 30% from the fiscal 1991 level. In addition to installing liquefied gas LIs in all of our tanker trucks to shorten the distance trucks must travel and reduce fuel consumption, we are also introducing energy-efficient driving, multidrop deliveries and other environment-friendly approaches. We are also working to reinforce our competitiveness in global markets by expanding local production and procurement.

Q. Your new medium-term business plan calls for ongoing strategic investments. What are your investment plans at present?

A. Under the new plan, we plan to make strategic investments of ¥200,000 million over three years. Of this total, 70%, or ¥140,000 million, has been earmarked for investments in growth industries and growth regions. We plan to invest ¥85,000 million in electronics-related businesses and ¥68,000 million in overseas businesses, including ¥13,000 million in electronics-related businesses.

Focus Allocation of Management Resources in Growing Markets and Regions



Maintain Strategic Investments

Concentrated investment of ¥140,000 million to growing markets and regions

Q. Can you tell us a bit about your plans to invest in the construction of a major industrial gas distribution facility at Sharp Corporation's new manufacturing complex for the 21st century in Sakai, Osaka?

A. We secured an order to build a facility at the complex in a joint venture with a local manufacturer, taking a majority ownership. The joint venture will build bulk gas production and distribution facilities to supply bulk gases, while Taiyo Nippon Sanso alone will be responsible for the construction of electronic materials gas production-related peripheral facilities to supply such specialty gases on our own. Sharp, a leading manufacturer of LCDs and solar cells, and Taiyo Nippon Sanso have enjoyed a long relationship built on mutual trust, and we look forward to an increase in Sharp-related demand in the years ahead.

Q. In closing, can you tell us about your efforts to ensure appropriate returns to shareholders on their investment and to promote corporate social responsibility (CSR) management?

A. On the first question, we will strive to sustain a high level of growth through decisive, ongoing strategic investments, while endeavoring to maintain returns to shareholders in line with a target consolidated payout ratio of at least 25% of net income. We will determine actual returns based on a comprehensive assessment of various factors, including our consolidated operating results and future investment plans.

To promote CSR management, we have outlined three key themes. The first theme is thoroughgoing efforts to ensure product safety, security and quality. The second is total compliance, which we will strive to address by establishing a system of effective internal controls. The third theme is efforts to help prevent global warming, which includes efforts to reduce the environmental impact of our operations. In fiscal 2006, annnual greenhouse gas (CO_2) emissions by the Taiyo Nippon Sanso Group totaled 2,153 thousand tons, of which 98% was accounted for by gas production facilities. These facilities are implementing initiatives, including developing new gas production technologies to lower electricity usage and installing liquefied gas LIs in tanker trucks to reduce CO_2 emissions during transport. We have also developed a number of products designed to reduce the environmental impact of our operations, including SaanBurner, a combustion-type emissions processing unit, and MG Shield, a cover gas for fireproofing smelted magnesium alloy, which have facilitated an annual reduction in CO_2 emissions of 385,000 tons.

We remain committed to earning the trust of our customers and society by ensuring the sustainability of our business activities. At the same time, we will promote strategic investments in Japan and overseas to ensure ongoing growth. Through these efforts, we will endeavor to increase corporate value and achieve our goal of becoming a major global player, thereby allowing us to respond to the expectations of our customers, partners, employees and shareholders.

Segment Overview

Gas Business

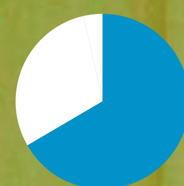
In fiscal 2008, shipments and sales of mainstay oxygen were up from fiscal 2007, supported by increased demand from the steel, chemicals and shipbuilding industries, among others. Shipments and sales of nitrogen also rose, reflecting continued, brisk capital investment in a variety of industries, including electronics, chemicals, steel and food processing. Shipments and sales of argon were bolstered by expanded production of silicon crystals, as well as by increased demand for use in steel smelters and welding applications.

Shipments and sales of other industrial gases rose sharply. Shipments and sales of carbon dioxide to the shipbuilding and automobile industries remained firm. Shipments of helium to semiconductor and optical fiber manufacturers were robust. An acquisition in the United States in the previous fiscal period succeeded in expanding the Group's business there. Shipments of electronic materials gases rose sharply as extensive investment by semiconductor and LCD manufacturers to increase capacity utilization boosted demand in the domestic electronics industry, while demand remained brisk in Taiwan, China and elsewhere in east Asia.

Owing to these and other factors, sales to outside customers in the Gas Business rose 10.8%, to ¥338,347 million, and operating income advanced 14.6%, to ¥30,945 million.

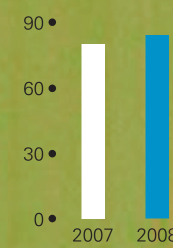
Sales Share

Years ended March 31
¥338,347 million
(66.6% of net sales)



Net Sales per Employee

Years ended March 31
(Millions of yen)



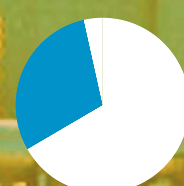
Plant and Gas Equipment Business

Sales of electronics-related equipment were brisk in fiscal 2008, benefiting from significant investment as semiconductor and LCD manufacturers built new production facilities and expanded existing capacity. In contrast, sales of chemical compound semiconductor fabrication equipment were down, retreating after the fulfillment of a major order at the end of fiscal 2007. Sales of cutting and welding equipment were robust, led by strong sales of laser cutting equipment and numerically controlled (NC) cutters in Japan and overseas, a consequence of rising capacity utilization rates in the steel, shipbuilding and construction equipment industries, and the addition of the sales of Linweld Inc., acquired in the previous period. Persistently healthy capital investment in the domestic electronics and steel industries and firm demand in South Korea and Taiwan supported solid sales of air separation plants.

As a consequence, sales to outside customers in the Plant and Gas Equipment Business rose 10.8%, to ¥151,717 million, and operating income declined 10.5%, to ¥10,400 million.

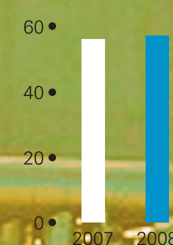
Sales Share

Years ended March 31
¥151,717 million
(29.9% of net sales)



Net Sales per Employee

Years ended March 31
(Millions of yen)



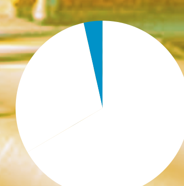
Housewares Business and Others

Thermos K.K. spearheads the manufacture and sale of housewares products. In fiscal 2008, sales of these products rose substantially as favorable weather supported an increase in shipments of vacuum insulated sports bottles, and sales of personal-sized insulated mugs and thermal cookers were strong.

As a result, the segment reported an 8.6% increase in sales, to ¥17,653 million, and a 6.0% increase in operating income, to ¥1,932 million.

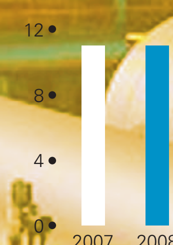
Sales Share

Years ended March 31
¥17,653 million
(3.5% of net sales)



Net Sales per Employee

Years ended March 31
(Millions of yen)



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

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

Topics
- Expanded industrial gases business
- Focused on marketing high-grade welding gas mixtures
- Increased investments in Asia
- Commercialized cleaning gas that reduces emissions of CO_2 by 2/3 compared with standard cleaning gases

R&D Highlights
- Launched project to unify strategies for developing new products and expanding sales of gases and related equipment, focusing on gases used in low-temperature applications, welding, incineration and heat treatment, as well as new applications and overseas operations
- Launched sales of newly developed MG Shield, a cover gas for fireproofing smelted magnesium alloy with a global warming potential (GWP) of 1; MG Shield was awarded the Ozone Layer Protection and Global Warming Prevention Award from the Ministry of Economy, Trade and Industry (METI)
- Commenced joint development of next-generation semiconductor process technologies with International Business Machines Corporation (IBM)

Main Products
- Large-scale air separation plants
- Compact nitrogen generators
- High-purity gas production equipment
- Exhaust gas processing equipment
- MOCVD equipment
- Cutting and welding equipment

Topics
- Built new air separation facility in California
- Established Yahata Kyodo Ekisan K.K., with Nippon Steel Corporation
- Commenced operation of the Japan Hydrogen & Fuel Cell Demonstration Project's Funabashi Hydrogen Station
- Developed exhaust gas abatement system with a 60% higher combustion efficiency than previously offered systems

R&D Highlights
- Conducted R&D aimed at developing products especially for newly installed production lines for 300-mm diameter wafers, and at providing solutions tailored to the requirements of eighth-generation and later thin-film transistor (TFT) LCD and solar battery panel production lines
- Promoted plans for the construction of a pilot plant and testing program aimed at commercializing and increasing the scale of energy-conserving air separation plant incorporating a heat-integrated distillation column
- Focused on developing technology for collecting and reusing hydrogen gas given off by a petroleum refinery and petrochemical production facility in Chiba
- Developed world's first high-capacity −200°C refrigeration unit

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

Topics
- Introduced four new designs to its lineup of highly popular insulated sports bottles
- Introduced three new dishwasher-safe insulated lunchboxes for Japanese-style boxed lunches
- Introduced two new insulated mugs for office use and two coffee makers with insulated pots

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

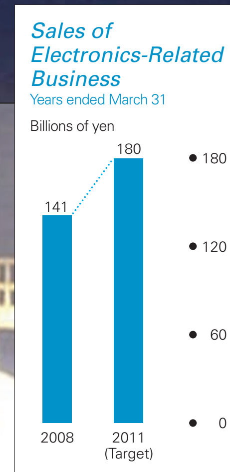
Electronics-Related Business

Advances in semiconductor device integration and the use of thin films in semiconductors, together with the increasing size of liquid crystal display (LCD) panels and the expanding markets for semiconductors in digital appliance and automotive markets, are highlighting the need for electronics-related firms to achieve higher quality and production efficiency. Taiyo Nippon Sanso helps such firms by supplying via pipeline high-purity nitrogen, an inert gas that is essential to semiconductor device, LCD and other fabrication processes. We also deliver stable supplies of electronic materials gases used in film deposition and other processes and are well positioned to respond to increases in demand.

