TAIYO NIPPON SANSO

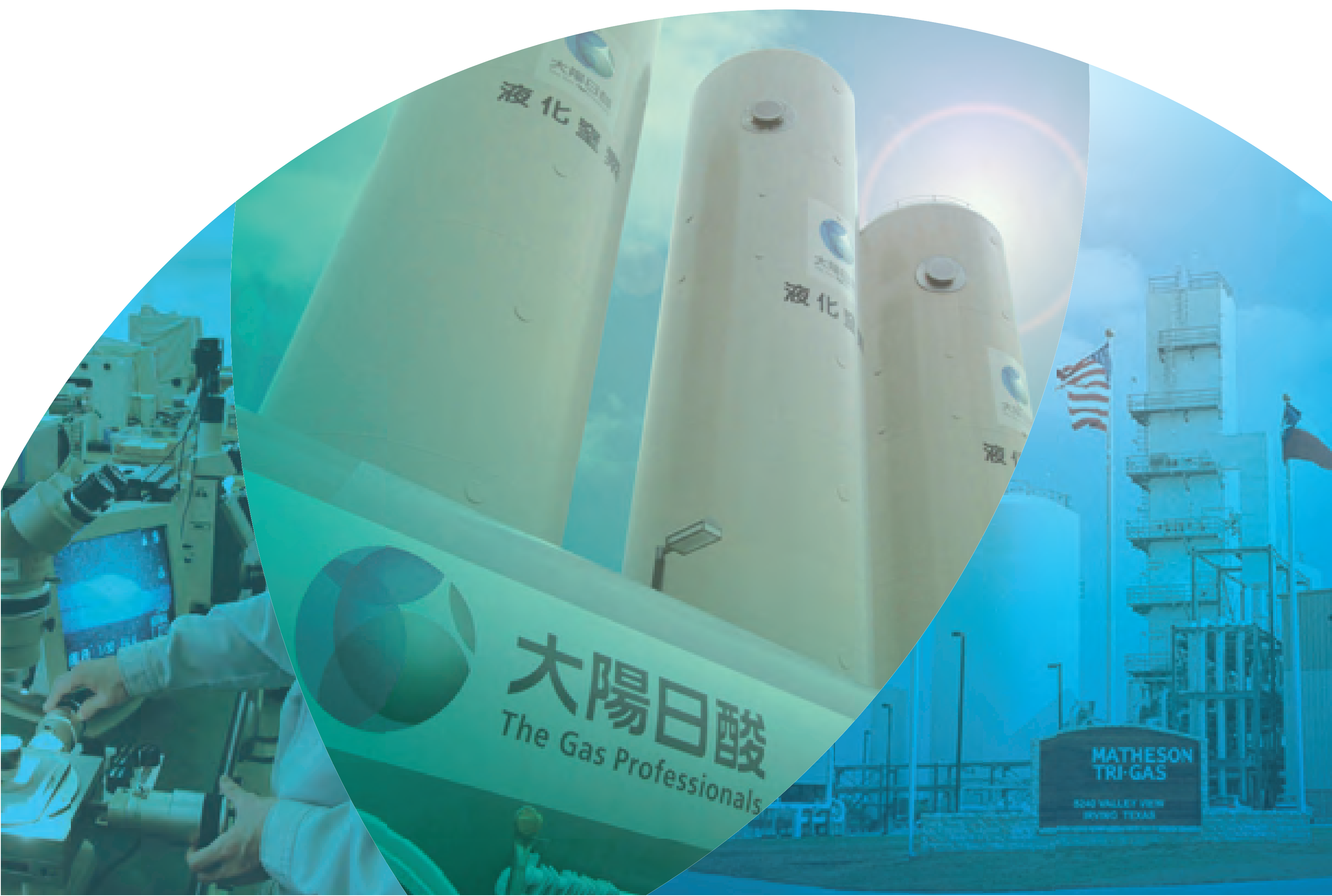
Think Globally, Act Locally

Staying Focused

Annual Report

2011

Year Ended March 31, 2011



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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars*1	Percentage change
	2011	2010	2011	
Operating results				
Net sales	¥483,620	¥433,390	$5,816,236	11.5%
Net income	12,736	15,748	153,169	(19.1)%

	yen		U.S. dollars*1	Percentage change
	2011	2010	2011	
Per share data:				
Net income*2	¥ 31.86	¥ 39.39	$ 0.38	(19.1)%
Cash dividends	12.00	12.00	0.14	—

