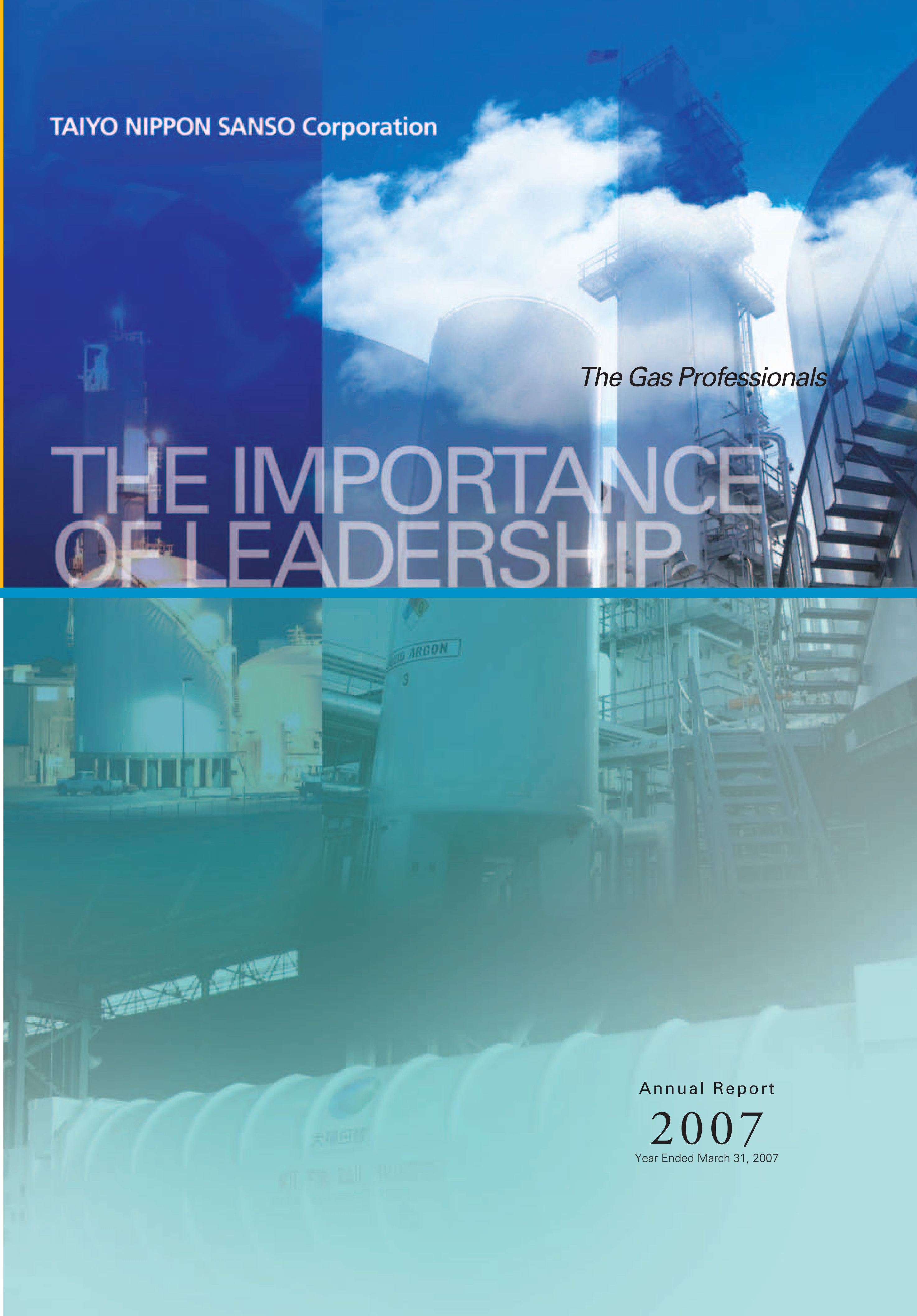
TAIYO NIPPON SANSO Corporation

The Gas Professionals

THE IMPORTANCE OF LEADERSHIP



Annual Report

2007

Year Ended March 31, 2007

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, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2007	2006	**2007**	
Operating Results				
Net sales	**¥458,587**	¥397,308	**$3,884,684**	15.4%
Net income	**20,094**	14,444	**170,216**	39.1

	Yen		U.S. dollars[1]	Percentage change
	2007	2006	**2007**	
Per share data:				
Net income[2]	**¥ 49.93**	¥ 35.45	**$ 0.423**	40.8%
Cash dividends	**12.00**	10.00	**0.102**	20.0

	Millions of yen		Thousands of U.S. dollars[1]	Percentage change
	2007	2006	**2007**	
Corporate Position				
Total assets	**¥547,791**	¥471,602	**$4,640,330**	16.2%
Total shareholders' equity	**201,297**	178,055	**1,705,184**	13.1

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥118.05=U.S.$1, the approximate rate of exchange at March 31, 2007.
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.

Operational Highlights

Taiyo Nippon Sanso is investing decisively overseas using cash flow reserves, which have doubled thanks to the merger

With the aim of realizing the ultimate goals of the merger of its predecessors, which are to achieve a global market share of 10% and annual net sales of more than ¥500,000 million—the basic prerequisites for becoming the first Asian-born gas provider to qualify as a major international player—Taiyo Nippon Sanso is taking steps to expand the scale of its operations and increase income.

As a part of this effort, in fiscal 2007, ended March 31, 2007, Taiyo Nippon Sanso purchased the helium gas business of the former BOC Group plc, and medium-sized U.S. industrial gas firm Linweld Inc. We expect these acquisitions to contribute substantially to full-term consolidated results beginning in fiscal 2008.

The BOC Group was acquired in 2006 by Linde AG. Subsequently, we purchased the BOC Group's helium gas business—which enjoys a global market share of approximately 10%—from Linde, in the process acquiring rights and interests in the United States, Russia and Poland. Going forward, we will maximize the position of this business as a primary wholesaler with a view to expanding its operations into Asia, thereby further reinforcing our presence.

The acquisition of Linweld was made through subsidiary Matheson Tri-Gas, Inc. Engaged in the manufacture and sales of industrial gas, Linweld enjoys a high market share in the U.S. Midwest, a market that is expected to see sustained growth going forward. Matheson Tri-Gas operates mainly in Texas, and is also active in the eastern, southern and western United States. The acquisition of Linweld has thus enabled Matheson Tri-Gas to enter a new market, thereby accelerating efforts to expand and strengthen its North American gas business. Linweld's consolidated net sales in the fiscal year ended June 30, 2006, totaled $152 million.

Expansion of Taiyo Nippon Sanso's Operations in North America

1926	Matheson Gas Products, Inc. (MGP) founded
1983	Acquired 50% of MGP shares (Amerigas acquired the remaining portion)
1987	Tri-Gas, Inc. founded
1989	NS-U.S.A. founded (to make MGP a wholly owned subsidiary)
1991	Semi-Gas Systems, Inc. acquired
1992	Invested through NS-U.S.A. to make Semi-Gas Systems a wholly owned subsidiary
1995	Matheson Gas Products Korea (MGPK) founded
1996	Tri-Gas Technologies founded
July 1, 1999	Matheson Gas Products, Inc. and Tri-Gas, Inc. merged to establish Matheson Tri-Gas, Inc.
2004	Acquired 6 plants of former Messer from Air Liquide
Aug. 2006	Acquired renowned Midwest-based industrial gas producer Linweld
Sept. 2006	Acquired helium business previously operated by BOC simultaneously with Linde's BOC acquisition
2007	Began operation of large-scale air separation plants in Southern California

Establish new large-scale air separation plants in the Midwest and Texas

To Our Stakeholders

Performance Highlights

In fiscal 2007, the first year of our current medium-term business plan, we focused on further expanding our business and improving management efficiency. We also undertook strategic mergers and acquisitions, forward-looking capital investment and other measures aimed at developing new businesses. As a consequence, we surpassed the targets set for our current medium-term business plan Global 5000: Stage 1 (consolidated net sales of ¥450,000 million and net income of ¥20,000 million in fiscal 2009) a full two years ahead of schedule. On behalf of the new management team that took the reins of Taiyo Nippon Sanso in fiscal 2006, we are proud to report this achievement and confident that it demonstrates the essential soundness of our approach.

In fiscal 2007, firm demand for high-grade steel materials from the automobile and shipbuilding industries continued to underscore robust conditions in the global steel industry. The chemical industry also saw steady growth in demand for high-performance resins from the automobile and consumer electronics sectors, while sales of general-purpose resins were also firm, led by exports. Conditions in the electronics sector were also brisk overall as demand for memory and other semiconductor devices continued to flourish, despite the drawn-out impact of production adjustments for certain products.

With the aim of contributing to the growth of our customers, we made steady progress in improving our competitiveness and productivity during the period under review. Owing to such efforts, a strong performance by our mainstay gas business both in Japan and overseas—coupled with robust results in our plant and gas equipment business—resulted in a rise in consolidated net sales of 15.4%, to ¥458,587 million. Operating profit climbed 36.2%, to ¥36,488 million, owing to improved capacity utilization rates at our gas production facilities, which helped to lower costs, and the penetration of price increases implemented in response to rising raw materials prices. Net income advanced 39.1%, to ¥20,094 million, as a special gain—namely, a gain on sale of property, plant and equipment generated through the sale of rental real estate—was partially offset by a special loss resulting from the sale of idle land.

The Next Stage

In fiscal 2007, Taiyo Nippon Sanso succeeded in raising its performance to a new level. Taking advantage of the opportunity presented by this achievement, we identified several challenges we must address to earn the status of a global player in the industrial gas business, which we define as an operator with ¥500,000 million in annual net sales.

First, we must grow and expand our core industrial gas-related businesses. To this end, we must strive to build value throughout the business cycle, cultivating new demand by ensuring our ability to understand and anticipate our customers' everyday needs. We also recognize the need to further enhance efficiency through decisive, forward-looking capital investment. It is also necessary for us to further strengthen and foster the development of businesses that we have acquired.

Second, we must reinforce our global network. Essentially, this means drawing on technologies accumulated in the Japanese market, principally gas utilization, production and supply technologies, making related investments and allocating resources to link our operations worldwide. Recognizing that this effort also demands measures to foster employee development, we have declared fiscal 2008 "Human Resources Development Year" and are implementing ongoing, globally oriented training programs primarily for mid-level managers who exhibit business administration skills.

Third, we must improve management efficiency. Three years have passed since the merger that created Taiyo Nippon Sanso, and we have been more successful than initially anticipated in maximizing the benefits of the merger. Nonetheless, there is still work to be done that will enable us to further reduce costs and generate higher profits. Accordingly, we continue to take steps to, among others, rationalize logistics operations Companywide.

Finally, we must improve our efforts to address environmental issues and enhance compliance—the two most important challenges we face in ensuring the ongoing viability of our businesses. On the environmental front, we are taking steps to restrain the use of energy for the production and transportation of gas. We are also enhancing social responsibility. In terms of observing socially acceptable practices, we recognize that ensuring an incident- and disaster-free work environment, as well as product safety security, is a component of our costs. In addition, we are pursuing ongoing, long-term initiatives at building corporate value, in line with our codes of conduct, which are intended as strategic blueprints defining guidelines for employees of all Taiyo Nippon Sanso Group companies.