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

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

Fiscal 2008 sales	Approximately ***¥140,800 million***
Principal products and operations	High-purity nitrogen and argon Electronic materials gases, including Safe Delivery Source (SDS) MOCVD equipment Gas purification, abatement and other systems High-purity gas supply facility installation and construction
Market needs	Comprehensive gas supplies Total gas and equipment solutions
Competitive advantages	***Strong ties with domestic electronics manufacturers*** • Close relationships with users who employ advanced technologies • Superior marketing strength through the provision of total solutions for gas and equipment • Comprehensive, world-class technologies • Engineering operations and gas center network • Supply structure covering key world markets—Japan, east Asia (South Korea, China and Taiwan), Southeast Asia, the United States and Europe



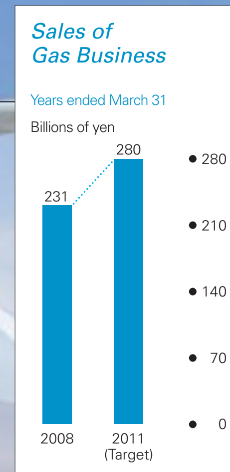
Fiscal 2008 highlights	• Transformed affiliate NS Engineering Corporation into a wholly owned subsidiary • Announced plans to build helium production joint venture with Air Products and Chemicals, Inc., in the U.S. state of Wyoming • Commenced construction of Japan Helium Center Corporation's Kyushu Plant • Developed exhaust gas abatement system for transforming harmful semiconductor process gases into harmless gases with a 60% higher combustion efficiency than previously offered systems
Target	Sales of ***¥180,000 million*** in fiscal 2011
Principal activities	Taiyo Nippon Sanso's principal advantage is that it builds "total gas centers," encompassing high-purity nitrogen manufacturing facilities and electronic materials gas supply facilities on sites adjacent to semiconductor fabrication facilities, thereby enabling it to deliver a stable supply of high-quality nitrogen and materials gases. In the period under review, we launched joint venture Sakai Gas Center Co., Ltd., with a local manufacturer to supply a range of industrial gases to an LCD panel plant complex operated by Sharp Corporation. Another mainstay of this business is metal organic vapor deposition (MOCVD) equipment, used in the manufacture of gallium nitride compound semiconductors. Sales of MOCVD equipment are expanding in tandem with growth in the LED market. In the period under review, we released SR-23K, a MOCVD system that achieves a balance between volume and quality/uniformity, an optimal process window and high-speed wafer growth. The Company also offers dedicated peripheral equipment for all other processes, enabling it to provide total solutions. Looking ahead, our principal R&D strategy will be to reinforce our sales and technological capabilities as the leading provider of electronics-related gases and to concentrate efforts in growth areas, including flat-panel displays (FPDs) and compound semiconductors. At the same time, we will invest in development and sales activities to accommodate the different priorities of individual customers.

Gas Business

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

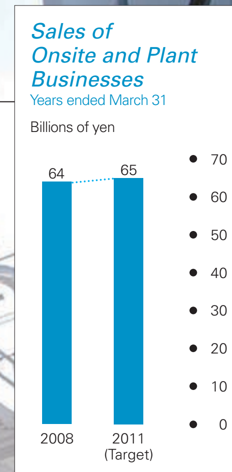
We have built a strong technological base over many years, gaining particular expertise in low-temperature, high-pressure, separation, vacuum and gas control technologies. Drawing on these capabilities, we provide a diverse range of equipment for the manufacture, supply, transport and storage of various types of gases. In these ways, we help industrial customers enhance their productivity and quality while supporting efforts to improve the environment. In addition to maintaining the largest industrial gas supply network in Japan, we are expanding our manufacturing and supply bases in the United States as well as China and other parts of Asia.

Fiscal 2008 sales	Approximately ***¥231,400 million***
Principal products and operations	Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium and other industrial gases Gas supply (filling, transport, storage) equipment, facilities installation and construction Gas equipment (including for cutting, welding, combustion and freezing)
Market needs	Use of gases to raise productivity, enhance quality, save energy and enhance the environment Optimal, stable, economic supply of gases
Competitive advantages	*Japan's largest and strongest industrial gas producer, offering increased cost advantages and price competitiveness* • Production and supply capabilities • Balanced, nationwide network of production bases • Logistics capabilities Approximately 500 filling stations capable of serving approximately 40% of the domestic market Tanker truck fleet and extensive network of shipping bases Growing marketing network, including around 250 sales agents *Further strengthening of operations in China and other parts of Asia, as well as in the United States* • Signed agreement to manufacture industrial gases in China's Dalian Changxing Island Harbor Industrial Zone • Established unassailable market positions in Vietnam, the Philippines and Singapore • Launched U.S. business on an independent growth trajectory, led by Matheson Tri-Gas *High market shares for other industrial gases* • In Japan, No. 1 in carbon dioxide and helium and No. 2 in acetylene



Fiscal 2008 highlights	• Signed agreement to establish gas supply business in China's Dalian Changxing Island Harbor Industrial Zone • Commenced operation of new air separation plants in Singapore and the Philippines • Acquired Five Star Gas & Gear, Inc., of southern California, via Matheson Tri-Gas • Launched Shikoku Taiyo Nippon Sanso Co., Ltd. • Reinforced stable supply structure for liquid argon
Target	Sales of ***¥280,000 million*** in fiscal 2011
Principal activities	As Taiyo Nippon Sanso's main profit source, this business continues to expand rapidly, supported by the efforts of other businesses. Our basic marketing policy focuses on five tasks: establish an earnings foundation worthy of the top name in the industry; cultivate gas use technologies in growth areas; reinforce our network of sales and distribution agencies throughout Japan; promote the optimization of filling stations; and globalize our operations. At the same time, we will continue to pay close attention to the opinions of our partners and customers. In line with this policy, we have developed a business strategy and development approach that focus on maintaining and eventually expanding demand for bulk gas. The growth engine behind this will be our ability to maintain existing customers and demand while cultivating new customers and demand, as well as to continue supplying gases to Japanese firms establishing operations overseas, wherever these operations may be. The biggest challenge to growing our gas business is the difficult market environment in Japan, which reflects a tight supply-and-demand situation for argon, helium and rare gases in the domestic market and rising prices for helium imports. Accordingly, we recognize the urgent need to reinforce our stable supply structure as a market leader. We will also endeavor to adjust gas prices as necessary to reflect increased facility investments and rising logistics costs and energy costs.

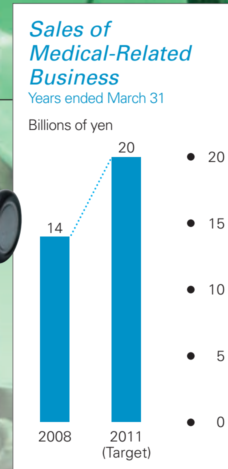
Onsite and Plant Business



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 Nm^3 of gas per hour. We also provide stable supplies of oxygen and nitrogen through our pipelines. Our onsite business operates around the clock every day of the year, ensuring consistent supplies of large volumes of industrial gases and earning us the trust of steelmakers and chemical manufacturers.

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

Fiscal 2008 sales	Approximately ***¥64,300 million***
Principal operations	Onsite: Supplies of oxygen, nitrogen, argon and other gases 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
Competitive advantages	***With onsite and plant businesses, Taiyo Nippon Sanso can provide support for both plants and engineering on a global scale, drawing on its capabilities as a manufacturer of industrial gases*** • Ability to optimize facilities and operating efficiency
Fiscal 2008 highlights	• Received healthy orders from steelmakers, electronics manufacturers and overseas customers • Commenced operation of sixth state-of-the-art air separation plant at Oita Sanso Center Co., Ltd. • Established SKC Airgas Inc., a joint venture with SKC Co., Ltd., of South Korea • 27-month order backlog for plants as of March 31, 2008
Targets	• Sales of ***¥65,000 million*** in fiscal 2011 • Secure new demand for gases and expand sales in overseas markets; endeavor to expand scale by reducing plant costs per unit of production