	Millions of yen		Thousands of U.S. dollars*1	Percentage change
	2011	2010	2011	
Corporate position				
Total assets	¥617,676	¥617,215	$7,428,455	0.07%
Total shareholders' equity	220,068	212,068	2,646,639	3.7%

Notes: 1. U.S. dollar amounts have been translated, solely for convenience, at the rate of ¥83.15=U.S.$1, the approximate rate of exchange at March 31, 2011.

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.

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.

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To Our Stakeholders

Hirosuke Matsueda
Chairman

Yasunobu Kawaguchi
President

We must begin by expressing our regrets for any inconvenience caused as a result of certain events in recent months. In January 2010, Japan's Fair Trade Commission conducted an inspection of major Japanese industrial gases manufactures, including Taiyo Nippon Sanso, with which we continued thereinafter to cooperate fully. On May 26, 2011, the Commission took the decision to issue a cease-and-desist order against Taiyo Nippon Sanso regarding an alleged pricing cartel for air separator gases (liquid oxygen, liquid nitrogen and liquid argon), along with a surcharge payment order, i.e., a fine, of ¥5,144 million. Recognizing the gravity of this occurrence, the management and employees of Taiyo Nippon Sanso pledge to do everything in our power to prevent a recurrence, as well as to regain the trust of all stakeholders.

Despite the impact of such issues as the credit crisis in Europe and political instability in the Middle East, global economic conditions were generally favorable in fiscal year 2011, ended March 31, 2011, bolstered by the monetary policies of key nations and economic growth in emerging economies. In Japan, economic conditions were encouraging at the beginning of the period, owing to firm export demand from China and other countries in Asia, as well as to the Japanese government's economic stimulus measures. However, growth began to slow in the autumn, reflecting the conclusion of the government's economic stimulus measures and the appreciation of the yen.

In this environment, we reported an 11.6% increase in consolidated nets sales, to ¥483,620 million, supported by stable demand from core customers in the steel, petrochemicals, electronics and other industries against a background of robust exports. Operating income advanced 28.7%, to ¥35,468 million.

We would also be remiss if we did not mention the Great East Japan Earthquake, which struck on March 11, 2011. On behalf of everyone of the Taiyo Nippon Sanso Group, we extend our deepest sympathies to all who were affected by this catastrophe and continue to keep you in our thoughts.

Our production and logistics facilities in Miyagi, Aomori and other prefectures in the Tohoku and Kanto regions sustained extensive damage. However, thanks to the understanding and cooperation of customers, freight forwarders and other relevant parties, we were able to prioritize supplies of crucial medical-use oxygen and nitrogen, the latter being indispensable to process safety at customers' manufacturing facilities and plant operations. We also donated ¥100 million to help victims of the disaster and participated in relief efforts to the best of our ability, in line with our commitment to fulfill our duty to society as a responsible corporate citizen.

Having celebrated our 100th anniversary in 2010, in the current fiscal year we have embarked upon a new three-year medium term business plan. However, owing to the impact of the Great East Japan Earthquake we have resolved to forego publishing quantifiable targets for the plan for the time being. Based on a careful examination of the impact of the earthquake, we are preparing and will announce targets at an appropriate time in the near future. We can say that we will focus on, among others, enhancing compliance, reinforcing safety and quality control procedures, raising efficiency, strengthening R&D and pursuing ongoing positive investments. At the same time, we will reinforce strategies aimed at global expansion and rally the strengths of the entire Taiyo Nippon Sanso Group to fortify our corporate structure.