Reinforcing Corporate Governance

Taiyo Nippon Sanso strives continuously to enhance transparency and fulfill its responsibility to provide adequate explanations to shareholders and investors and to otherwise ensure superior corporate governance.

Our management team consists of the Board of Directors, which has 16 members, and the Board of Auditors, comprising four standing corporate auditors. Two of the directors are non-executive directors. One of these directors and two of the auditors are external. To ensure proper financial compliance regulations, management accepts responsibility for the financial reporting process, including the preparation of financial statements and creation of an internal control framework. The Board of Auditors oversees our independent accountants. To ensure the independence of the independent accountants from the directors, the Board of Auditors obtain audit plans in advance and convenes regularly to hear results of the independent accountants' audits. Ernst & Young ShinNihon, who we have engaged as our independent accountants, is obliged to express an opinion on the legitimacy of our financial statements.

As one of the key components of our internal control framework, we have identified four categories of risks that we, as a company primarily engaged in the provision of high-pressure gases, must manage—security, safety, quality and the environment—and have established the Technology Risk Management Committee. Administrative responsibility for the committee lies with the Technological Affairs Division. The Committee is responsible for reviewing tasks set by individual committees for each of the aforementioned four risk categories, identifying necessary improvements to be made based on related management regulations, and using methods outlined in JISQ 2001 guidelines for the development and implementation of risk management systems, as well as for issuing instructions and requests for amendments.

Outlook

In June 2007, a proposal by the Board of Directors to increase annual cash dividends by ¥2.00, to ¥12.00 per share, was approved at the annual meeting of shareholders. For fiscal 2008, we project consolidated

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

net sales of ¥485,000 million, operating profit of ¥38,300 million and net income of ¥20,500 million.

With the aim of confronting issues with the potential to hamper the ongoing viability of the businesses of the Taiyo Nippon Sanso Group, we have positioned fiscal 2008 as the year in which we will focus on strengthening our fundamental ability to address the many challenges we face, thereby reinforcing our footing and preparing us for the next stage of our evolution. To this end, we believe that it is essential to reinforce efforts Companywide to implement best current practices if we are to achieve our vision of becoming the first Asian-born industrial gas provider to break into the top ranks globally.

In closing, on behalf of the Board of Directors we thank our stakeholders for continuing to demonstrate their confidence in Taiyo Nippon Sanso. We hope that this annual report will enhance your understanding of our efforts to achieve our corporate vision by observing the guidelines for conduct implied in our corporate philosophy and striving to build corporate value and, in so doing, create value for our customers, shareholders and communities.

June 28, 2007

Hiroshi Taguchi
Chairman

Hirosuke Matsueda
President

Special Feature

President
Hirosuke Matsueda

An Interview with the President

Having successfully completed its current medium-term business plan, Global 5000: Stage 1, Taiyo Nippon Sanso has shifted its focus to growth strategies aimed at becoming a global operator with a business comparable in scale with that of the major global players in the industrial gas business, and establishing a solid foundation that will enable the Company to secure a 10% global market share in the near future.

To these ends, we will continue to address key challenges to ensure continued growth. With our core gas and electronics-related businesses at the forefront, we will continue to accelerate innovation in the cultivation of both technologies and human resources to add new value to products and services as well as enhance productivity.

Q

In fiscal 2007, you surpassed the targets set for your current medium-term business plan a full two years ahead of schedule. How do you evaluate your performance for the period?

A

We achieved consolidated net sales of ¥458,500 million, surpassing our consolidated net sales target under Global 5000: Stage 1—formulated to guide our efforts from fiscal 2006 through fiscal 2009—a full two years ahead of schedule and bringing us within reach of our long-range annual sales target of ¥500,000 million. It was an auspicious year in other ways as well, as we made effective use of cash flows to complete two key acquisitions overseas. We also succeeded in growing and expanding our businesses in Japan, against a backdrop of soaring demand in the steel, chemicals, electronics and other industries, as indicated by steady results from an acquisition made in fiscal 2006.

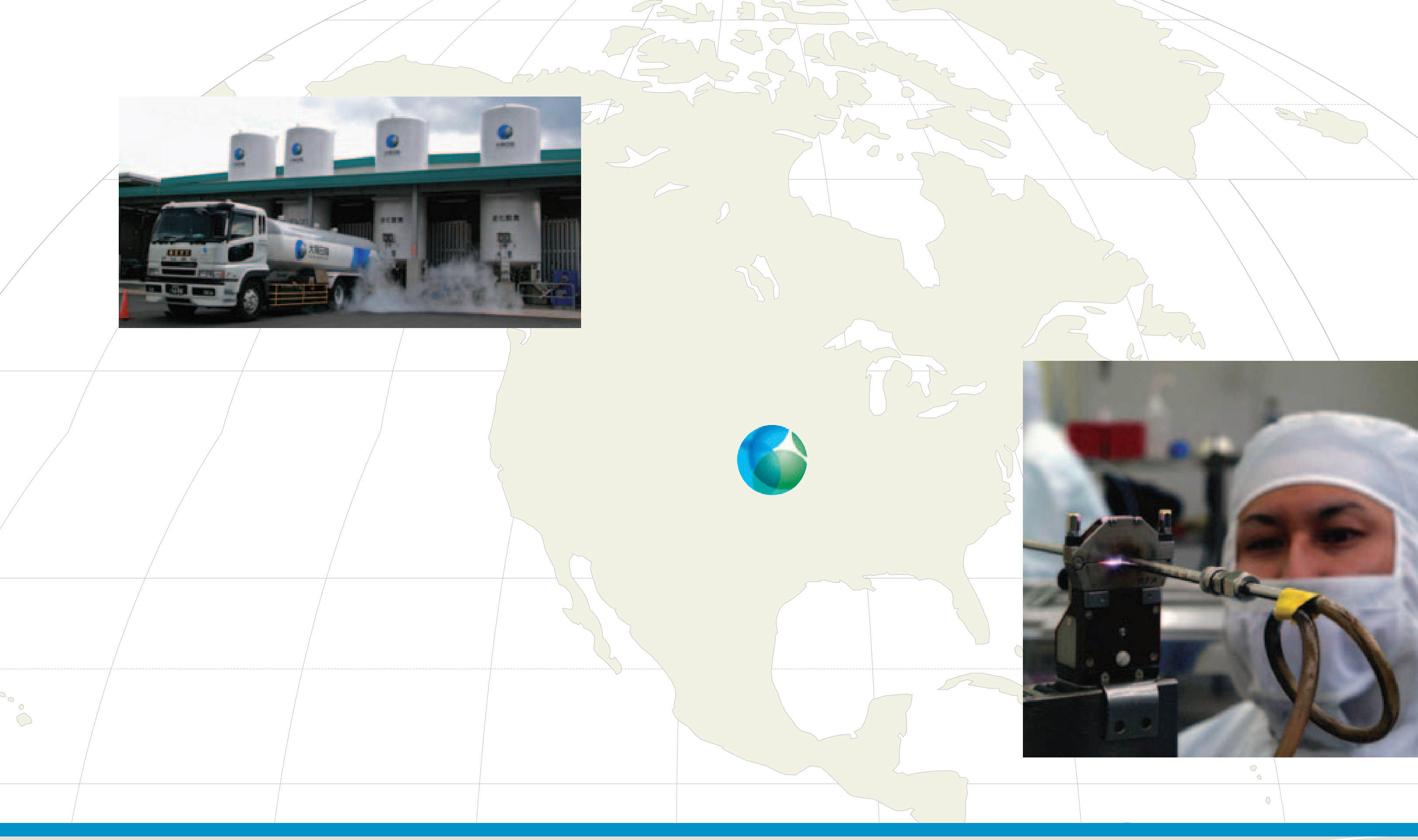
In addition to a generally robust operating environment, as evidenced by brisk demand in key industries, I attribute our performance in fiscal 2007 to the efforts of employees throughout the Taiyo Nippon Sanso Group to identify and capitalize on opportunities to promote growth. Together, we have also begun to formulate new growth strategies aimed at achieving new targets.

Q

As a consequence of your recent acquisitions overseas, your sphere of influence has increased considerably. You have attracted attention not only because of the expansion of your geographical reach but also because of your influence on the communities in which you have acquired operations. What are your thoughts on this?

A

We will continue to invest in promising new growth opportunities, as well as to expand existing businesses, in the United States, Europe, Asia and Japan. In our U.S. business in particular, in February 2007 our U.S. subsidiary commenced operations of a low-energy large-scale air separation plant in California with a



daily output capacity of 600 tons. We already have plans to install two additional plants of a similar scale in North America and hope to grow the company into an operation capable of generating annual sales in excess of $1 billion. In Asia, we have completed large-scale, low-energy plants in Singapore and more recently in the Philippines, both with hourly output capacities of 10,000m^3, positioning us to secure demand, which is rising sharply thanks to brisk economic growth. Going forward, we will continue to take a long-term perspective, taking into account the views of customers and local communities and focusing on efforts that contribute to local economic prosperity, as well as to the expansion of the Taiyo Nippon Sanso Group's business.

Q

Looking ahead, what steps must you take to ensure Taiyo Nippon Sanso maintains its competitive edge?

A

The most important task ahead is the globalization of our technologies and work force. Fortunately, the numerous gas-use, production and supply technologies we have cultivated to date enjoy considerable global currency, so by coordinating our allocation of management resources around the world we can increase our competitiveness. That said, it is people who breathe life into strategies. For this reason, I have designated fiscal 2008 as the first year of a new program designed to foster human resources. In addition to introducing globally focused training for mid-level and senior managers aimed at identifying and nurturing individuals with management potential, we will take decisive steps to enliven our corporate culture, thereby creating an environment in which employees can make full use of their expertise.

Q

Three years have passed since the merger that created Taiyo Nippon Sanso. From a Group point of view, what improvements have been made during that time?

A

We have been more successful than initially anticipated in realizing the benefits of the merger and generating synergies. Nonetheless, we recognize that there is more to be done. As an example, there is still room for improvement Companywide in the rationalization of logistics. We have also established a project team to reassess business processes. By rationalizing business activities and creating an optimal logistics system, we will succeed in adding value to our supply chain by the end of fiscal 2008. This will in turn enable us to increase Taiyo Nippon Sanso's business value in the Japanese market and deliver industrial gas solutions services that satisfy our customers and business partners.

Q
In closing, what challenges must you address to achieve the new targets you have set?

A

Going forward, we recognize that growing our core gas business is crucial to ensuring our place as a major global player that has earned the respect of society at large. Accordingly, our basic policy—which is to strengthen and expand the business by applying cash flows to advance in new directions and increasing the efficiency of our operations—will remain unchanged. That said, the fact that we surpassed our targets for fiscal 2009 two years ahead of schedule and expect to come within striking distance of our long-range target of annual consolidated net sales of ¥500,000 million in fiscal 2007 has prompted us to begin mapping out a new three-year medium-term management plan that we intend to launch in fiscal 2008. The plan will set forth a new basic business strategy, as well as measures aimed at accelerating efforts to expand our business scale and enhance operating efficiency.

Recognizing that product safety, quality assurance and environmental protection are essential to our ongoing viability as a corporate entity, we will also continue to devote our best efforts to provide a stable supply of high-quality products to our customers, ensure the safety of local communities and our employees and reduce the environmental impact of our operations. As the first Asian-born industrial gas provider to become a major global player, we pledge to concentrate management resources on growth strategies that will enable us to respond to the expectations of our customers, partners, employees and local communities.