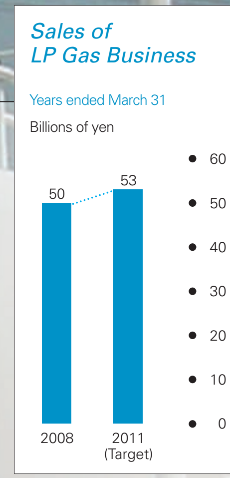
Medical-Related Business

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

Fiscal 2008 sales	Approximately ***¥13,800 million***
Principal products	Medical-related oxygen and other gases Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors Stable isotopes
Market needs	Quality control and assurance for medical-use gases Mass production and ongoing supply of stable isotopes used in cancer diagnostic agents
Competitive advantages	*Production and sales of pharmaceutical ingredients for positron emission tomography (PET) diagnostics* • Strong position as 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 *Reliable systems for manufacture and sales of pharmaceutical products* • Continue to gather safety information and data
Fiscal 2008 highlights	• Positive market evaluation of maintenance and inventory management services for HOT equipment, based at the Total Medical Support Center • Increase in sales and rentals of HOT equipment and system software • Steady gains in sales of biotechnology-related equipment to research institutions and increase in share of market for cryopreservation equipment • Commenced sales of DOMIWS infectious medical waste disposal systems to hospitals through a business alliance with Koike Medical Co., Ltd.
Targets	• Sales of ***¥20,000 million*** in fiscal 2011 • Expand sales of stable isotopes and seek out M&A opportunities that will strengthen medical gas and equipment businesses

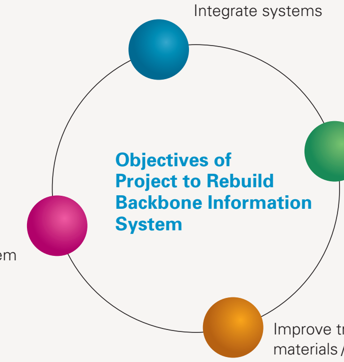
LP Gas Business



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 tanker truck deliveries of bulk LP gas to the design and installation of air conditioning and cogeneration systems.

The Taiyo Nippon Sanso Group sells LP gas for household heating, hot water and air conditioning use through 94,000 direct sales outlets located throughout Japan. Our energy business will likely become a focus of attention in the years ahead as fuel cells proliferate the residential market.

Fiscal 2008 sales	Approximately ***¥50,000 million***
Principal products and operations	Supply of LP gas for residential and industrial customers Annual unit sales of around 450,000 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
Competitive advantages	*450,000 tons (ranked 6th in Japan)*
Fiscal 2008 highlights	• Merged LP gas affiliates to form Taiyo Nippon Sanso Energy Kanto Co., Ltd. • Strengthened procurement capabilities by exploiting Groupwide economies of scale
Targets	• Sales of ***¥53,000 million*** in fiscal 2011 • Expand cogeneration business; increase network to 100,000 direct sales outlets through M&As and other initiatives



Corporate Governance

Taiyo Nippon Sanso strives continuously to enhance its corporate governance system with the aim of improving transparency and ensuring governance practices to suit its business model.

The Company's management structure centers on the Board of Directors, which consists of 16 directors, and four standing corporate auditors, including one outside director and two outside standing auditors. During fiscal 2008, the Board of Directors met 13 times, and the attendance rate of the outside director, who is a director of Mitsubishi Chemical Holdings Corporation, was approximately 69%.

To determine compensation for directors, Taiyo Nippon Sanso has introduced a scheme that comprises regular monthly stipends, as well as performance- and dividend-linked compensation. This system is designed to ensure directors act in the interest of shareholders. In the period under review, compensation for directors amounted to ¥840 million.

To accelerate decision making, the Company has also established a Management Committee as a key decision-making body under the Board of Directors.

Taiyo Nippon Sanso has engaged Ernst & Young ShinNihon as its independent auditors. The independent auditors are responsible for expressing its opinion on the accuracy of the financial statements prepared by the Company based on its own audit.

Internal Controls System

As a framework for Companywide, cross-business risk management, Taiyo Nippon Sanso has established the Risk Assessment and Technology Risk Management committees within its Internal Controls Committee. These committees are tasked with periodically reviewing the rationality of the Company's risk management system and carefully monitoring the system's effectiveness.

Taiyo Nippon Sanso recognizes the need to manage risks in four main categories: security, safety, product quality and the environment. To manage technology-related risks, primarily in these categories, the Company has formulated Technology Risk Management Guidelines and established a Technology Risk Management Committee to oversee related risk management efforts Companywide.

To ensure it remains a solid corporate citizen respected by society, Taiyo Nippon Sanso has published the Taiyo Nippon Sanso Group Code of Conduct, which outlines standards of conduct to be observed by all employees pertaining to compliance with laws and ordinances, corporate ethics and internal regulations. To enforce this code, the Company has established a Compliance Committee within its Internal Controls Committee.

To ensure the propriety of its financial reports, Taiyo Nippon Sanso established a system of internal controls that is designed to monitor the effective functioning of current business processes. The Corporate Administration Department is responsible for overseeing the operation of this system, which came into effect on April 1, 2008.

In response to the need to ensure the consistency of data and the compliance of its systems, including its internal controls system, Taiyo Nippon Sanso launched a project to rebuild its backbone information system. This project will see the Company introduce SAP ERP, an enterprise resource planning system developed by SAP AG of Germany that will integrate its sales, procurement, production, accounting and personnel systems databases, thereby facilitating the coordinated management of core business resources (personnel, products, capital and information). The new system is scheduled to come on line in August 2008.

Contributing to the Prevention of Global Warming

Taiyo Nippon Sanso's corporate philosophy encapsulates its commitment to contributing to the creation of a more affluent society through its gas technologies. As this implies, the Company recognizes consideration for the environment as an inherent aspect of its operations.

In one example of this commitment in practice, Taiyo Nippon Sanso—having recognized that its tanker trucks traveled a total of 46 million kilometers in fiscal 2007—implemented measures to improve the efficiency of its logistics practices, including improving fuel efficiency and amending driving patterns. The Company also promoted the installation of load indicators (LIs) in its tanker trucks to change the way liquefied gas is measured, thereby eliminating the need for tanker trucks to stop at weigh stations. In addition to shortening the distance tanker trucks must travel and reducing the impact of logistics on the environment, this move was also important in realizing a reduction in transport costs. LIs have been installed in approximately 90% of Taiyo Nippon Sanso's tanker trucks. As a consequence, the Company aims to achieve a reduction in its consumption of fuel for transport per unit of product delivered of 30% from the fiscal 1991 level by fiscal 2011. To this end, the Company will strive to secure the cooperation of customers in accepting its new approach to measuring volume, reinforcing inventory management, agreeing to an increase in size of daily deliveries and accommodating less-specific delivery schedules. Having done so, Taiyo Nippon Sanso will then also introduce energy-efficient driving, multidrop deliveries and other environment-friendly approaches. In addition to reducing fuel consumption, such steps will also facilitate a reduction in CO_2 emissions.

Taiyo Nippon Sanso is also striving to reduce its impact on the environment by becoming as close to a carbon neutral organization as possible. To this end, the Company is focusing efforts on developing environment-friendly products and reducing emissions resulting from its business activities.

Impact of Environment-Friendly Products on Greenhouse Gas Emissions in Fiscal 2006

Greenhouse gas emissions (CO_2 equivalent)*	2.153 million tons
Reduction of greenhouse gas emissions attributable to environment-friendly products**	380,000 tons

* Emissions due to consumption of electricity by gas production facilities, offices and others; consumption of fuel; emissions of chlorofluorocarbons
** Environment-friendly products: SaanBurner, MG Shield, SCOPE-JET

Fuel Cells

A participant in the Japan Hydrogen & Fuel Cell (JHFC) Demonstration Project, Taiyo Nippon Sanso is working to develop hydrogen stations to service fuel cell vehicles (FCVs). The Company has secured contracts to build three of four pilot hydrogen stations—two stationary and one mobile—to test a proprietary dispenser that can charge hydrogen at 70 MPa. This dispenser will make it possible for FCVs to travel approximately 830 kilometers on one charge. Looking ahead, the Company will continue to leverage its hydrogen transport and cryogenic technologies to develop lower-cost, smaller dispensers, with the eventual aim of developing packaged offsite hydrogen stations.

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
Yutaka Kurosawa
Kenichiro Ebisawa
Fumio Hara
Toyoo Go
Masashi Yamashita
Kenichi Kasuya

Managing Directors
Toshio Sato
Akira Ito

Executive Directors
Ryuichi Tomizawa *1
William J. Kroll

Corporate Auditors

Toshiro Hatagami
Kiyoshi Fujita
Keiichi Kiyota *2
Shigeru Koyama *2

Corporate Officers

Corporate Executive Officers
Shinji Tanabe
Yoshihisa Shibata
Kunishi Hazama
Tadashige Maruyama
Shigeto Umatani
Yoshikazu Yamano
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada

Corporate Officers
Shuichi Yoshida
Masakazu Naruo
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shinichiro Hiramine
Akihiko Umekawa
Akira Nishimoto
Keiki Ariga
Masahiro Imagawa
Tetsuya Nakayama
Yoshihiro Koyama
Masami Sakaguchi
Yoichi Washizu
Susumu Naka
Yoshihide Kenmochi
Yuki Hajikano
Shigenobu Somaya
Jun Ishikawa
Takashi Tatsumi
Masahiro Sakamoto

(As of June 27, 2008)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Analysis of Operating Results and Financial Position