In these and all our efforts, we look forward to continuing to earn the support of all stakeholders in the years ahead.

August 2011

Hirosuke Matsueda, Chairman

Y. Kawaguchi

Yasunobu Kawaguchi, President

Perception of the Business Climate in Key Markets

Japan

The Great East Japan Earthquake, which struck near the end of fiscal year 2011, had only a minor impact on sales in Japan for the period.

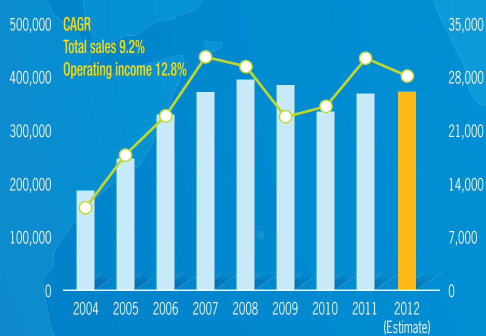
In the steel industry, one of the primary users of piped gases, output was approximately 15% higher than in the previous fiscal year, despite flagging demand from the domestic construction industry, owing to an increase in exports. In the chemicals industry, another major user of piped gases, sales of petrochemical products, basic chemicals and other items were robust, driven by demand from other Asian countries, particularly China. As a consequence, demand for piped gases remained solid.

In the steel, chemicals and electronics industries—the principal customer industries for liquid gases—the pace of growth appeared to be on the verge of decelerating in some areas as government economic stimulus measures concluded. However, sales of liquid gases to all three industries were up from the preceding period.

In the area of specialty materials gases for electronics materials, sales for use in semiconductors, liquid crystal (LC) panels and solar cells were firm. Of particular note, as Japan's leading manufacturer of metal organic vapor deposition (MOCVD) equipment, used in the production of compound semiconductors for light-emitting diodes (LEDs) and power devices, we succeeded in steadily expanding sales. In the period under review, sales of MOCVD equipment were approximately 2.2 times the level in the previous fiscal year.

Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2011 and estimates for the year ending March 31, 2012.

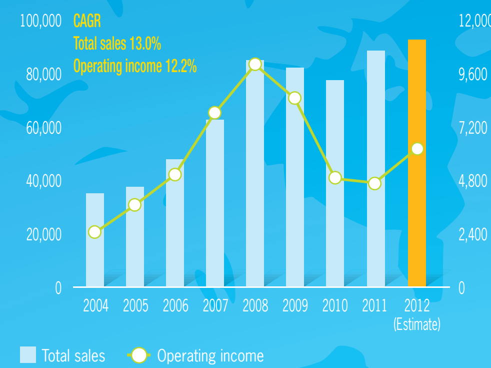
North America

Economic growth in the United States slowed in the first half of fiscal year 2011, reflecting such factors as a persistently high unemployment rate, which caused consumer spending to flounder, and the European financial crisis. However, thanks to additional steps by the Federal Reserve Board to loosen monetary policy and Congress' passing of provisions for income tax relief, growth picked up in the second half.

In this environment, we continued to actively capitalize on promising investment and M&A opportunities with the aim of facilitating further growth for existing businesses, as well as to press forward with key projects, namely, the acquisition of Western International Gas and Cylinders, Inc., a leading U.S. supplier of acetylene gas, and the start up of operations at a new plant in San Antonio, Texas. Looking ahead, we will continue working to enhance the efficiency of our U.S. operations to maximize the benefits of M&A deals to date, as well as to seek out attractive new M&A opportunities, as part of a strategy to ensure sustainable expansion and growth.

Total Sales and Operating Income in North America

As of July 2011 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2011 and estimates for the year ending March 31, 2012.