Segment Overview

Gas Business

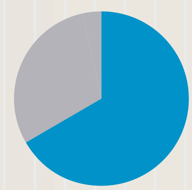
In fiscal 2007, shipments and sales of mainstay oxygen, nitrogen and argon were up from fiscal 2006. Shipments of oxygen were bolstered by increased demand from the steel and shipbuilding industries. Shipments of nitrogen rose on the strength of higher demand from a variety of industries, including electronics (for nitrogen supplied by small-scale onsite air separation plants), as well as chemicals, steel and food processing (for liquefied nitrogen). Shipments of argon rose to silicon crystal manufacturers, reflecting brisk production of 300mm wafers. Demand for argon for use in welding and a broad spectrum of other applications also grew.

Shipments and sales of carbon dioxide were bolstered by the addition of a full year of results from subsidiary Ekika Carbon Dioxide Co., Ltd. Shipments and sales of specialty gases rose sharply, reflecting high capacity utilization rates among customers in the electronics industry in Japan and overseas.

Owing to these and other factors, sales to outside customers in the Gas Business segment rose 13.9%, to ¥305,442 million, and operating income advanced 25.6%, to ¥26,996 million.

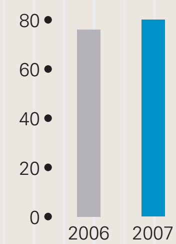
Sales Share

Years ended March 31
¥305,442 million
(66.6% of net sales)



Net Sales per Employee

Years ended March 31
(Million of yen)



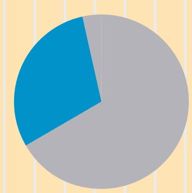
Plant and Gas Equipment Business

Fiscal 2007 sales of electronics-related equipment increased appreciably, supported by rising investment confidence in the electronics industry. Sales of compound semiconductor fabrication equipment also rose sharply, reflecting an upward turn in the business cycle, as did sales of cutting and welding equipment, led by laser cutting equipment and numerically controlled (NC) cutters handled by Group company Nissan Tanaka Corporation, owing to rising capacity utilization rates in the steel, shipbuilding and construction industries. Healthy capital investment in the domestic electronics and steel industries and firm demand from companies in South Korea, Taiwan and Southeast Asia supported a notable rise in sales of air separation plants.

As a consequence, sales to outside customers in the Plant and Gas Equipment Business rose 20.5%, to ¥136,896 million, while operating income climbed 96.8%, to ¥11,615 million.

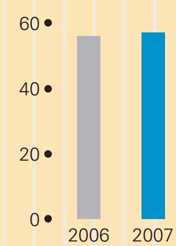
Sales Share

Years ended March 31
¥136,896 million
(29.9% of net sales)



Net Sales per Employee

Years ended March 31
(Million of yen)



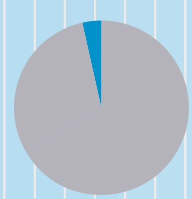
Housewares Business and Others

Thermos K.K. spearheads the manufacture and sale of housewares products. Sales of these products rose in fiscal 2007, owing to robust sales of sports bottles, as well as contributions from increased demand for personal-sized insulated mugs.

As a result, segment sales rose 5.5%, to ¥16,248 million. Nonetheless, a 7.3% increase in operating expenses prompted a 2.0% decline in operating income, to ¥1,822 million.

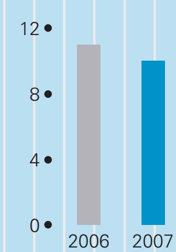
Sales Share

Years ended March 31
¥16,248 million
(3.5% of net sales)



Net Sales per Employee

Years ended March 31
(Million of yen)



Main Products

- Oxygen
- Nitrogen
- Argon
- Medical-related gases
- Specialty gases
- Electronic materials gases
- Stable isotopes (SIs)
- LP gas

Topics

- Reinforced domestic medical-related gases business
- Enhanced efficiency of domestic package gas business
- Strengthened and expanded North American industrial gases business
- Purchased primary wholesale rights for helium gas business from Linde AG
- Significantly increased filling capacity for electronics material gases in the Republic of Korea
- Sharply expanded production capacity in Singapore and the Philippines

R&D Highlight

- In the area of liquefied gases, launched AA Sun Arc, a shield gas for TIG welding of stainless steel developed jointly with the Joining and Welding Research Institute of Osaka University

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

- Delivered large air separation plant to steelmaker in Japan
- Brought Matheson Tri-Gas air separation plant in Vernon, California, on line with a daily liquid gas production capacity of 600 tons, exceeding capacity of plants in Japan

R&D Highlights

- Commenced demonstration tests of energy-efficient air separation plant with Japan's New Energy and Industrial Technology Development Organization (NEDO)
- Focused on research aimed at reinforcing ability to respond to customers' needs with total solutions encompassing everything from the processing of raw gas to the abatement of exhaust gases
- As Japan's only industrial gas company with its own plant engineering center, emphasized development of products that appeal to customers in close cooperation with the research laboratory

Main Products

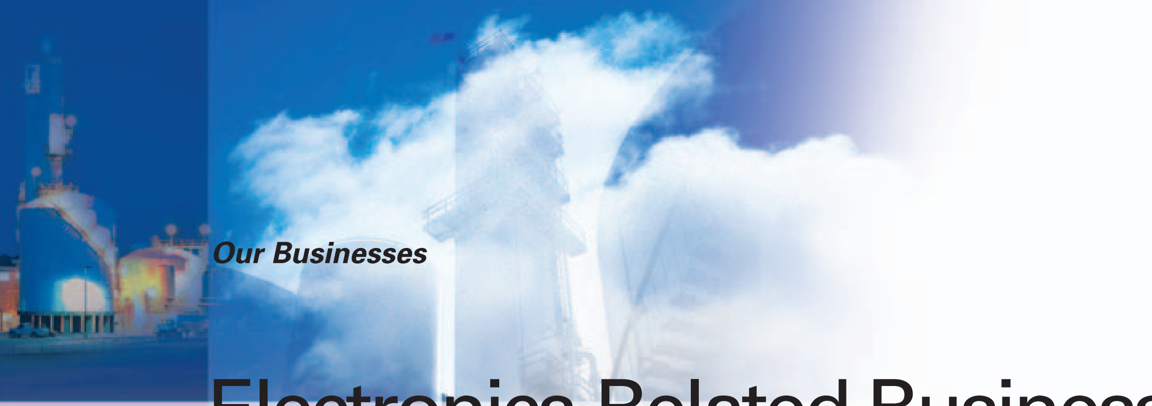
- Stainless steel vacuum bottles
- Cooking implements
- Professional-use kitchen implements

Topics

- Unveiled new mug-style thermal insulation bottle for hot drinks in the "Easy Drink" series
- Introduced new mug-style thermal insulation bottle with straw for children
- Augmented lineup of thermal insulation lunch jars with three lunchboxes for the Japanese-style boxed lunch market

R&D Highlight

- Capitalized on proprietary technology to develop an innovative thermal insulation pasta cooker



Our Businesses

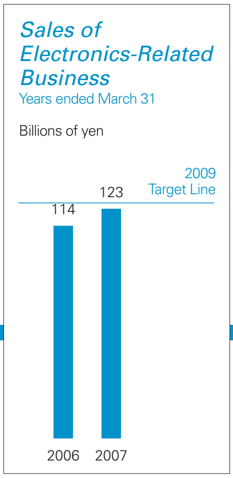
Electronics-Related Business

Advances in semiconductor device integration and the use of thin films in semiconductors, together with the increasing size of liquid crystal display (LCD) panel sizes 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 for 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 and Singapore.

Annual sales	Approximately ***¥122,500 million***
Principal products and operations	High-purity nitrogen and argon Electronic materials gases, including Safe Delivery Source (SDS) MOCVD equipment Semiconductor and LCD purification, abatement and other systems High-purity gas supply facility installation and construction
Market needs	Comprehensive gas supplies Total gas and equipment solutions
Our advantages	*Strong ties with domestic electronics manufacturers* • Close relationships with users who employ advanced technologies • Superior marketing strength through the provision of total solutions for gas and equipment • Comprehensive, 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



Note: A new target will be set under our new medium-term business plan

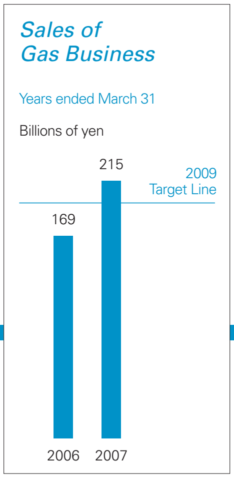
Fiscal 2007 highlights	Acquired U.S. firm Linweld Inc. Secured onsite supply contracts for large users • Demand for specialty gases rose • Sales of MOCVD equipment, which uses gallium nitride, for white light-emitting diodes • Sales of electronic materials gases were robust Purchased helium gas business of the former BOC Group plc. Expanded provision of electronic materials specialty gases to China Stepped up provision of specialty gases to semiconductor manufacturers at Taiyo Nippon Sanso Taiwan, Inc. (20%+ market share)
Target	Sales of ***¥126,000 million*** in fiscal 2009 (This target was set in 2006 and will be superseded by a new target to be set under our new medium-term business plan, which will be released in early 2008.)
Basic policies	Taiyo Nippon Sanso's principal advantage is the fact 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. We have established a plant for specialty nitrogen for use in electronics from which it has begun supplying customers in Japan, North America and Asia. As well, we are currently considering the expansion of our nitrogen plant in Taiwan, a move that will accelerate efforts to reinforce our operating foundation. Our principal strategy for mainstay products is to develop gases for use in semiconductor device fabrication. In the area of next-generation semiconductor materials gases for use in the 65-nanometer process, we have developed low-k materials produced using chemical vapor deposition (CVD), as well as a high-k chamber cleaning gas. Another mainstay of this business is metal organic vapor deposition (MOCVD) equipment, used in the manufacture of semiconductors, which uses gallium nitride. In this area, we have completed development of a new model with significantly improved processing capacity that is capable of simultaneously processing 10 2-inch wafers or eight 3-inch wafers—a significant improvement over previous models. Going forward, our principal R&D strategy will be to reinforce our sales and technological capabilities as the leading provider of the electronics-related gases and to concentrate efforts in growth areas, including FPDs and LEDs, while at the same time investing in development and implementing sales activities in a manner that recognizes the different directions 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, tank trucks and cylinders.