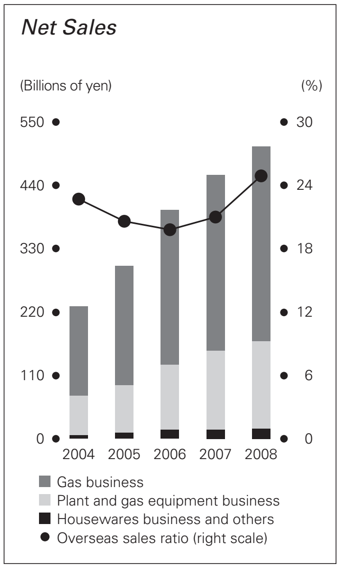
Scope of Consolidation and Application of the Equity Method

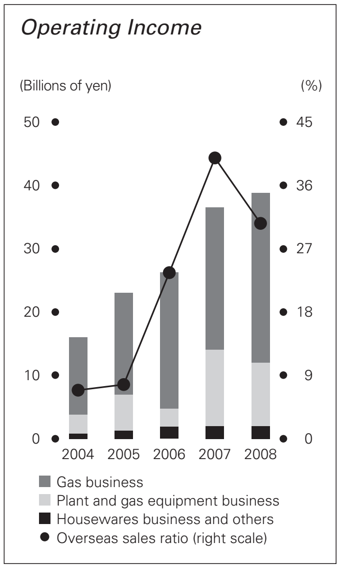
As of March 31, 2008, the Taiyo Nippon Sanso Group consisted of Taiyo Nippon Sanso Corporation (the parent company); 69 consolidated subsidiaries (41 based in Japan and 28 based overseas), up from the previous period due to the acquisition of Five Star Gas & Gear; and 29 equity-method affiliates (nine based in Japan and 20 based overseas).

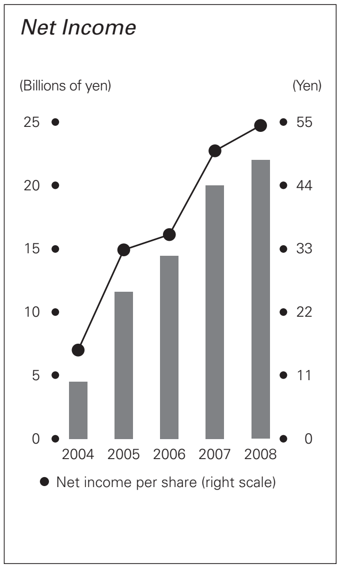
A total of 57 consolidated subsidiaries and 21 equity-method affiliates are accounted for in the Gas Business segment. The Plant and Gas Equipment Business segment comprises six consolidated subsidiaries, while the Housewares Business and Others segment encompasses six consolidated subsidiaries and eight equity-method affiliates.

Operating Results

In fiscal 2008, consolidated net sales amounted to ¥507,718 million, up 10.7% from fiscal 2007. Cost of sales rose 11.4%, to ¥351,789 million, and selling, general and administrative expenses increased 10.3%, to ¥117,145 million. As a consequence, operating income increased 6.3%, to ¥38,783 million, although the operating margin slipped 0.3 percentage point. Net income advanced 9.1%, to ¥21,930 million. Net income per share was ¥54.48, while return on capital employed (ROCE) was 10.8%, down 0.4 percentage point.







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

Financial Position

As of March 31, 2008, total assets amounted to ¥547,237 million, edging down 0.1% from the fiscal 2007 year-end. This result was largely attributable to a decline in short-term investments, a consequence of falling market prices. The current ratio rose 0.03 percentage point, to 1.25 times.

Property, plant and equipment, net, increased 3.4%, to ¥213,504 million, owing primarily to an increase in construction in progress. Total investments and other assets fell 13.1%, to ¥122,099 million, reflecting sluggish stock market conditions.

An increase of ¥9,025 million in short-term loans payable pushed total current liabilities up 2.3%, to ¥168,727 million. Total noncurrent liabilities declined 3.7%, to ¥160,695 million, primarily reflecting a decline of ¥7,295 million in deferred tax liabilities. As a consequence of these factors, interest-bearing debt rose ¥7,268 million, to ¥159,500 million.

Total net assets increased ¥1,745 million, to ¥217,813 million. As a consequence, the net assets ratio increased 0.5 percentage point, to 37.2%, and net assets per share rose ¥5.74, to ¥506.02.

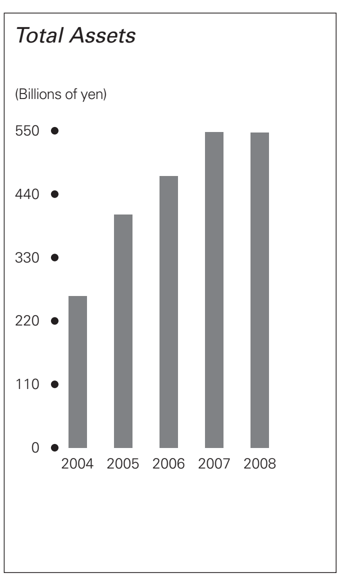
Cash Flow Analysis

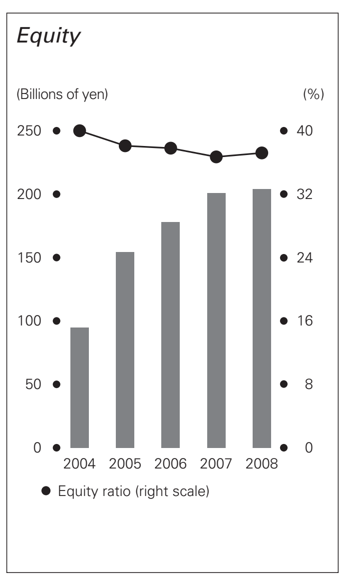
In fiscal 2008, net cash provided by operating activities amounted to ¥34,674 million, down ¥5,387 million. This result was attributable to such factors as an increase of ¥4,296 million in depreciation and amortization and a ¥9,272 million decrease in notes and accounts payable—trade. The interest coverage ratio was 10.3 times, compared with 16.1 times a year earlier.

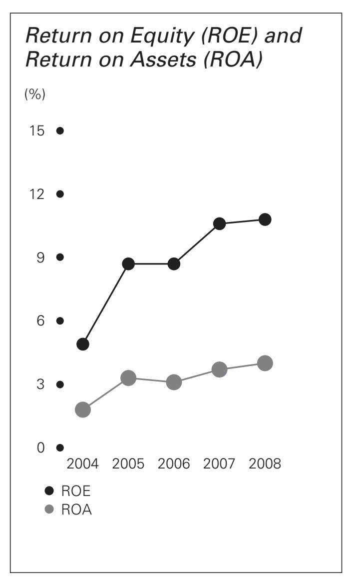
Net cash used in investing activities came to ¥40,330 million, down ¥25,956 million. Principal factors influencing this change were ¥33,991 million in payments for purchases of property, plant and equipment, essentially level with the previous period, and a sharp decline in purchases of investments in subsidiaries resulting from change in the scope of consolidation.

Net cash provided by financing activities amounted to ¥3,597 million, down ¥18,854 million from the previous period. This was largely a consequence of a decline in proceeds from long-term loans payable.

Owing to the Company's operating, investing and financing activities in fiscal 2008, cash and cash equivalents at end of the year totaled ¥12,709 million, ¥1,695 million lower than at the fiscal 2007 year-end.







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, 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 in other parts of Asia, including China. Political and economic changes in countries where the Company has operations may have an adverse impact on its 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 sells high-pressure gas-related products and handles toxic and flammable gases used in semiconductor fabrication. While the Company strives to ensure the effective management of related risks, it 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.

Legal Issues

Unanticipated changes to existing laws, the introduction of new laws and the tightening of environmental laws, particularly in countries overseas where the Company maintains operations, may negatively affect the Company's business performance.

Basic Policies for Maintaining Control Over the Company

Taiyo Nippon Sanso's basic policy regarding maintaining control over the Company was realized with the approval of a proposal to introduce countermeasures against large-scale acquisitions at the general meeting of the Company's shareholders on June 27, 2008.

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2008**	2007	2006	2005	2004	2003
Net sales	**¥507,718**	¥458,587	¥397,308	¥300,055	¥230,272	¥238,445
Operating income	**38,783**	36,488	26,788	20,727	14,317	10,313
Net income	**21,930**	20,094	14,444	11,568	4,541	4,263
Selling, general and administrative expenses/Net sales (%)	**23.1%**	23.2%	24.0%	24.5%	24.1%	24.8%
Return on equity (%)	**10.8%**	10.6%	8.7%	8.7%[2]	4.9%	4.7%
Return on assets (%)	**4.0%**	3.6%	3.1%	3.3%[2]	1.8%	1.6%
Capital expenditure	**36,260**	35,891	22,176	38,092	7,413	17,693
Depreciation and amortization	**25,506**	21,210	18,982	14,592	11,627	13,709
Research and development expenses	**2,903**	2,713	2,223	2,056	2,296	2,508
Interest-bearing debt	**159,500**	152,232	122,196	122,089	86,325	90,489
Total net assets	**217,813**	216,068	178,055	154,207	94,802	89,182
Total assets	**547,237**	547,791	471,602	404,668	263,595	253,698

	Yen					
Per share data:						
Net income[1]	**¥54.48**	¥49.93	¥35.45	¥32.76	¥15.38	¥14.36
Cash dividends	**12.00**	12.00	10.00	9.00	6.00	6.00