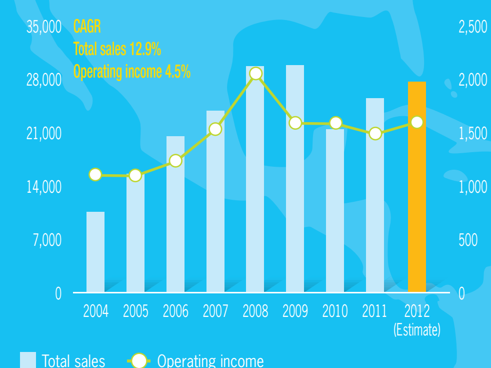
Asia

The overall economy of Asia, including China, continues to see outstanding growth in the neighborhood of 10% annually. Demand for gases centers on steel, petrochemicals and other heavy industry markets. We are also seeing notable growth in demand from electronics markets, such as LC panels, solar cells and LEDs.

We are currently taking decisive steps to expand our operations in Asia, including China, Taiwan, South Korea, Singapore, Vietnam, the Philippines, Thailand and Malaysia. Through efforts to build on our established base and seek out major investment opportunities, among others, we plan to further expand and grow our Asian operations.

Total Sales and Operating Income in Asia

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2011 and estimates for the year ending March 31, 2012.

Major recent investments in Asia

Vietnam:

Established joint venture with local gas producer and completed new air separation plant (Hanoi, northern Vietnam) Concluded agreements to supply industrial gases to major blast furnace steelmaker, as well as to major overseas steelmakers newly setting up local operations and completed new air separation plant (Ba Ria-Vung Tau, in southern Vietnam)

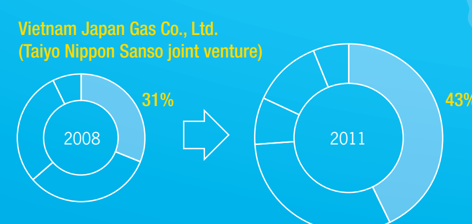
Philippines:

Currently building new air separation plant (Mindanao)

China:

Completed plant for Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd.

Market Share in Vietnam



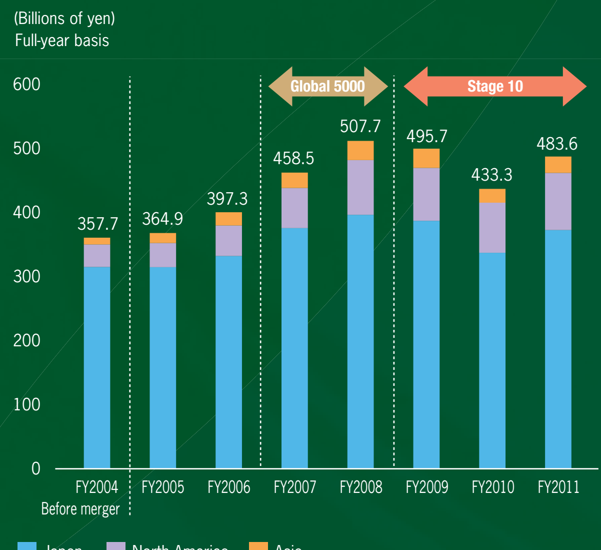
Sales of Leading Competitors in the Philippines

Special Feature

Putting Strategies in Action

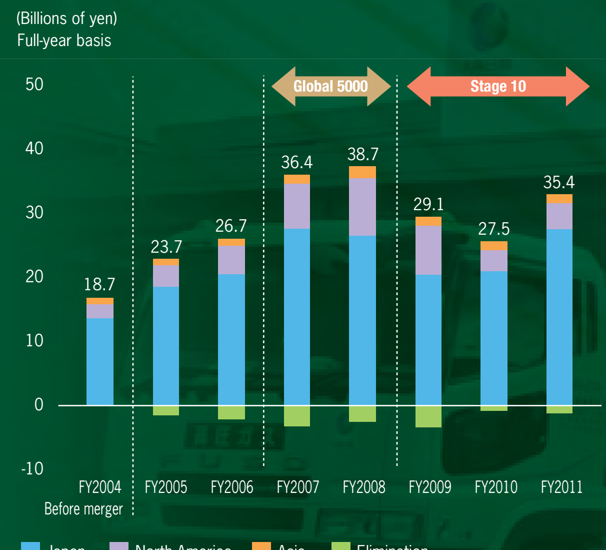
In 2011, its 101st year in business, Taiyo Nippon Sanso outlined a new medium-term business plan designed to create a foundation for growth over the next 50–100 years. In the following pages, Chairman Hirosuke Matsueda and President Yasunobu Kawaguchi answer questions on the Company's performance under its previous medium-term business plan and the vision for the future outlined in its new plan.