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

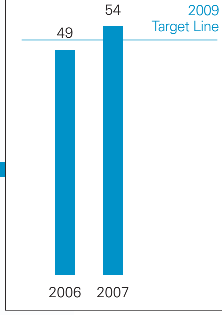
Annual sales	Approximately ***¥214,500 million***
Principal products and operations	Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium and other industrial gases Gas supply (filling, transport, storage) equipment, facilities installation and construction Gas equipment (including for cutting, welding, combustion and freezing)
Market needs	Use of gas to raise productivity, enhance quality, save energy and enhance the environment Optimal, stable, economic supply of gas
Our advantages	***Japan's largest and strongest industrial gas producer, offering increased cost advantages and price competitiveness*** • Production and supply capabilities Balanced, nationwide network of production bases Liquefaction capacity accounting for approximately 33% of domestic market • Logistics capabilities Approximately 500 filling stations capable of serving approximately 40% of the domestic market Tank truck fleet and extensive network of shipping bases Growing marketing network, including around 250 sales agents ***Further strengthening of operations in China and the United States*** • Operations in Shanghai and Suzhou • Expanding U.S. businesses of Matheson Tri-Gas Cultivating hydrogen station engineering and gas distribution businesses • High market shares for other industrial gases • In Japan, No. 1 in carbon dioxide and helium and No. 2 in acetylene



Note: A new target will be set under our new medium-term business plan

Fiscal 2007 Highlights	Purchased helium gas business of the former BOC Group plc. Singapore subsidiary significantly enhanced its operating foundation for various industrial gases Merged three carbon dioxide gas companies to create Nippon Ekitan Corporation Reinforced argon production and transport facilities Established Osaka Package Gas Center, a large-scale filling station, by consolidating existing facilities Began construction of the largest industrial gas production facility in the Philippines
Targets	Sales of ***¥196,000 million*** in fiscal 2009 (This target was set in 2006 and will be superseded by a new target to be set under our new medium-term business plan, which will be released in early 2008.) Focus on new demand for gas and expand business overseas
Basic policies	Thanks to robust market conditions and effective M&A activities, we are confident of achieving the targets we have set for this business—which already has the highest sales of all the Taiyo Nippon Sanso Group's businesses—under our current medium-term management plan and are thus focusing our efforts on enhancing earnings capabilities. For example, we are striving to eliminate redundancy in business areas and consolidate bases to optimize Group capabilities. Our principal 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 special 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 basic policy, we have developed a business strategy and a development policy 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 existing demand and to attract new customers and cultivate new demand, as well as to continue supplying gas to Japanese firms establishing operations overseas wherever these operations may be. With the aim of enhancing logistics capabilities—a key task of our current medium-term business plan—we are working closely with the logistics group of our Business Division and attempting to eliminate redundant deliveries and to enhance the efficiency of delivery vehicles, moves that will reinforce our domestic operating foundation. In our cylinder gas business, we will maximize our position as a producer to enhance our relationships with representatives of local trading companies. For example, we will offer comprehensive assistance to our partners, helping them to resolve a variety of issues, from the development of storage infrastructures and improvement of product quality and safety to personnel- and financing-related issues.

Onsite and Plant Business



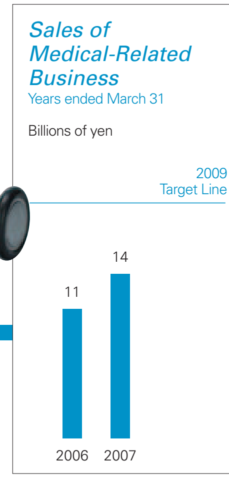
Note: A new target will be set under our new medium-term business plan

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

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

Annual sales	Approximately ***¥53,500 million***
Principal operations	Onsite: Supplies of oxygen, nitrogen and argon via pipeline Plant: Cryogenic air separation plants, pressure swing adsorption (PSA) air separation plants/cryogenic vacuum equipment and other chemical equipment
Market needs	Onsite: Large, stable supply systems Plant: Production and installation of high-performance facilities
Our advantages	***With onsite and plant businesses, we can provide support for both plants and engineering on a global scale, drawing on our capabilities as a manufacturer of industrial gases.*** • Ability to optimize facilities and operating efficiency
Fiscal 2007 highlights	Received healthy orders from steelmakers, electronics manufacturers and overseas customers Built new large-scale oxygen plant Promoted collaboration between our R&D group (Tsukuba and Yamanashi laboratories and others) and external organizations
Targets	Sales of ***¥51,000 million*** in fiscal 2009 (This target was set in 2006 and will be superseded by a new target to be set under our new medium-term business plan, which will be released in early 2008.) Secure new demand for gases and expand sales in overseas markets

Medical-Related Business



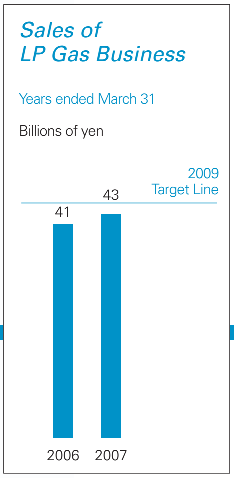
Note: A new target will be set under our new medium-term business plan

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. In addition, we help improve safety and reliability in the medical treatment sector through such services as regular testing of equipment and operation of remote monitoring systems.

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

Annual sales	Approximately ***¥13,800 million***
Principal products	Medical-related oxygen and other gases Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors SIs
Market needs	Quality control and assurance for medical-use gases Mass production and stable supply of SIs used in cancer diagnostic agents
Our advantages	*Production and sales of pharmaceutical ingredients for positron emission tomography (PET) diagnostics* • Strong position as a manufacturer of Water –180, 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* • Gather safety control information and data
Fiscal 2007 highlights	Commenced construction of medical technical service center Made affiliate KOMATSU MEDICAL INSTRUMENTS CO., LTD., a wholly owned subsidiary Established CRYOTRANSYS CORP. (integrated Group's transfer business for liquid helium used in magnetic resonance imaging (MRI) equipment) Entered business alliance with Koike Medical Co., Ltd.
Targets	Sales of ***¥20,000 million*** in fiscal 2009 (This target was set in 2006 and will be superseded by a new target to be set under our new medium-term business plan, which will be released in early 2008.) Expand SI sales; strengthen marketing capabilities in medical gases and equipment via M&A initiatives

LP Gas Business



Note: A new target will be set under our new medium-term business plan

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

The Taiyo Nippon Sanso Group sells LP gas for household heating, hot water and air conditioning use through 93,000 direct sale 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.

Annual sales	Approximately ***¥42,500 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
Our advantage	450,000 metric tons (ranked 6th in Japan)
Fiscal 2007 highlights	Merging LP gas affiliates into regional entities Strengthened procurement capabilities by exploiting groupwide economies of scale
Targets	Sales of ***¥45,000 million*** in fiscal 2009 (This target was set in 2006 and will be superseded by a new target to be set under our new medium-term business plan, which will be released in early 2008.) Expand cogeneration business

Contributing to Society as the Gas Professionals

Taiyo Nippon Sanso remains clearly focused on balancing the need to secure economic benefits with the need to mitigate potential risks, while at the same time striving to create value for its stakeholders and contribute to sustainable development.

Positron emission tomography (PET) diagnostic imaging is attracting increasing attention for use in the detection of cancer. We have developed the technology to produce Water –18O, a tracer material used in PET diagnostics, by distilling carbon monoxide and enriching oxygen-18 (^{18}O) (an oxygen isotope) that enables us to ensure a stable supply of high-quality material using only 1/6 the energy required by conventional technologies.

PET diagnostic imaging offers significant advantages over other diagnostic methods, notably reduced strain on patients. As a consequence, demand has expanded steadily since the latter half of the 1990s. We are the first manufacturer to use high-purity oxygen as a starting material to produce Water –18O using a proprietary cryogenic distillation technology to distill and enrich ^{16}O and ^{18}O isotopes. This process is based on a theory, developed in cooperation with Shiro Asano, professor emeritus at the Tokyo Institute of Technology, for distilling ^{18}O using precision air separation. We currently have an annual production capacity for Water –18O using this process of 100kg and have secured market shares of 90% in Japan and 30% worldwide. Going forward, we will continue striving to increase corporate value by pursuing businesses such as this that offer economic viability as well as contribute to society.

In the Community

We are involved in a number of initiatives aimed at benefiting the community. These include Sergio Soccer Clinic, an annual program for elementary school-age soccer teams. In the period under review, we sponsored highly successful clinics in Chiba and Osaka that included coaching by Sergio Echigo, a well-known soccer analyst and former professional player in Japan, among others, and finished up with a game in front of an audience of approximately 600 parents and siblings.

Environmental Preservation

In fiscal 2007, we obtained blanket certification under ISO 14001, the International Organization for Standardization's standard for environmental management systems. Our Electronic Materials Division and Chubu Branch had previously achieved certification, but this blanket certification recognizes ISO 14001 compliance at of all our operations in Japan.

Also in the period under review, we succeeded in commercializing MG Shield®, a cover gas that offers a viable alternative to sulfur hexafluoride in the production of magnesium alloys. In addition to being highly fireproof, MG Shield®, the principal component of which is fluorinated ketone, is environment-friendly (global warming potential coefficient (GWP): 1).

On another front, we developed a hydrogen dispenser that can produce 70Mpa of hydrogen, or twice the maximum working pressure, during a single charge. Used in hydrogen filling stations, this dispenser will make it possible for hydrogen-powered fuel cell vehicles (FCVs) to travel 500km on one charge, considered the principal goal for next-generation FCVs.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hiroshi Taguchi

President
Hirosuke Matsueda

Executive Vice Presidents
Yasunobu Kawaguchi
Kazuya Ito
Keiji Futamatsu

Executive Director/Advisor
Konosuke Ose

Senior Managing Directors
Soichi Hirabayashi
Hiroyuki Miura
Yutaka Kurosawa
Kenichiro Ebisawa
Fumio Hara

Managing Directors
Toyoo Go
Masashi Yamashita
Kenichi Kasuya

Executive Directors
Ryuichi Tomizawa *1
William J. Kroll

Corporate Auditors

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

Corporate Officers

Corporate Executive Officers
Katsuji Tsukada
Toshio Sato
Akira Ito
Shinji Tanabe
Yoshihisa Shibata
Kunishi Hazama
Tadashige Maruyama
Shigeto Umatani

Corporate Officers
Junichi Ishimaru
Toshio Suwa
Yasuharu Kamioka
Yoshikazu Yamano
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada
Shuichi Yoshida
Masakazu Naruo
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shinichiro Hiramine
Akihiko Umekawa
Akira Nishimoto
Keiki Ariga
Masahiro Imagawa
Tetsuya Nakayama

(As of June 29, 2007)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Financial Section

Contents

Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

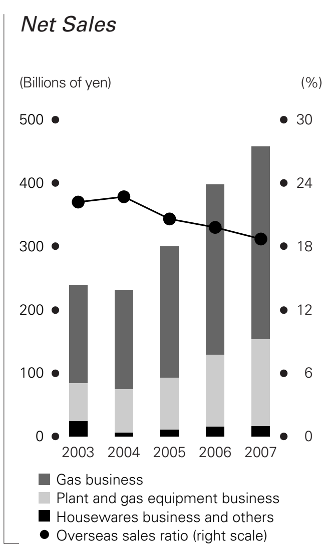
As of March 31, 2007, the Taiyo Nippon Sanso Group consisted of Taiyo Nippon Sanso Corporation (the parent company); 66 consolidated subsidiaries (43 in Japan and 23 overseas), up from 60 a year earlier owing to the acquisition of medium-sized U.S. industrial gas firm Linweld Inc.; and 25 equity-method affiliates (9 in Japan and 16 overseas).

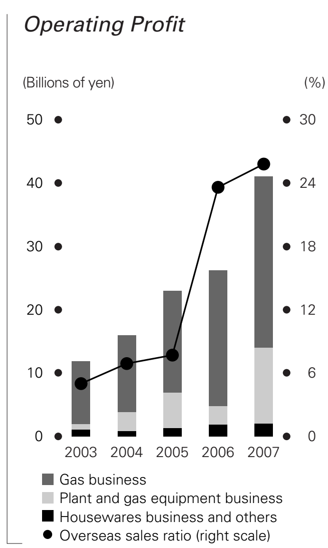
A total of 54 consolidated subsidiaries and 17 equity-method affiliates are included in the Gas Business segment. The Plant and Gas Equipment Business segment accounts for six consolidated subsidiaries, while the Housewares Business and Others segment encompasses six consolidated subsidiaries and eight equity-method affiliates.