	Times					
Price earnings ratio	**14.65**	21.31	24.54	19.17	31.21	22.98

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

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

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

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

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 3)
March 31	**2008**	2007	**2008**
Assets			
Current assets:			
Cash and deposits (Note 4)	**¥ 12,971**	¥ 15,046	**$ 129,464**
Short-term investments (Notes 4 and 5)	**—**	291	**—**
Notes and accounts receivable—trade (Note 6)	**139,331**	132,759	**1,390,668**
Inventories (Note 7)	**41,472**	39,342	**413,934**
Deferred tax assets (Note 11)	**7,213**	6,186	**71,993**
Other	**11,624**	8,039	**116,020**
Allowance for doubtful accounts	**(979)**	(772)	**(9,771)**
Total current assets	**211,633**	200,892	**2,112,317**
Property, plant and equipment (Notes 9, 10, 18 and 19)	**542,900**	519,643	**5,418,705**
Accumulated depreciation	**(329,396)**	(313,257)	**(3,287,713)**
Property, plant and equipment, net	**213,504**	206,386	**2,130,991**
Investments and other assets:			
Investment securities (Note 5)	**58,764**	79,205	**586,526**
Long-term loans receivable	**1,685**	1,048	**16,818**
Intangible assets, net	**42,242**	41,691	**421,619**
Prepaid pension costs (Note 14)	**13,189**	12,984	**131,640**
Deferred tax assets (Note 11)	**2,149**	1,900	**21,449**
Other	**6,083**	5,941	**60,715**
Valuation allowance for investments	**(980)**	(1,282)	**(9,781)**
Allowance for doubtful accounts	**(1,033)**	(977)	**(10,310)**
Total investments and other assets	**122,099**	140,510	**1,218,675**
Total assets	**¥547,237**	¥547,791	**$5,461,992**

See notes to consolidated financial statements.

March 31	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 3) 2008
Liabilities and Net assets			
Current liabilities:			
Short-term loans payable (Notes 8 and 9)	**¥ 39,105**	¥ 30,080	**$ 390,308**
Notes and accounts payable—trade	**87,167**	95,344	**870,017**
Income taxes payable (Note 11)	**8,139**	8,317	**81,236**
Other	**34,314**	31,165	**342,489**
Total current liabilities	**168,727**	164,907	**1,684,070**
Noncurrent liabilities:			
Long-term loans payable (Notes 8 and 9)	**107,707**	106,595	**1,075,027**
Pension and severance indemnities (Note 14)	**4,719**	5,077	**47,101**
Deferred tax liabilities (Note 11)	**32,785**	40,080	**327,228**
Negative goodwill	**2,256**	1,452	**22,517**
Long-term lease obligations	**8,231**	9,433	**82,154**
Other	**4,994**	4,175	**49,845**
Total noncurrent liabilities	**160,695**	166,814	**1,603,903**
Contingent liabilities (Note 15)			
Net assets (Notes 12 and 21):			
Shareholders' equity:			
Common stock:			
Authorized—800,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**269,877**
Capital surplus	**44,911**	44,746	**448,258**
Retained earnings	**124,392**	107,495	**1,241,561**
Treasury stock, at cost—			
550,612 shares in 2008 and 719,203 shares in 2007	**(362)**	(376)	**(3,613)**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**12,839**	24,982	**128,147**
Deferred gains or losses on hedges	**(194)**	56	**(1,936)**
Foreign currency translation adjustments	**(4,769)**	(2,535)	**(47,600)**
Accumulated other comprehensive loss	**(161)**	(111)	**(1,607)**
Minority interests	**14,117**	14,770	**140,902**
Total net assets	**217,813**	216,068	**2,173,999**
Total liabilities and net assets	**¥547,237**	¥547,791	**$5,461,992**

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	**2008**	2007	**2008**
Net sales	**¥507,718**	¥458,587	**$5,067,552**
Cost of sales (Note 17)	**351,789**	315,863	**3,511,219**
Gross profit	**155,928**	142,724	**1,556,323**
Selling, general and administrative expenses (Note 17)	**117,145**	106,235	**1,169,228**
Operating income	**38,783**	36,488	**387,095**
Other income (expenses):			
Interest and dividend income	**1,391**	1,235	**13,884**
Interest expense	**(3,453)**	(2,512)	**(34,465)**
Amortization of negative goodwill	**571**	403	**5,699**
Gain on sale of noncurrent assets (Note 18)	**1,334**	6,628	**13,315**
Loss on sale and retirement of noncurrent assets (Note 18)	**(785)**	(5,826)	**(7,835)**
Gain on sale of investment securities	**277**	174	**2,765**
Loss on sale of investment securities	**(29)**	—	**(289)**
Loss on valuation of investment securities	**(105)**	—	**(1,048)**
Loss on valuation of golf club memberships	**(88)**	(67)	**(878)**
Loss on sale of golf club memberships	**(14)**	(13)	**(140)**
Equity in earnings of affiliates	**1,305**	1,300	**13,025**
Impairment loss (Note 19)	**(49)**	(813)	**(489)**
Loss on liquidation of subsidiaries and affiliates	**(1,001)**	—	**(9,991)**
Loss on revaluation of investments	**(50)**	(540)	**(499)**
Merger expense	**(295)**	—	**(2,944)**
Expenses for improvement of environment	**—**	(500)	**—**
Gain on revaluation of investments	**352**	—	**3,513**
Compensation for transfer	**35**	—	**349**
Expenses for integration	**(42)**	—	**(419)**
Other	**365**	547	**3,643**
	(281)	16	**(2,805)**
Income before income taxes and minority interests	**38,502**	36,505	**384,290**
Income taxes (Note 11):			
Current	**16,205**	14,080	**161,743**
Deferred	**(1,047)**	833	**(10,450)**
	15,157	14,913	**151,283**
Minority interests consolidated subsidiaries	**1,413**	1,498	**14,103**
Net income	**¥ 21,930**	¥ 20,094	**$ 218,884**

	Yen		U.S. dollars (Note 3)
Amounts per share:			
Net assets	**¥506.02**	¥500.28	**$5.05**
Net income	**54.48**	49.93	**0.54**
Cash dividends	**12.00**	12.00	**0.12**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
						Millions of yen					
Balance at March 31, 2006	405,892,837	¥27,039	¥44,833	¥ 93,425	¥(1,657)	¥ 19,452	¥ —	¥(5,038)	¥ —	¥ —	¥178,055
Reclassified balance as of March 31, 2006	—	—	—	—	—	—	—	—	—	(16,910)	(16,910)
Disposal of treasury stock	—	—	10	—	18	—	—	—	—	—	28
Retirement of treasury stock	(2,800,000)	—	(96)	(1,425)	1,522	—	—	—	—	—	—
Increase by merger	—	—	—	29	—	—	—	—	—	—	29
Directors' bonuses	—	—	—	(167)	—	—	—	—	—	—	(167)
Dividends from surplus	—	—	—	(4,429)	—	—	—	—	—	—	(4,429)
Other	—	—	—	(30)	—	—	—	—	—	—	(30)
Net income for the year ended March 31, 2007	—	—	—	20,094	—	—	—	—	—	—	20,094
Purchase of treasury stock	—	—	—	—	(259)	—	—	—	—	—	(259)
Net changes of items other than shareholders' equity	—	—	—	—	—	5,530	56	2,502	(111)	(2,139)	5,837
Balance at March 31, 2007	403,092,837	¥27,039	¥44,746	¥107,495	¥ (376)	¥ 24,982	¥ 56	¥(2,535)	¥(111)	¥ 14,770	¥216,068
Disposal of treasury stock	**—**	**—**	**164**	**—**	**211**	**—**	**—**	**—**	**—**	**—**	**375**
Change of scope of consolidation	**—**	**—**	**—**	**81**	**—**	**—**	**—**	**—**	**—**	**—**	**81**
Change of scope of equity method	**—**	**—**	**—**	**136**	**—**	**—**	**—**	**—**	**—**	**—**	**136**
Dividends from surplus	**—**	**—**	**—**	**(5,233)**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,233)**
Other	**—**	**—**	**—**	**(18)**	**—**	**—**	**—**	**—**	**—**	**—**	**(18)**
Net income for the year ended March 31, 2008	**—**	**—**	**—**	**21,930**	**—**	**—**	**—**	**—**	**—**	**—**	**21,930**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(196)**	**—**	**—**	**—**	**—**	**—**	**(196)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(12,143)**	**(251)**	**(2,233)**	**(49)**	**(653)**	**(15,329)**
Balance at March 31, 2008	**403,092,837**	**¥27,039**	**¥44,911**	**¥124,392**	**¥ (362)**	**¥ 12,839**	**¥(194)**	**¥(4,769)**	**¥(161)**	**¥ 14,117**	**¥217,813**