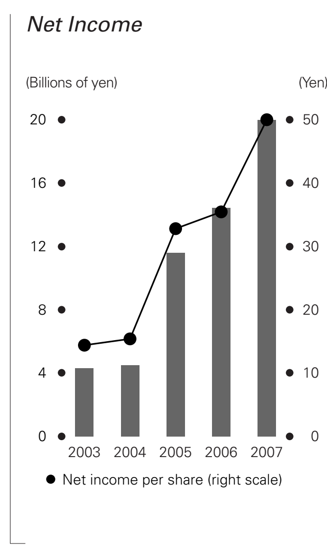
Operating Results

In fiscal 2007, consolidated net sales totaled ¥458,587 million, an increase of 15.4% from fiscal 2006, while cost of sales rose 14.7%, to ¥315,863 million, owing primarily to higher packing and freight costs and salaries. Accordingly, operating profit climbed 36.2%, to ¥36,488 million, and the operating margin improved 1.3 percentage points, to 8.0%.

Other income soared 64.7%, to ¥10,287 million, while other expenses more than doubled, to ¥10,271 million, resulting in a net gain of ¥16 million, down from ¥1,279 million in the previous period. As a consequence, net income rose 39.1%, to ¥20,094 million. Net income per share was ¥49.93, and return on equity was (ROE) was 10.6%.







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 2003 and 2004 totals of the former Nippon Sanso.

Financial Position

As of March 31, 2007, total assets amounted to ¥547,791 million, up 16.2% from the fiscal 2006 year-end. This increase was largely attributable to M&A activity, namely the acquisition of U.S. firm Linweld and the purchase of the helium gas business of the former BOC Group plc, which added ¥46,900 million, as well as to increases in notes and accounts receivable—trade and investment securities at the parent company, the latter owing to an increase in current value, which added ¥26,600 million. The current ratio edged down 0.06 percentage point, to 1.22 times.

Property, plant and equipment, net, rose 8.5%, to ¥206,386 million, owing mainly to an increase in machinery and transportation equipment. Total investments and other assets climbed 40.4%, to ¥140,510 million, reflecting a ¥15,467 million increase in investment securities and a ¥24,682 million increase in intangible assets, net.

Total current liabilities rose 16.1%, to ¥164,907 million. This increase was due to a ¥17,365 million increase in notes and accounts payable—trade, resulting from the fact that the fiscal year ended on a Saturday, a bank holiday in Japan. As a result, notes and accounts due were still included in the balance due as of the fiscal year-end.

Total long-term liabilities advanced 24.0%, to ¥166,814 million, primarily reflecting increases in long-term debt and long-term lease liabilities of ¥21,996 million and ¥4,023 million, respectively. As a consequence of these factors, interest-bearing debt increased ¥37,259 million, to ¥152,232 million.

Total net assets amounted to ¥216,068 million, an increase of ¥21,102 million. As a result, the net asset ratio slipped 1.1 percentage points, to 36.7%. Net assets per share rose ¥58.42, to ¥500.28.

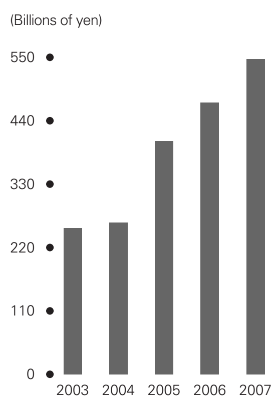
Cash Flow Analysis

In fiscal 2007, net cash provided by operating activities amounted to ¥40,061 million, up ¥8,124 million. Principal factors contributing to this change included an increase of ¥8,437 million in income before income taxes and minority interests and an increase of ¥8,921 million in increase in payables. The interest coverage ratio was 16.1 times, up 1.4 percentage points.

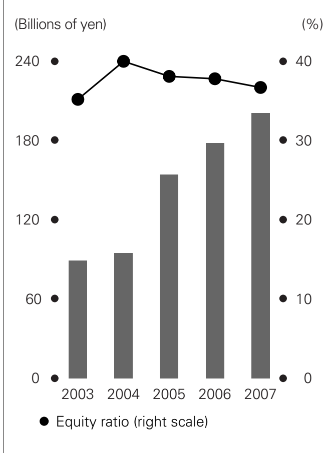
Net cash used in investing activities came to ¥66,286 million, up ¥41,048 million from the previous year. This was attributable mainly to ¥33,445 million in payments for acquisition of subsidiaries' stocks with change in scope of consolidation.

Net cash provided by financing activities came to ¥22,451 million, compared with ¥8,977 million used in these activities in

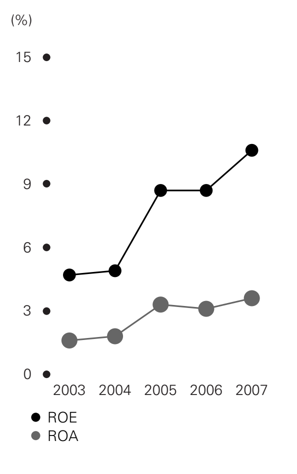
Total Assets



Equity



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



fiscal 2006. Major contributing factors were ¥15,000 million in proceeds from issuance of bonds and a ¥4,364 million increase in lease liabilities.

Owing to the Company's operating, investing and financing activities in fiscal 2007, cash and cash equivalents at end of the year totaled ¥14,404 million.

Business Risks

Taiyo Nippon Sanso faces a variety of risks, the potential impact of which it strives to minimize through effective risk management. The Company recognizes the following risks as having the potential to affect its performance, and are thus important factors for consideration in any investment decision:

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 products.

Competition

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

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

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

Technical and Safety Factors

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

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

Product Defects
The Company 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.

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2007**	2006	2005	2004	2003	2002
Net sales	**¥458,587**	¥397,308	¥300,055	¥230,272	¥238,445	¥241,546
Operating profit	**36,488**	26,788	20,727	14,317	10,313	9,758
Net income	**20,094**	14,444	11,568	4,541	4,263	3,134
Selling, general and administrative expenses/Net sales (%)	**23.2%**	24.0%	24.5%	24.1%	24.8%	25.0%
Return on equity (%)	**10.6%**	8.7%	8.7%[2]	4.9%	4.7%	3.5%
Return on assets (%)	**3.6%**	3.1%	3.3%[2]	1.8%	1.6%	1.1%
Capital expenditure	**35,891**	22,176	38,092	7,413	17,693	17,284
Depreciation and amortization	**21,210**	18,982	14,592	11,627	13,709	14,213
Research and development expenses	**2,713**	2,223	2,056	2,296	2,508	3,454
Interest-bearing debt	**152,232**	122,196	122,089	86,325	90,489	106,021
Total net assets	**216,068**	178,055	154,207	94,802	89,182	90,704
Total assets	**547,791**	471,602	404,668	263,595	253,698	275,649

	Yen					
Per share data:						
Net income[1]	**¥49.93**	¥35.45	¥32.76	¥15.38	¥14.36	¥10.58
Cash dividends	**12.00**	10.00	9.00	6.00	6.00	6.00

	Times					
Price earnings ratio		24.54	19.17	31.21	22.98	31.19

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 2002 to 2004 totals of the former Nippon Sanso.

4. Figures given for 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 4)
March 31	**2007**	2006	**2007**
Assets			
Current assets:			
Cash and deposits (Note 5)	**¥ 15,046**	¥18,714	**$ 127,454**
Short-term investments (Notes 5 and 6)	**291**	371	**2,465**
Notes and accounts receivable—trade (Note 7)	**132,759**	119,390	**1,124,600**
Inventories (Note 8)	**39,342**	31,316	**333,266**
Deferred income taxes (Note 12)	**6,186**	5,803	**52,402**
Other current assets	**8,039**	6,492	**68,098**
Allowance for doubtful receivables	**(772)**	(748)	**(6,540)**
Total current assets	**200,892**	181,340	**1,701,753**
Property, plant and equipment (Notes 10, 11 and 20)	**519,643**	495,175	**4,401,889**
Accumulated depreciation	**(313,257)**	(304,979)	**(2,653,596)**
Property plant and equipment, net	**206,386**	190,196	**1,748,293**
Investments and other assets:			
Investment securities (Note 6)	**79,205**	63,738	**670,945**
Long-term loans receivable	**1,048**	1,249	**8,878**
Intangible assets, net	**41,691**	17,009	**353,164**
Prepaid pension expenses (Note 15)	**12,984**	12,821	**109,987**
Deferred income taxes (Note 12)	**1,900**	1,339	**16,095**
Other assets	**5,941**	6,066	**50,326**
Valuation allowance for investments	**(1,282)**	(865	**(10,860)**
Allowance for doubtful receivables	**(977)**	(1,294	**(8,276)**
Total investments and other assets	**140,510**	100,064	**1,190,258**
Total assets	**¥547,791**	¥471,602	**$4,640,330**

See notes to consolidated financial statements.

March 31	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 4) 2007
Liabilities and Net assets			
Current liabilities:			
Short-term bank loans and current portion of long-term debt (Notes 9 and 10)	**¥ 30,080**	¥ 23,768	**$ 254,807**
Notes and accounts payable—trade	**95,344**	77,979	**807,658**
Accrued income taxes (Note 12)	**8,317**	7,752	**70,453**
Other current liabilities	**31,165**	32,565	**263,998**
Total current liabilities	**164,907**	142,064	**1,396,925**
Long-term liabilities:			
Long-term debt (Notes 9 and 10)	**106,595**	84,599	**902,965**
Pension and severance indemnities (Note 15)	**5,077**	5,432	**43,007**
Deferred income taxes (Note 12)	**40,080**	33,135	**339,517**
Negative goodwill	**1,452**	—	**12,300**
Consolidation adjustment account	**—**	1,318	**—**
Long-term lease liabilities	**9,433**	5,410	**79,907**
Other liabilities	**4,175**	4,675	**35,366**
Total long-term liabilities	**166,814**	134,570	**1,413,079**
Contingent liabilities (Note 16)			
Net assets (Notes 3, 13 and 22):			
Shareholders' equity:			
Common stock:			
Authorized—800,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**229,047**
Capital surplus	**44,746**	44,833	**379,043**
Retained earnings	**107,495**	93,425	**910,589**
Treasury common stock, at cost— 719,203 shares in 2007 and 3,297,515 shares in 2006	**(376)**	(1,657)	**(3,185)**
Valuation and translation adjustments:			
Unrealized holding gain on securities	**24,982**	19,452	**211,622**
Deferred gains on hedges	**56**	—	**474**
Foreign currency translation adjustments	**(2,535)**	(5,038)	**(21,474)**
Accumulated other comprehensive loss	**(111)**	—	**(940)**
Minority interests	**14,770**	16,910	**125,116**
Total net assets	**216,068**	194,966	**1,830,309**
Total liabilities and net assets	**¥547,791**	¥471,602	**$4,640,330**