	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
					Thousands of U.S. dollars (Note 3)					
Balance at March 31, 2007	$269,877	$446,611	$1,072,911	$(3,753)	$ 249,346	$ 559	$(25,302)	$(1,108)	$147,420	$2,156,582
Disposal of treasury stock	**—**	**1,637**	**—**	**2,106**	**—**	**—**	**—**	**—**	**—**	**3,743**
Change of scope of consolidation	**—**	**—**	**808**	**—**	**—**	**—**	**—**	**—**	**—**	**808**
Change of scope of equity method	**—**	**—**	**1,357**	**—**	**—**	**—**	**—**	**—**	**—**	**1,357**
Dividends from surplus	**—**	**—**	**(52,231)**	**—**	**—**	**—**	**—**	**—**	**—**	**(52,231)**
Other	**—**	**—**	**(180)**	**—**	**—**	**—**	**—**	**—**	**—**	**(180)**
Net income for the year ended March 31, 2008	**—**	**—**	**218,884**	**—**	**—**	**—**	**—**	**—**	**—**	**218,884**
Purchase of treasury stock	**—**	**—**	**—**	**(1,956)**	**—**	**—**	**—**	**—**	**—**	**(1,956)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**(121,200)**	**(2,505)**	**(22,288)**	**(489)**	**(6,518)**	**(153,000)**
Balance at March 31, 2008	**$269,877**	**$448,258**	**$1,241,561**	**$(3,613)**	**$ 128,147**	**$(1,936)**	**$(47,600)**	**$(1,607)**	**$140,902**	**$2,173,999**

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	**2008**	2007	**2008**
Operating activities			
Income before income taxes and minority interests	**¥38,502**	¥36,505	**$384,290**
Depreciation and amortization	**25,506**	21,210	**254,576**
Impairment loss	**49**	813	**489**
Amortization of goodwill	**283**	498	**2,825**
Interest and dividend income	**(1,392)**	(1,236)	**(13,894)**
Interest expense	**3,453**	2,512	**34,465**
Equity in earnings of affiliates	**(1,305)**	(1,300)	**(13,025)**
Loss on sale and retirement of noncurrent assets	**(619)**	(1,008)	**(6,178)**
Gain on sale of investment securities	**(248)**	(174)	**(2,475)**
Decrease (increase) in accounts receivable—other	**293**	(742)	**2,924**
Increase in notes and accounts receivable—trade	**(5,618)**	(10,803)	**(56,073)**
Increase in advance payments	**(1,513)**	(1,087)	**(15,101)**
Increase in inventories	**(1,567)**	(6,084)	**(15,640)**
(Decrease) increase in notes and accounts payable—trade	**(9,272)**	15,531	**(92,544)**
Increase in accrued expenses	**3,547**	383	**35,403**
Increase (decrease) in advances received	**830**	(505)	**8,284**
Increase in prepaid pension costs	**(204)**	(163)	**(2,036)**
Increase (decrease) in reserve for retirement benefits	**76**	(309)	**759**
Other, net	**(630)**	(980)	**(6,288)**
	50,170	53,058	**500,749**
Interest and dividends income received	**2,895**	1,583	**28,895**
Interest expenses paid	**(3,368)**	(2,488)	**(33,616)**
Income taxes paid	**(15,023)**	(12,092)	**(149,945)**
Net cash provided by operating activities	**34,674**	40,061	**346,082**
Investing activities			
Increase in short-term investments	**671**	746	**6,697**
Purchases of property, plant and equipment	**(33,991)**	(30,290)	**(339,265)**
Proceeds from sale of property, plant and equipment	**1,892**	9,407	**18,884**
Purchases of intangible assets	**(2,340)**	(4,835)	**(23,356)**
Purchases of investment securities	**(2,710)**	(7,997)	**(27,049)**
Proceeds from sale of investment securities	**1,720**	436	**17,167**
Purchases of investments in subsidiaries resulting from change in the scope of consolidation	**(3,261)**	(33,445)	**(32,548)**
Payments for long-term loans receivable	**(2,287)**	(114)	**(22,827)**
Other, net	**(23)**	(192)	**(230)**
Net cash used in investment activities	**(40,330)**	(66,286)	**(402,535)**
Financing activities			
Net increase (decrease) in short-term loans payable	**8,159**	(5,843)	**81,435**
Decrease in commercial paper	**(1,000)**	(2,000)	**(9,981)**
Proceeds from long-term loans payable	**18,980**	27,182	**189,440**
Repayment of long-term loans payable	**(16,560)**	(11,234)	**(165,286)**
Proceeds from issuance of common stock	**241**	277	**2,405**
Proceeds from issuance of bonds	**10,000**	15,000	**99,810**
Redemption of bonds	**(10,000)**	—	**(99,810)**
Repayment of lease obligations	**(602)**	(411)	**(6,009)**
Increase in lease obligations	**—**	4,364	**—**
Cash dividends paid	**(5,233)**	(4,429)	**(52,231)**
Cash dividends paid to minority interests	**(208)**	(238)	**(2,076)**
Purchase redemption	**(194)**	(257)	**(1,936)**
Proceeds from sale of treasury stock	**16**	42	**160**
Net cash provided by financing activities	**3,597**	22,451	**35,902**
Effect of exchange rate changes on cash and cash equivalents	**(33)**	367	**(329)**
Net decrease in cash and cash equivalents	**(2,091)**	(3,405)	**(20,870)**
Cash and cash equivalents at beginning of the year	**14,404**	17,416	**143,767**
Increase in cash and cash equivalents resulting from change in the scope of consolidation	**396**	243	**3,952**
Increase in cash and cash equivalents resulting from merger of subsidiaries	**—**	150	**—**
Cash and cash equivalents at end of the year (Note 4)	**¥12,709**	¥14,404	**$126,849**

See notes to consolidated financial statements.

1. Basis of Consolidated Financial Statements

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

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

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

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 69 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

(d) Inventories

Inventories of the Company and its domestic subsidiaries are stated at cost determined by the 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

Effective from the fiscal year beginning April 1, 2007, pursuant to an amendment to the Corporate Tax Law, the Company and its domestic subsidiaries have depreciated property, plant and equipment acquired on and after April 1, 2007 in accordance with the methods stipulated in the amended Corporate Tax Law. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were decreased by ¥348 million ($3,473 thousand) compared to the previous methods.

Pursuant to an amendment to the Corporate Tax Law, after having fully depreciated property, plant and equipment acquired on and before March 31, 2007, up to 5% of acquisition cost, based on the prior Corporate Tax Law, the Company and its domestic subsidiaries have depreciated the difference between 5% of the acquisition cost and the memorandum price, using the straight-line method over five years and expensed as "depreciation and amortization." The straight-line depreciation starts from the next year, when the book value of tangible assets acquired on and before March 31, 2007 reaches 5% of the acquisition cost. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2008 were decreased by ¥1,544 million ($15,411 thousand) compared to the previous methods.

(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 contracts, are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

The accounts of the overseas subsidiaries are translated into yen at the year-end exchange rates, except for net assets, which are 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 costs.

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

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

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

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

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

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

At March 31, 2007, the allowance for directors' and corporate auditors' retirement benefits of the Company and certain of its domestic subsidiaries is provided at the amount which would have been required to be paid if all directors and corporate auditors had voluntarily terminated their services as of the balance sheet date. This amount has been determined in accordance with the internal rules of the respective companies.

The Company has abolished retirement benefits plan for directors and corporate auditors by the resolution at its general shareholders' meeting held on June 28, 2007, and has decided to provide eligible directors and corporate auditors with severance benefits for special services corresponding to the term in office of them. As a result of this revision, such benefits are included in "Noncurrent liabilities—other liabilities" at March 31, 2008.

The allowance included ¥323 million ($3,224 thousand) and ¥242 million for corporate officers at March 31, 2008 and 2007, respectively.

(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, 2008 and 2007.

(l) Allowance for doubtful accounts

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

(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 contracts 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 to solely hedge against risks of fluctuations in interest rates relating to its long-term loans payable. Also, currency exchange swap agreements have been used to solely hedge against risks of fluctuations in foreign exchange of long-term loans payable denominated in foreign currencies, in compliance with the internal rules of respective companies.

Under the "Accounting Standard for Financial Instruments," derivative transactions are valued at market prices, except for hedging transactions whose gains or losses are deferred and recorded in the balance sheet until the hedged transactions are settled. Moreover, if interest-rate swaps in Japan are specifically tied to the hedged loan transactions, unrealized gains or losses on those swaps are not recognized in the consolidated financial statements as such gains or losses are to be offset with those on the hedged transactions. Deferred hedge accounting is applied to currency swaps.

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

3. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥100.19=U.S.$1, the approximate rate of exchange at March 31, 2008. 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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Cash and deposits	**¥12,971**	¥15,046	**$129,464**
Time deposits with maturities of more than three months	**(261)**	(932)	**(2,605)**
Cash equivalents included in short-term investments	**—**	291	**—**
	¥12,709	¥14,404	**$126,849**

5. Marketable and Investment Securities

At March 31, 2008 and 2007, information with respect to other securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2008			**2008**		
	Cost	Balance sheet amount	Unrecognized gain (loss)	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:						
Stock	**¥15,185**	**¥37,076**	**¥21,890**	**$151,562**	**$370,057**	**$218,485**
Unrecognized loss items:						
Stock	**803**	**645**	**(158)**	**8,015**	**6,438**	**(1,577)**
Total	**¥15,988**	**¥37,721**	**¥21,732**	**$159,577**	**$376,495**	**$216,908**

	Millions of yen		
	2007		
	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:			
Stock	¥15,668	¥58,149	¥42,481
Unrecognized loss items:			
Stock	373	313	(60)
Total	¥16,042	¥58,462	¥42,420

Proceeds from sales of securities classified as other securities amount to ¥782 million ($7,805 thousand) and ¥420 million with an aggregate gain on sales of ¥277 million ($2,765 thousand) and ¥174 million and loss on sales of ¥29 million ($289 thousand) and nil for the years ended March 31, 2008 and 2007, respectively.

Balance sheet amounts of non-marketable securities classified as other securities at March 31, 2008 and 2007 were as follows:

Other securities:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Unlisted securities (except for OTC securities)	**¥2,358**	¥2,131	**$23,535**
Preferred securities	**—**	1,000	**—**
Preferred stock	**1,000**	1,000	**9,981**
Money market fund	**—**	291	**—**

There are no securities with maturity dates classified as other securities at March 31, 2008.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Accounts receivable transferred by liquidation	**¥11,771**	¥12,501	**$117,487**
Notes receivable transferred by liquidation	**9,087**	11,639	**90,698**

(b) Notes receivable discounted at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Notes receivable discounted	**¥166**	¥3	**$1,657**

7. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Merchandise	**¥18,337**	¥14,828	**$183,022**
Finished products	**2,372**	1,907	**23,675**
Semifinished products and work in process	**15,073**	17,545	**150,444**
Raw materials and supplies	**5,689**	5,062	**56,782**
	¥41,472	¥39,342	**$413,934**

8. Short-Term Borrowings and Long-Term Loans Payable

At March 31, 2008 and 2007, short-term borrowings and the current portion of long-term loans payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Bank loans	**¥16,593**	¥ 8,146	**$165,615**
Current portion of long-term loans payable	**22,512**	21,933	**224,693**
Total	**¥39,105**	¥30,080	**$390,308**

The average interest rates applicable to short-term loans payable outstanding at March 31, 2008 and 2007 were 3.75% and 2.92%, respectively.

Long-term loans payable at March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans from banks due through 2017 at average interest rate of 2.29% in 2008 and 2.14% in 2007	**¥ 67,707**	¥ 76,595	**$ 675,786**
0.95% unsecured bonds, payable in yen, due 2009	**15,000**	15,000	**149,716**
1.81% unsecured bonds, payable in yen, due 2011	**15,000**	15,000	**149,716**
1.58% unsecured bonds, payable in yen, due 2012	**10,000**	—	**99,810**
	¥107,707	¥106,595	**$1,075,027**

0.68% commercial paper (¥5,000 million ($49,905 thousand)) at March 31, 2008 and 0.56% commercial paper (¥6,000 million) at March 31, 2007 were included in other current liabilities.

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

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥22,512	$224,693
2010	8,734	87,174
2011	25,296	252,480
2012	14,139	141,122
2013	8,940	89,230
2014 and thereafter	10,598	105,779
	¥90,219	$900,479

9. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥235 million ($2,346 thousand) and ¥377 million, long-term loans payable of ¥780 million ($7,785 thousand) and ¥1,501 million and other liabilities of ¥308 million ($3,074 thousand) and ¥350 million at March 31, 2008 and 2007, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Property, plant and equipment, at net book value	**¥4,578**	¥17,475	**$45,693**

10. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Property, plant and equipment	**¥411**	¥411	**$4,102**

11. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of 40.69% for 2008 and 2007.

The reconciliation was omitted for the years ended March 31, 2008 and 2007 because the differences were less than 5% of the statutory tax rate.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥2,415**	¥2,240	**$24,104**
Loss from valuation of inventory	**272**	246	**2,715**
Accrued expenses	**1,708**	1,384	**17,048**
Tax losses carried forward	**—**	256	**—**
Other	**3,030**	2,335	**30,243**
Deferred tax assets—subtotal	**7,427**	6,464	**74,129**
Valuation allowance	**(212)**	(227)	**(2,116)**
Deferred tax assets—net	**7,215**	6,236	**72,013**
Deferred tax liabilities	**(1)**	(49)	**(10)**
Net deferred tax assets	**¥7,213**	¥6,186	**$71,993**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (1)**	¥ (81)	**$ (10)**
Deferred tax liabilities—subtotal	**(1)**	(81)	**(10)**
Offset by deferred tax assets	**1**	49	**10**
Net deferred tax liabilities	**¥ —**	¥ (31)	**$ —**

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,059**	¥ 757	**$ 10,570**
Reserve for retirement benefits	**1,312**	1,129	**13,095**
Net operating loss carryforward for tax purposes	**100**	125	**998**
Other	**7,368**	7,455	**73,540**
Deferred tax assets—subtotal	**9,841**	9,467	**98,223**
Valuation allowance	**(4,095)**	(4,268)	**(40,872)**
Deferred tax assets—net	**5,745**	5,198	**57,341**
Deferred tax liabilities	**(3,596)**	(3,298)	**(35,892)**
Net deferred tax assets	**¥ 2,149**	¥ 1,900	**$ 21,449**
Deferred tax liabilities:			
Valuation difference on other securities	**¥ (8,959)**	¥(17,465)	**$ (89,420)**
Reserve for replacement of fixed assets	**(7,852)**	(6,868)	**(78,371)**
Reserve for replacement of fixed assets—special	**(415)**	(1,683)	**(4,142)**
Depreciation	**(7,546)**	(7,100)	**(75,317)**
Other	**(11,608)**	(10,260)	**(115,860)**
Deferred tax liabilities—subtotal	**(36,381)**	(43,378)	**(363,120)**
Offset by deferred tax assets	**3,596**	3,298	**35,892**
Net deferred tax liabilities	**¥(32,785)**	¥(40,080)	**$(327,228)**

12. Shareholders' Equity

(a) Dividends

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

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. Under the Commercial Code of Japan, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends.

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

13. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2008 and 2007, 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
	2008	2007	**2008**
Acquisition costs:			
Property, plant and equipment	**¥10,055**	¥ 9,161	**$100,359**
Other assets	**549**	422	**5,480**
	¥10,604	¥ 9,584	**$105,839**
Accumulated depreciation:			
Property, plant and equipment	**¥ 5,410**	¥ 4,571	**$ 53,997**
Other assets	**285**	224	**2,845**
	¥ 5,696	¥ 4,796	**$ 56,852**
Net book value:			
Property, plant and equipment	**¥ 4,644**	¥ 4,589	**$ 46,352**
Other assets	**263**	197	**2,625**
	¥ 4,908	¥ 4,787	**$ 48,987**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,788 million ($17,846 thousand) and ¥1,610 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, 2008 and 2007, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 and 2007 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008		
2009	**¥1,585**	**$15,820**
2010 and thereafter	**3,322**	**33,157**
Total	**¥4,908**	**$48,987**
2007		
2008	¥1,401	
2009 and thereafter	3,386	
Total	¥4,787	

(b) Future minimum lease payments subsequent to March 31, 2008 and 2007 or non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2008		
2009	**¥ 1,991**	**$ 19,872**
2010 and thereafter	**8,540**	**85,238**
Total	**¥10,532**	**$105,120**
2007		
2008	¥ 1,992	
2009 and thereafter	7,258	
Total	¥ 9,250	

14. Pension and Severance Indemnities

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

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

Certain overseas subsidiaries have a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2008 and 2007 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the years ended March 31, 2008 and 2007 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥ 34,008**	¥ 34,842	**$ 339,435**
Plan assets at fair market value	**(35,115)**	(43,516)	**(350,484)**
Unfunded retirement benefit liabilities	**(1,107)**	(8,674)	**(11,049)**
Net unrecognized actuarial losses	**(7,896)**	23	**(78,810)**
Difference at change of accounting standard	**(3,302)**	(3,769)	**(32,957)**
Unrecognized prior service cost	**2,614**	2,856	**26,090**
Prepaid pension costs	**13,189**	12,984	**131,640**
Allowance for employees' retirement benefits	**(3,497)**	(3,420)	**(34,904)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current service cost	**¥1,531**	¥1,124	**$15,281**
Interest cost	**581**	591	**5,799**
Expected return on plan assets	**(858)**	(709)	**(8,564)**
Expense of actuarial loss	**292**	48	**2,914**
Net loss on change in accounting standard for employees' retirement benefits	**466**	466	**4,651**
Adjustment for prior service cost	**(241)**	(241)	**(2,405)**
Total of retirement benefit expenses	**¥1,772**	¥1,280	**$17,686**
Other	**785**	338	**7,835**
Total	**¥2,557**	¥1,618	**$25,522**

(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:

	2008	2007
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Rate of return on assets	**Mainly 3.0%**	Mainly 2.5%
Period of recognition of actuarial gains or losses	**Mainly 12 to 16 years**	Mainly 12 to 16 years
Period of recognition of transition gains or losses	**Mainly 15 years**	Mainly 15 years
Period of recognition of prior service cost	**13 to 16 years**	13 to 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

15. Contingent Liabilities

At March 31, 2008 and 2007, the Company and certain of its subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥8,701 million ($86,845 thousand) and ¥8,245 million, which included reguarantees by joint investors amounting to ¥743 million ($7,416 thousand) and ¥792 million and commitments to guarantees amounting to ¥1,244 million ($12,416 thousand) and ¥1,685 million, respectively.

16. Derivative and Hedging Activities

(a) Outline of transactions and conditions

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

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

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

The Company and certain 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

There are no interest-related derivatives at March 31, 2008 and 2007.

(c) Currency-related derivatives

Market value information at March 31, 2008 and 2007 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, 2008 and 2007 totaled ¥2,903 million ($28,975 thousand) and ¥2,713 million, respectively.