Consolidated Statements of Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	**2007**	2006	**2007**
Net sales	**¥458,587**	¥397,308	**$3,884,684**
Cost of sales	**315,863**	275,326	**2,675,671**
Gross profit	**142,724**	121,981	**1,209,013**
Selling, general and administrative expenses (Note 18)	**106,235**	95,193	**899,915**
Operating profit	**36,488**	26,788	**309,089**
Other income (expenses):			
Interest and dividend income	**1,235**	842	**10,462**
Interest expense	**(2,512)**	(1,982)	**(21,279)**
Amortization of negative goodwill	**403**	—	**3,414**
Amortization of consolidation adjustment account	**—**	395	**—**
Gain on sale of property, plant and equipment (Note 19)	**6,628**	3,044	**56,146**
Loss on sale and disposal of property, plant and equipment (Note 19)	**(5,826)**	(964)	**(49,352)**
Gain on sale of investment securities	**174**	107	**1,474**
Loss on devaluation of memberships at golf clubs	**(67)**	(155)	**(568)**
Loss on sale of memberships at golf clubs	**(13)**	—	**(110)**
Equity in earnings of affiliates	**1,300**	779	**11,012**
Impairment loss (Note 20)	**(813)**	(738)	**(6,887)**
Loss on liquidation of affiliates	**—**	(128)	**—**
Loss on revaluation of investments	**(540)**	(725)	**(4,574)**
Merger expense	**—**	(275)	**—**
Expenses for improvement of environment	**(500)**	—	**(4,235)**
Gain from prior period adjustments	**—**	161	**—**
Gain from reversal of allowance for doubtful receivables	**—**	149	**—**
Gain from termination of part of the retirement benefit plan (Note 15)	**—**	51	**—**
Other, net	**547**	718	**4,634**
	16	1,279	**136**
Income before income taxes and minority interests	**36,505**	28,068	**309,233**
Income taxes (Note 12):			
Current	**14,080**	10,551	**119,271**
Deferred	**833**	1,843	**7,056**
	14,913	12,394	**126,328**
Minority interests in earnings of consolidated subsidiaries	**1,498**	1,228	**12,690**
Net income	**¥ 20,094**	¥ 14,444	**$ 170,216**

	Yen		U.S. dollars (Note 4)
Amounts per share:			
Net assets	**¥500.28**	¥441.86	**$4.24**
Net income	**49.93**	35.45	**0.42**
Cash dividends	**12.00**	10.00	**0.10**

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	Unrealized holding gain on securities	Deferred gains on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
		Millions of yen									
Balance at March 31, 2005	405,892,837	¥27,039	¥44,807	¥ 83,672	¥ (479)	¥ 9,300	¥—	¥(10,132)	¥ —	¥ —	¥154,207
Gain on disposal of treasury stock	—	—	25	—	—	—	—	—	—	—	25
Increase due to merger of subsidiaries	—	—	—	22	—	—	—	—	—	—	22
Decrease due to decrease of ownership ratio	—	—	—	(499)	—	—	—	—	—	—	(499)
Bonuses to directors and corporate auditors	—	—	—	(146)	—	—	—	—	—	—	(146)
Cash dividends paid	—	—	—	(4,040)	—	—	—	—	—	—	(4,040)
Other	—	—	—	(27)	—	—	—	—	—	—	(27)
Net income for the year ended March 31, 2006	—	—	—	14,444	—	—	—	—	—	—	14,444
Net changes in items other than those in shareholders' equity	—	—	—	—	(1,178)	10,152	—	5,094	—	—	14,068
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)
Gain on disposal of treasury stock	—	—	10	—	18	—	—	—	—	—	28
Retirement of treasury stock	(2,800,000)	—	(96)	(1,425)	1,522	—	—	—	—	—	—
Increase due to merger of subsidiaries	—	—	—	29	—	—	—	—	—	—	29
Bonuses to directors and corporate auditors	—	—	—	(167)	—	—	—	—	—	—	(167)
Cash dividends paid	—	—	—	(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 in items other than those in 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

	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized holding gain on securities	Deferred gains on hedges	Foreign currency translation adjustments	Accumulated other comprehensive loss	Minority interests	Total net assets
	Thousands of U.S. dollars (Note 4)									
Balance at March 31, 2006	$229,047	$379,780	$791,402	$(14,036)	$164,778	$ —	$(42,677)	$ —	$ —	$1,508,302
Reclassified balance as of March 31, 2006	—	—	—	—	—	—	—	—	(143,244)	(143,244)
Gain on disposal of treasury stock	—	85	—	152	—	—	—	—	—	237
Retirement of treasury stock	—	(813)	(12,071)	12,893	—	—	—	—	—	—
Increase due to merger of subsidiaries	—	—	246	—	—	—	—	—	—	246
Bonuses to directors and corporate auditors	—	—	(1,415)	—	—	—	—	—	—	(1,415)
Cash dividends paid	—	—	(37,518)	—	—	—	—	—	—	(37,518)
Other	—	—	(254)	—	—	—	—	—	—	(254)
Net income for the year ended March 31, 2007	—	—	170,216	—	—	—	—	—	—	170,216
Purchase of treasury stock	—	—	—	(2,194)	—	—	—	—	—	(2,194)
Net changes in items other than those in shareholders' equity	—	—	—	—	46,845	474	21,194	(940)	(18,119)	49,445
Balance at March 31, 2007	$229,047	$379,043	$910,589	$ (3,185)	$211,622	$474	$(21,474)	$(940)	$125,116	$1,830,309

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	**2007**	2006	**2007**
Operating activities			
Income before income taxes and minority interests	**¥ 36,505**	¥ 28,068	**$ 309,233**
Depreciation and amortization	**21,210**	18,982	**179,670**
Impairment loss	**813**	738	**6,887**
Amortization of goodwill	**498**	—	**4,219**
Amortization of consolidation adjustment account	**—**	(207)	**—**
Interest and dividend income	**(1,236)**	(842)	**(10,470)**
Interest expense	**2,512**	1,982	**21,279**
Equity in earnings of affiliates	**(1,300)**	(779)	**(11,012)**
Loss on disposal and sale of property, plant and equipment	**(1,008)**	(2,201)	**(8,539)**
Gain on sale of investment securities	**(174)**	(108)	**(1,474)**
(Increase) decrease in receivables	**(742)**	951	**(6,285)**
Increase in accounts receivable	**(10,803)**	(8,741)	**(91,512)**
Increase in inventories	**(6,084)**	(466)	**(51,537)**
Increase in payables	**15,531**	6,610	**131,563**
Increase in accrued expenses	**383**	1,489	**3,244**
Decrease in advances received	**(505)**	(1,544)	**(4,278)**
Increase in prepaid pension expenses	**(163)**	(2,697)	**(1,381)**
Increase in pension and severance indemnities	**(309)**	(1,786)	**(2,618)**
Other	**(2,067)**	837	**(17,510)**
	53,058	40,282	**449,454**
Interest and dividends received	**1,583**	1,155	**13,410**
Interest paid	**(2,488)**	(2,173)	**(21,076)**
Income taxes paid	**(12,092)**	(7,325)	**(102,431)**
Net cash provided by operating activities	**40,061**	31,937	**339,356**
Investing activities			
Increase in short-term investments	**746**	304	**6,319**
Proceeds from sales or redemption of marketable and investment securities	**—**	506	**—**
Purchases of property, plant and equipment	**(30,290)**	(23,074)	**(256,586)**
Proceeds from sales of property, plant and equipment	**9,407**	4,298	**79,687**
Purchases of intangible assets	**(4,835)**	(418)	**(40,957)**
Proceeds from sales of intangible assets	**4**	171	**34**
Payments for purchase of investment securities	**(7,997)**	(1,883)	**(67,742)**
Proceeds from sales of investment securities	**436**	151	**3,693**
Payments for acquisition of subsidiaries' stocks with change in scope of consolidation	**(33,445)**	(5,158)	**(283,312)**
Other	**(310)**	(135)	**(2,626)**
Net cash used in investing activities	**(66,286)**	(25,238)	**(561,508)**
Financing activities			
Repayments of short-term bank loans	**(5,843)**	(5,873)	**(49,496)**
(Repayments of) proceeds from commercial paper	**(2,000)**	3,000	**(16,942)**
Proceeds from issuance of long-term debt	**27,182**	22,440	**230,258**
Repayment of long-term debt	**(11,234)**	(23,410)	**(95,163)**
Proceeds from issuance of stocks	**277**	150	**2,346**
Proceeds from issuance of bonds	**15,000**	—	**127,065**
Repayment of lease liabilities	**(411)**	—	**(3,482)**
Increase in lease liabilities	**4,364**	—	**36,967**
Cash dividends to shareholders	**(4,429)**	(4,040)	**(37,518)**
Dividends paid to minority interests	**(238)**	(183)	**(2,016)**
Redemption of treasury stock	**(257)**	(1,186)	**(2,177)**
Proceeds from sale of treasury stocks	**42**	125	**356**
Net cash provided by (used in) financing activities	**22,451**	(8,977)	**190,182**
Effect of exchange rate changes on cash and cash equivalents	**367**	190	**3,109**
Net decrease in cash and cash equivalents	**(3,405)**	(2,087)	**(28,844)**
Cash and cash equivalents at beginning of the year	**17,416**	17,839	**147,531**
Increase by change in the scope of consolidation	**243**	830	**2,058**
Increase by newly consolidated subsidiaries	**—**	458	**—**
Increase by merger of subsidiaries	**150**	376	**1,271**
Cash and cash equivalents at end of the year (Note 5)	**¥ 14,404**	¥ 17,416	**$ 122,016**

See notes to consolidated financial statements.

1. Basis of Consolidated Financial Statements

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

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and 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 66 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

(b) Cash equivalents

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

(c) Marketable and investment securities

Marketable securities and 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 unrealized holding gain or loss, 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

(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 is translated at historical rates. Differences arising from the translations are stated under "Foreign currency translation adjustments" and minority interests in consolidated subsidiaries in the accompanying consolidated balance sheets.

(g) Pension and severance indemnities

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

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

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

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

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

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

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

The allowance for directors' and corporate auditors' retirement benefits of the Company and certain of its domestic subsidiaries is provided at the amount which would have been required to be paid if all directors and corporate auditors had voluntarily terminated their services as of the balance sheet date. This amount has been determined in accordance with the internal rules of the respective companies. The allowance included ¥242 million ($2,050 thousand) for corporate officers at March 31, 2007.

(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, 2007 and 2006.

(l) Allowance for doubtful receivables

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

(m) Valuation allowance for investments

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

(n) Derivative and hedging transactions

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

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

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

3. Change in Accounting Policies and Adoption of New Accounting Standards

(a) Accounting Standards for Presentation of Net Assets in the Balance Sheet

Effective from the fiscal year beginning April 1, 2006, the Company applied Financial Accounting Standard No. 5, "Accounting Standards for Presentation of Net Assets in the Balance Sheet," and its Implementation Guidance No. 8, "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet," issued on December 9, 2005 by the Accounting Standards Board of Japan. If the previous accounting policy were to be applied, net assets at March 31, 2007 were ¥201,352 million (US$1,705,650 thousand).

(b) Accounting Standard for Business Combinations

Effective from the fiscal year beginning April 1, 2006, the Company applied Statement of Opinion, "Accounting for Business Combinations," issued on October 2003 by Business Accounting Council (BAC) of Japan, Financial Accounting Standard No. 7, "Accounting Standard for Business Divestitures," issued on December 27, 2005, and the related Implementation Guidance No. 10, "Guidance on Accounting Standard for Business Combinations and accounting Standard for Business Divestitures," issued on December 22, 2006 by the Accounting Standards Board of Japan.

(c) Accounting Standard for Directors' Bonus

Effective from the fiscal year beginning April 1, 2006, the Company applied Financial Accounting Standard No. 4, "Accounting Standard for Directors' Bonus," issued on November 29, 2005 by the Accounting Standards Board of Japan. As a result, operating income and income before income taxes decreased by ¥44 million (US$373 thousand).

(d) Financial Accounting Standards Board (FASB) Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132 (R)"

Effective from the fiscal year beginning April 1, 2006, consolidated subsidiaries in the U.S. adopted Statement of Financial Accounting Standard No. 158 and recognized the underfunded amount of the postretirement benefit obligation (health care plan) in the consolidated balance sheet. Adjustment for the initial application, excluding deferred tax, is recognized in accumulated other comprehensive loss as a component of net assets.

4. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥118.05=U.S.$1, the approximate rate of exchange at March 31, 2007. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

5. Cash and Cash Equivalents

The components of cash and cash equivalents at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash and deposits	**¥15,046**	¥18,714	**$127,454**
Time deposits with maturities of more than three months	**(932)**	(1,669)	**(7,895)**
Cash equivalents included in short-term investments	**291**	371	**2,465**
	¥14,404	¥17,416	**$122,016**

6. Marketable and Investment Securities

At March 31, 2007 and 2006, information with respect to other securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			**2007**		
	Cost	Balance sheet amount	Unrecognized gain (loss)	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:						
Stock	**¥15,668**	**¥58,149**	**¥42,481**	**$132,723**	**$492,579**	**$359,856**
Unrecognized loss items:						
Stock	**373**	**313**	**(60)**	**3,160**	**2,651**	**(508)**
Total	**¥16,042**	**¥58,462**	**¥42,420**	**$135,892**	**$495,231**	**$359,339**

	Millions of yen		
	2006		
	Cost	Balance sheet amount	Unrecognized gain (loss)
Unrecognized gain items:			
Stock	¥11,263	¥44,472	¥33,208
Unrecognized loss items:			
Stock	181	156	(24)
Total	¥11,445	¥44,628	¥33,183

Proceeds from sales of securities classified as other securities amount to ¥420 million ($3,558 thousand) and ¥127 million with an aggregate gain on sales of ¥174 million ($1,474 thousand) and ¥108 million for the years ended March 31, 2007 and 2006, respectively.

Balance sheet amount of non-marketable securities classified as other securities at March 31, 2007 and 2006 were as follows:

Other securities:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Unlisted securities (except for OTC securities)	**¥2,131**	¥2,337	**$18,052**
Preferred securities	**1,000**	1,000	**8,471**
Preferred stock	**1,000**	1,000	**8,471**
Money market fund	**291**	371	**2,465**

There are no securities with maturity dates classified as other securities at March 31, 2007.

7. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Accounts receivable transferred by liquidation	**¥12,501**	¥3,059	**$105,896**
Notes receivable transferred by liquidation	**11,639**	6,160	**98,594**

(b) Notes receivable discounted at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Notes receivable discounted	**¥ 3**	¥617	**$25**
Notes receivable endorsed	**—**	67	**—**

8. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise	**¥14,828**	¥12,027	**$125,608**
Finished products	**1,907**	1,698	**16,154**
Semifinished products and work in process	**17,545**	13,178	**148,623**
Raw materials and supplies	**5,062**	4,413	**42,880**
	¥39,342	¥31,316	**$333,266**

9. Short-Term Borrowings and Long-Term Debt

At March 31, 2007 and 2006, short-term borrowings and the current portion of long-term debt consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Bank loans	**¥ 8,146**	¥13,130	**$ 69,005**
Current portion of long-term debt	**21,933**	10,637	**185,794**
Total	**¥30,080**	¥23,768	**$254,807**

The average interest rates applicable to short-term bank loans outstanding at March 31, 2007 and 2006 were 2.92% and 0.96%, respectively.

Long-term debt at March 31, 2007 and 2006 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans from banks due through 2017 at average interest rate of 2.14% in 2007 and 1.92% in 2006	**¥ 76,595**	¥59,599	**$648,835**
0.92% unsecured bonds, payable in yen, due 2007	**—**	10,000	**—**
0.95% unsecured bonds, payable in yen, due 2009	**15,000**	15,000	**127,065**
1.81% unsecured bonds, payable in yen, due 2011	**15,000**	—	**127,065**
	¥106,595	¥84,599	**$902,965**

0.56% commercial paper (¥6,000 million ($50,826 thousand)) at March 31, 2007 and 0.13% commercial paper (¥8,000 million) at March 31, 2006 were included in other current liabilities.

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

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2008	¥11,933	$101,084
2009	25,180	213,299
2010	7,887	66,811
2011	19,607	166,091
2012	14,055	119,060
2013 and thereafter	9,866	83,575
	¥88,528	$749,920

10. Pledged Assets

Assets pledged as collateral for short-term bank loans of ¥377 million ($3,194 thousand) and ¥1,192 million, long-term debt of ¥1,501 million ($12,715 thousand) and ¥857 million and other liabilities of ¥350 million ($2,965 thousand) and ¥3,157 million at March 31, 2007 and 2006 respectively were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Property, plant and equipment, at net book value	**¥17,475**	¥6,119	**$148,030**

11. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Property, plant and equipment	**¥411**	¥411	**$3,482**

12. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 40.69% for 2007 and 2006.

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

	2007
Statutory tax rate	**40.69%**
Effect of:	
Expenses permanently not deductible for income tax purposes	**1.72**
Dividend income deductible for income tax purposes	**(1.04)**
Change in valuation allowance	**3.14**
Other, net	**(0.35)**
Effective tax rate	**44.16%**

The reconciliation omitted for the year ended March 31, 2007 because the difference was less than 5% of the statutory tax rate.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,240**	¥ 2,036	**$ 18,975**
Loss from valuation of inventory	**246**	143	**2,084**
Accrued expenses	**1,384**	1,266	**11,724**
Tax losses carried forward	**256**	2,169	**2,169**
Other	**2,335**	2,222	**19,780**
Deferred tax assets—subtotal	**6,464**	7,837	**54,756**
Valuation allowance	**(227)**	(2,033)	**(1,923)**
Deferred tax assets—net	**6,236**	5,804	**52,825**
Deferred tax liabilities	**(49)**	(1)	**(415)**
Net deferred tax assets	**¥ 6,186**	¥ 5,803	**$ 52,402**
Deferred tax liabilities:			
Adjustment of allowance for doubtful receivables	**¥ (81)**	¥ (61)	**$ (686)**
Deferred tax liabilities—subtotal	**(81)**	(61)	**(686)**
Deferred tax assets	**49**	1	**415**
Net deferred tax liabilities	**¥ (31)**	¥ (60)	**$ (263)**

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 757**	¥ 760	**$ 6,413**
Reserve for retirement benefits	**1,129**	1,341	**9,564**
Net operating loss carryforward for tax purposes	**125**	37	**1,059**
Other	**7,455**	6,573	**63,151**
Deferred tax assets—subtotal	**9,467**	8,713	**80,195**
Valuation allowance	**(4,268)**	(3,514)	**(36,154)**
Deferred tax assets—net	**5,198**	5,199	**44,032**
Deferred tax liabilities	**(3,298)**	(3,859)	**(27,937)**
Net deferred tax assets	**¥ 1,900**	¥ 1,339	**$ 16,095**
Deferred tax liabilities:			
Valuation difference on other securities	**¥(17,465)**	¥(13,609)	**$(147,946)**
Reserve for replacement of fixed assets	**(6,868)**	(6,403)	**(58,179)**
Reserve for replacement of fixed assets—special	**(1,683)**	(1,545)	**(14,257)**
Depreciation	**(7,100)**	(5,930)	**(60,144)**
Other	**(10,260)**	(9,506)	**(86,912)**
Deferred tax liabilities—subtotal	**(43,378)**	(36,994)	**(367,454)**
Deferred tax assets	**3,298**	3,859	**27,937**
Net deferred tax liabilities	**¥(40,080)**	¥(33,135)	**$(339,517)**

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Commercial Code of Japan with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below.

(a) Dividends

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

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

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

The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(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.

14. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2007 and 2006 which would have been reflected in the consolidated balance sheet if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Acquisition costs:			
Property, plant and equipment	**¥9,161**	¥7,941	**$77,603**
Other assets	**422**	318	**3,575**
	¥9,584	¥8,260	**$81,186**
Accumulated depreciation:			
Property, plant and equipment	**¥4,571**	¥3,577	**$38,721**
Other assets	**224**	153	**1,898**
	¥4,796	¥3,730	**$40,627**
Net book value:			
Property, plant and equipment	**¥4,589**	¥4,363	**$38,873**
Other assets	**197**	165	**1,669**
	¥4,787	¥4,529	**$40,551**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,610 million ($13,638 thousand) and ¥1,234 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, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 and 2006 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
2007		
2008	**¥1,401**	**$11,868**
2009 and thereafter	**3,386**	**28,683**
Total	**¥4,787**	**$40,551**
2006		
2007	¥1,162	
2008 and thereafter	3,367	
Total	¥4,529	

(b) Future minimum lease payments subsequent to March 31, 2007 and 2006 for non-cancelable operating leases are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007		
2008	**¥1,992**	**$16,874**
2009 and thereafter	**7,258**	**61,482**
Total	**¥9,250**	**$78,357**
2006		
2007	¥1,940	
2008 and thereafter	6,796	
Total	¥8,737	

15. 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 foreign subsidiaries have the defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2007 and 2006 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the year ended March 31, 2007 and 2006 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥ 34,842**	¥ 35,293	**$ 295,146**
Plan assets at fair market value	**(43,516)**	(45,712)	**(368,623)**
Unfunded retirement benefit liabilities	**(8,674)**	(10,419)	**(73,477)**
Net unrecognized actuarial losses	**23**	2,385	**195**
Difference at change of accounting standard	**(3,769)**	(4,199)	**(31,927)**
Unrecognized prior service cost	**2,856**	3,097	**24,193**
Prepaid pension expenses	**12,984**	12,821	**109,987**
Allowance for employees' retirement benefits	**(3,420)**	(3,686)	**(28,971)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Current service cost	**¥1,124**	¥1,463	**$ 9,521**
Interest cost	**591**	660	**5,006**
Expected return on plan assets	**(709)**	(639)	**(6,006)**
Expense of actuarial loss	**48**	775	**407**
Net loss on change in accounting standard for employees' retirement benefits	**466**	609	**3,947**
Adjustment for prior service cost	**(241)**	(213)	**(2,042)**
Total of retirement benefit expenses	**¥1,280**	¥2,656	**$10,843**
Gain on termination of part of the retirement benefit plan	**—**	(51)	**—**
Other	**338**	462	**2,863**
Total	**¥1,618**	¥3,067	**$13,706**

(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:

	2007	2006
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Rate of return on assets	**Mainly 2.5%**	Mainly 2.5%
Period of recognition of actuarial gains or losses	**Mainly 12 to 16 years**	Mainly 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**	Mainly 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

16. Contingent Liabilities

At March 31, 2007 and 2006, respectively, the Company and certain of its subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥8,245 million ($69,843 thousand) and ¥10,584 million, which included reguarantees by joint investors amounting to ¥792 million ($6,709 thousand) and ¥938 million and commitments to guarantees amounting to ¥1,685 million ($14,274 thousand) and ¥1,803 million.