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

Significant components of the gain on sale of noncurrent assets of ¥1,334 million ($13,315 thousand) and ¥6,628 million for the years ended March 31, 2008 and 2007, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land	**¥1,334**	¥6,628	**$13,315**

Significant components of the loss on sale and retirement of noncurrent assets of ¥785 million ($7,835 thousand) and ¥5,826 million for the years ended March 31, 2008 and 2007, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land	**¥114**	¥4,992	**$1,138**
Machinery	**218**	438	**2,176**

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 write-downs are recorded as impairment loss of ¥49 million ($489 thousand) (of which land accounts for all of them) and ¥813 million (of which land accounts for ¥598 million and buildings for ¥214 million) for the years ended March 31, 2008 and 2007, respectively, due to luck of recovery provability of market value or recovery provability in the near future. Recoverable amounts for relevant assets are net selling price (selling price based on contract, valuation by property tax or valuation by inheritance tax).

20. Segment Information

The business, geographical and overseas segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2008 and 2007 is summarized as follows:

(a) Business Segments

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

Year ended or as of March 31, 2007	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	¥305,442	¥136,896	¥16,248	¥458,587	¥ —	¥458,587
(2) Intersegment sales	99	12,299	182	12,581	(12,581)	—
Total sales	305,542	149,196	16,430	471,169	(12,581)	458,587
Operating costs and expenses	278,545	137,581	14,608	430,735	(8,635)	422,099
Operating income	¥ 26,996	¥ 11,615	¥ 1,822	¥ 40,434	¥ (3,945)	¥ 36,488
II. Assets, depreciation expenses and capital expenditure:						
Assets	¥378,606	¥72,182	¥19,101	¥469,890	¥77,900	¥547,791
Depreciation expenses	¥ 18,607	¥ 1,695	¥ 612	¥ 20,915	¥ 294	¥ 21,210
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ 813	¥ 813
Capital expenditure	¥ 32,941	¥ 1,800	¥ 1,426	¥ 36,168	¥ (277)	¥ 35,891

Year ended or as of March 31, 2008	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	**$3,377,054**	**$1,514,293**	**$176,195**	**$5,067,552**	**$ —**	**$5,067,552**
(2) Intersegment sales	**190**	**116,978**	**1,497**	**118,675**	**(118,675)**	**—**
Total sales	**3,377,243**	**1,631,281**	**177,702**	**5,186,226**	**(118,675)**	**5,067,552**
Operating costs and expenses	**3,068,380**	**1,527,468**	**158,409**	**4,754,277**	**(73,820)**	**4,680,447**
Operating income	**$ 308,863**	**$ 103,803**	**$ 19,283**	**$ 431,949**	**$ (44,855)**	**$ 387,095**
II. Assets, depreciation expenses and capital expenditure:						
Assets	**$3,933,776**	**$ 750,354**	**$192,854**	**$4,876,994**	**$ 584,999**	**$5,461,992**
Depreciation expenses	**$ 224,643**	**$ 21,170**	**$ 6,458**	**$ 252,281**	**$ 2,296**	**$ 254,576**
Impairment loss	**$ —**	**$ —**	**$ —**	**$ —**	**$ 489**	**$ 489**
Capital expenditure	**$ 332,488**	**$ 20,771**	**$ 8,244**	**$ 361,513**	**$ 399**	**$ 361,912**

(b) Geographical Segments

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

Year ended or as of March 31, 2007	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Millions of yen					
Sales:						
Sales to third parties	¥372,614	¥ 62,208	¥23,765	¥458,587	¥ —	¥458,587
Intersegment sales	6,629	9,402	2,121	18,154	(18,154)	—
Total sales	379,243	71,611	25,887	476,742	(18,154)	458,587
Operating costs and expenses	348,593	63,741	24,344	436,678	(14,579)	422,099
Operating income	¥ 30,650	¥ 7,869	¥ 1,543	¥ 40,063	¥ (3,574)	¥ 36,488
Assets	¥306,355	¥117,870	¥33,547	¥457,773	¥ 90,017	¥547,791

Year ended or as of March 31, 2008	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
Sales:						
Sales to third parties	**$3,924,813**	**$ 846,721**	**$295,998**	**$5,067,552**	**$ —**	**$5,067,552**
Intersegment sales	**57,511**	**131,031**	**31,720**	**220,271**	**(220,271)**	**—**
Total sales	**3,982,334**	**977,762**	**327,717**	**5,287,823**	**(220,271)**	**5,067,552**
Operating costs and expenses	**3,688,412**	**877,732**	**307,196**	**4,873,351**	**(192,894)**	**4,680,447**
Operating income	**$ 293,912**	**$ 100,020**	**$ 20,521**	**$ 414,463**	**$ (27,368)**	**$ 387,095**
Assets	**$3,104,472**	**$1,211,438**	**$404,022**	**$4,719,932**	**$ 742,050**	**$5,461,992**

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its overseas consolidated subsidiaries, for the years ended March 31, 2008 and 2007 are summarized as follows:

Year ended or as of March 31, 2008	North America	Other	Total	North America	Other	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	**¥71,448**	**¥55,140**	**¥126,589**	**$713,125**	**$550,354**	**$1,263,489**
Consolidated net sales			**507,718**			**$5,067,552**
Ratio of overseas sales to consolidated net sales	**14.1%**	**10.8%**	**24.9%**			

Year ended or as of March 31, 2007	North America	Other	Total
	Millions of yen		
Overseas sales	¥55,344	¥40,826	¥ 96,171
Consolidated net sales			458,587
Ratio of overseas sales to consolidated net sales	12.1%	8.9%	21.0%

21. Assets and Liabilities of Newly Consolidated Subsidiaries by Acquisition of Stocks

Assets and liabilities of newly consolidated subsidiaries, Five Star Gas & Gear, Inc., and Polar Cryogenics, Inc., through the acquisition of stocks, acquisition cost and net payments for the acquisition effective in the year ended March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 566**	**$ 5,649**
Property, plant and equipment	**477**	**4,761**
Goodwill	**2,711**	**27,059**
Other assets	**28**	**279**
Total assets	**¥ 3,783**	**$ 37,758**
Current liabilities	**¥ 486**	**$ 4,851**
Noncurrent liabilities	**260**	**2,595**
Total liabilities	**¥ 747**	**$ 7,456**
Acquisition cost of newly consolidated subsidiaries' stock	**¥(3,352)**	**$(33,456)**
Cash and cash equivalents of newly consolidated subsidiaries	**91**	**908**
Payments for acquisition of subsidiaries' stock with change in the scope of consolidation	**¥(3,261)**	**$(32,548)**

22. Subsequent Event

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, 2008, were approved at the shareholders' meeting held on June 27, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.060) per share	¥2,415	$24,104

ERNST & YOUNG SHINNIHON

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Report of Independent Auditors

The Board of Directors
TAIYO NIPPON SANSO CORPORATION

We have audited the accompanying consolidated balance sheets of TAIYO NIPPON SANSO CORPORATION and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO NIPPON SANSO CORPORATION and consolidated subsidiaries at March 31, 2008 and 2007, 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, 2008 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.

June 27, 2008

Ernst & Young Shin Nihon

Investor Information

(At March 31, 2008)

Head Office:

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

Number of Employees:

8,741

Date of Incorporation:

October 1910

Number of Shares:

Authorized—800,000,000 Issued—403,092,837

Minimum Trading Unit:

1,000 shares

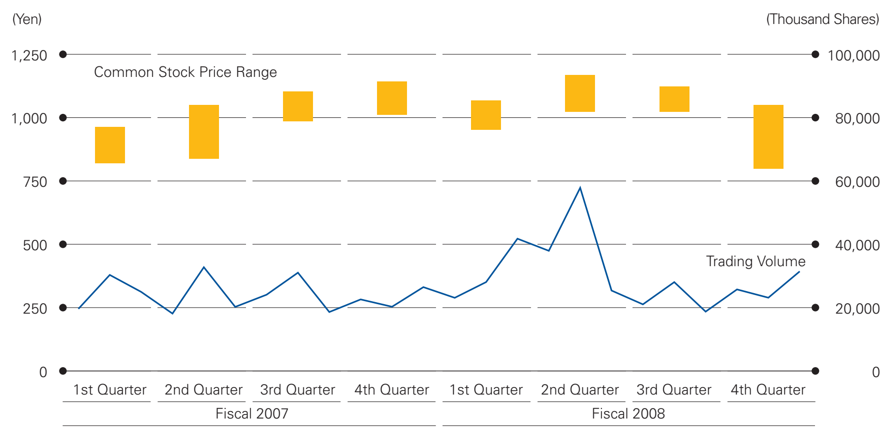
Number of Stockholders:

16,499

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	40,947	10.16%
JFE Steel Corporation	20,617	5.11
Taiyo Nippon Sanso Client Shareholding Society	17,330	4.30
Meiji Yasuda Life Insurance Company	16,491	4.09
Mizuho Corporate Bank, Ltd.	14,484	3.59
State Street Bank and Trust Company (Account 505103)	13,926	3.45
The Master Trust Bank of Japan Ltd. (Trust Account)	13,686	3.40
Dai-ichi Mutual Life Insurance Company	10,037	2.49
The Norinchukin Bank	10,000	2.48
Japan Trustee Services Bank, Ltd. (Trust Account)	9,281	2.30
	166,802	41.38%

Common Stock Price Range and Trading Volume:



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The Gas Professionals

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