17. Derivative and Hedging Activities

(a) Outline of transactions and conditions

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

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

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

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

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

(b) Interest-related derivatives

At March 31, 2007 and 2006, the contract amounts, market value and unrealized loss on derivatives were as follows:

	Millions of yen		
March 31, 2007	Contracted amounts	Market value	Unrealized loss
Interest rate swaps:			
Receive/floating and pay/fixed	**¥ —**	**¥—**	**¥—**
	¥ —	**¥—**	**¥—**

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

	Thousands of U.S. dollars		
March 31, 2007	Contracted amounts	Market value	Unrealized loss
Interest rate swaps:			
Receive/floating and pay/fixed	**$ —**	**$—**	**$—**
	$ —	**$—**	**$—**

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

(c) Currency related derivatives

Market value information at March 31, 2007 and 2006 is not required as all of the Company and certain of its subsidiaries' derivative transactions are accounted for as hedging transactions.

18. 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, 2007 and 2006 totaled ¥2,713 million ($22,982 thousand) and ¥2,223 million, respectively.

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

Significant components of the gain on sales of property, plant and equipment of ¥6,628 million ($56,146 thousand) and ¥3,044 million for the year ended March 31, 2007 and 2006, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥6,628**	¥3,039	**$56,146**

Significant components of the loss on sales and disposal of property, plant and equipment of ¥5,826 million ($49,352 thousand) and ¥964 million for the years ended March 31, 2007 and 2006, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥4,992**	¥222	**$42,287**
Buildings and structures	**—**	130	**—**
Machinery	**438**	184	**3,710**

20. 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 down are recorded as impairment loss of ¥813 millions ($6,887 thousand) and ¥738 million (of which land accounts for ¥598 million ($5,066 thousand) and ¥726 million and buildings for ¥214 million ($1,813 thousand) and ¥12 million in other expenses for the year ended March 31, 2007 and 2006, respectively, due to luck of recovery provability of market value or 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).

21. Segment Information

The business, geographical and overseas sales segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is summarized as follows:

(a) Business Segments

	Millions of yen					
Year ended or as of March 31, 2007	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
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, 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, 2006	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	¥268,284	¥113,626	¥15,397	¥397,308	¥ —	¥397,308
(2) Intersegment sales	162	6,251	73	6,486	(6,486)	—
Total sales	268,447	119,877	15,470	403,795	(6,486)	397,308
Operating costs and expenses	246,952	113,975	13,611	374,539	(4,019)	370,520
Operating income	¥ 21,494	¥ 5,901	¥ 1,859	¥ 29,255	¥ (2,467)	¥ 26,788
II. Assets, depreciation expenses, capital expenditure:						
Assets	¥309,469	¥ 67,238	¥17,627	¥394,334	¥77,267	¥471,602
Depreciation expenses	¥ 16,517	¥ 1,243	¥ 709	¥ 18,470	¥ 512	¥ 18,982
Impairment loss	¥ —	¥ —	¥ —	¥ —	¥ 738	¥ 738
Capital expenditure	¥ 19,455	¥ 2,055	¥ 741	¥ 22,252	¥ (76)	¥ 22,176

Year ended or as of March 31, 2007	Gas business	Plant and gas equipment business	Housewares business and others	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
I. Sales:						
(1) Sales to third parties	**$2,587,395**	**$1,159,644**	**$137,637**	**$3,884,684**	**$ —**	**$3,884,684**
(2) Intersegment sales	**839**	**104,185**	**1,542**	**106,573**	**(106,573)**	**—**
Total sales	**2,588,242**	**1,263,837**	**139,178**	**3,991,266**	**(106,573)**	**3,884,684**
Operating costs and expenses	**2,359,551**	**1,165,447**	**123,744**	**3,648,751**	**(73,147)**	**3,575,595**
Operating income	**$ 228,683**	**$ 98,391**	**$ 15,434**	**$ 342,516**	**$ (33,418)**	**$ 309,089**
II. Assets, depreciation expenses, capital expenditure:						
Assets	**$3,207,166**	**$ 611,453**	**$161,804**	**$3,980,432**	**$ 659,890**	**$4,640,330**
Depreciation expenses	**$ 157,620**	**$ 14,358**	**$ 5,184**	**$ 177,171**	**$ 2,490**	**$ 179,670**
Impairment loss	**$ —**	**$ —**	**$ —**	**$ —**	**$ 6,887**	**$ 6,887**
Capital expenditure	**$ 279,043**	**$ 15,248**	**$ 12,080**	**$ 306,379**	**$ (2,346)**	**$ 304,032**

(b) Geographical Segments

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

Year ended or as of March 31, 2007	Japan	North America	Other countries	Total	Eliminations or corporate	Consolidated
	Thousands of U.S. dollars					
Sales:						
Sales to third parties	**$3,156,408**	**$526,963**	**$201,313**	**$3,884,684**	**$ —**	**$3,884,684**
Intersegment sales	**56,154**	**79,644**	**17,967**	**153,782**	**(153,782)**	**—**
Total sales	**3,212,562**	**606,616**	**219,288**	**4,038,475**	**(153,782)**	**3,884,684**
Operating costs and expenses	**2,952,927**	**539,949**	**206,218**	**3,699,094**	**(123,499)**	**3,575,595**
Operating income	**$ 259,636**	**$ 66,658**	**$ 13,071**	**$ 339,373**	**$ (30,275)**	**$ 309,089**
Assets	**$2,595,129**	**$998,475**	**$284,176**	**$3,877,789**	**$ 762,533**	**$4,640,330**

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

Year ended or as of March 31, 2007	North America	Other	Total	North America	Other	Total
	Millions of yen			Thousands of U.S. dollars		
Overseas sales	**¥55,344**	**¥40,826**	**¥ 96,171**	**$468,818**	**$345,837**	**$ 814,663**
Consolidated net sales			**458,587**			**3,884,684**
Ratio of overseas sales to consolidated net sales	**12.1%**	**8.9%**	**21.0%**			

Year ended or as of March 31, 2006	North America	Other	Total
	Millions of yen		
Overseas sales	¥40,998	¥37,946	¥ 78,945
Consolidated net sales			397,308
Ratio of overseas sales to consolidated net sales	10.3%	9.5%	19.8%

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

Assets and liabilities of newly consolidated subsidiaries, Linweld, Inc., and other 5 subsidiaries through the acquisition of stocks, acquisition cost and net payments for the acquisition effective in fiscal 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 3,824**	**$ 32,393**
Property, plant and equipment	**13,749**	**116,468**
Goodwill	**15,660**	**132,656**
Other assets	**5,179**	**43,871**
Total assets	**¥ 38,414**	**$ 325,404**
Current liabilities	**¥ 4,085**	**$ 34,604**
Long-term liabilities	**1,656**	**14,028**
Total liabilities	**¥ 5,741**	**$ 48,632**
Acquisition cost of newly consolidated subsidiaries' stocks	**¥(33,992)**	**$(287,946)**
Cash and cash equivalents of newly consolidated subsidiaries	**547**	**4,634**
Payments for acquisition of subsidiaries' stocks with change in scope of consolidation	**¥(33,445)**	**$(283,312)**

23. Subsequent Events

(a) Appropriation of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying financial statements for the year ended March 31, 2007, were approved at a shareholders' meeting held on June 28, 2007:

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥7.00 ($0.059) per share	¥2,817	$23,863

(b) Issuance of domestic unsecured bonds

The Company achieved a comprehensive resolution regarding issuance of domestic unsecured bonds at the Board meeting on April 27, 2007 and issued them on June 14, 2007.

The overview is as follows:

(1) Total amount of issuance:	¥10 billion
(2) Issue price:	¥100 per ¥100 of the face value
(3) Interest rate:	1.58% per year
(4) Issue date:	June 14, 2007
(5) Maturity price:	¥100 per ¥100 of the face value
(6) Maturity date:	June 14, 2012
(7) Intended usage of the fund:	Redemption of bonds

(c) Making NS Engineering Co., Ltd., a wholly-owned subsidiary through a stock for stock exchange

On April 27, 2007, the Board of Directors of the Company decided to make NS Engineering Co., Ltd., a wholly-owned subsidiary through a stock for stock exchange and signed a stock exchange contract with NS Engineering Co., Ltd.

1. Purpose of the stock exchange

With a good demand in business investment in the electronics industry, Semiconductor Devices and Construction businesses of Taiyo Nippon Sanso Group continued expanding. NS Engineering Co., Ltd., a consolidated subsidiary of the Company, designs and constructs many of the orders the Company received. With the trend of large-scaled construction, further efficient operation is being required. Consequently, the Company is looking to enhance its structure to respond to customers' needs promptly and accurately and also pursue further improvement of the competitiveness in Semiconductor Devices and Construction businesses by making NS Engineering Co., Ltd., a wholly-owned subsidiary.

2. Method of the stock exchange

Pursuant to Articles 767 and 769 of the Japanese Company Law, effective on May 18, 2007, the Company provides its common stock to the shareholders (excluding the Company) by providing treasury stock held by the Company in place of issuing of new shares.

3. Stock exchange ratio

At a conversion rate of 12.273 share of the Company's common stock per share of NS Engineering Co., Ltd., stock.

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, 2007 and 2006, and the related consolidated statements of income and cash flows for the years then ended, the related consolidated statement of changes in net assets for the year ended March 31, 2007, and the related consolidated statement of shareholders' equity for the year ended March 31, 2006, 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, 2007 and 2006, 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, 2007 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 4.

Ernst & Young Shin Nihon

June 28, 2007

Investor Information

(At March 31, 2007)

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

Number of Employees:
8,267

Date of Incorporation:
October 1910

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

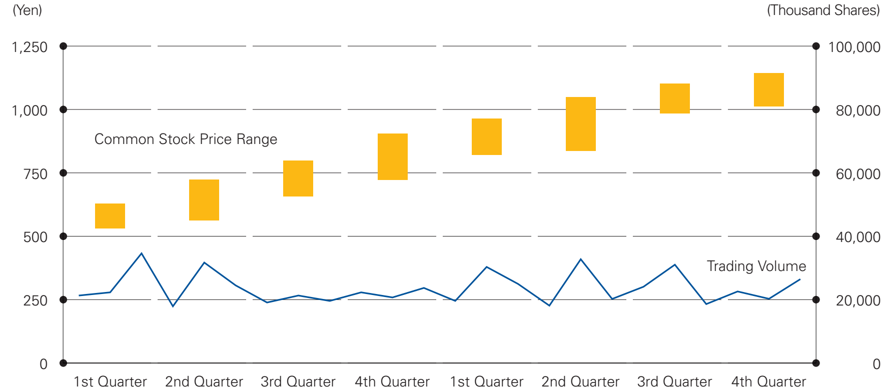
Minimum Trading Unit:
1,000 shares

Number of Stockholders:
17,727

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	17,283	4.29
Meiji Yasuda Life Insurance Company	16,491	4.09
Mizuho Corporate Bank, Ltd.	14,484	3.59
Japan Trustee Services Bank, Ltd. (Trust Account)	13,290	3.30
State Street Bank and Trust Company	10,848	2.69
The Master Trust Bank of Japan Ltd. (Trust Account)	10,218	2.53
Dai-ichi Mutual Life Insurance Company	10,037	2.49
The Norinchukin Bank	10,000	2.48
	164,219	40.74%

Common Stock Price Range and Trading Volume:



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

TAIYO NIPPON SANSO
The Gas Professionals

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