Sales Performance



* The figure for FY2004 is a simple sum of performance figures before merger
The figure for FY2005 = Taiyo Nippon Sanso (year ended March 2005) +Taiyo Toyo Sanso (year ended September 2004) – internal transactions between the two companies

Operating Income Performance



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Future Vision of New Medium-Term Business Plan

New Medium-Term Business Plan (Fiscal Year 2012 to Fiscal Year 2014)

Strengthen global strategies

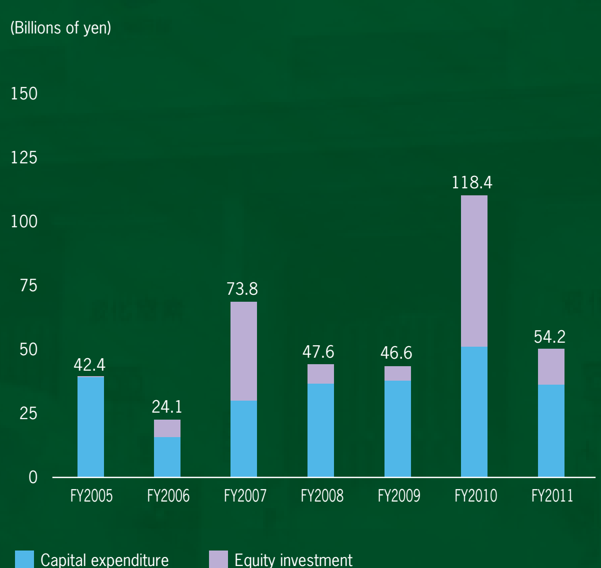
Build a stronger financial position

Strengthen business foundation to facilitate further development

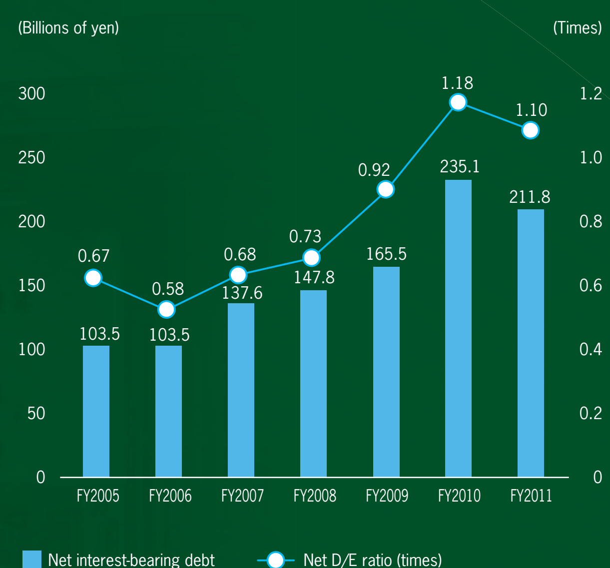
Medium- to long-term target:

Sales of ¥1 trillion

Capital Expenditure and Equity Investment



Net Interest-Bearing Debt and Net D/E Ratio



An Interview with Hirosuke Matsueda, Chairman, and Yasunobu Kawaguchi, President

Review of Performance Under Previous Medium-Term Business Plan (Fiscal Years 2009–2011)

Q *Two of the key strategies of Taiyo Nippon Sanso's previous medium-term business plan were to concentrate resources in growth markets and enhance your position in promising geographic markets. What was the reasoning behind these strategies and what is your perception of the Company's current position?*

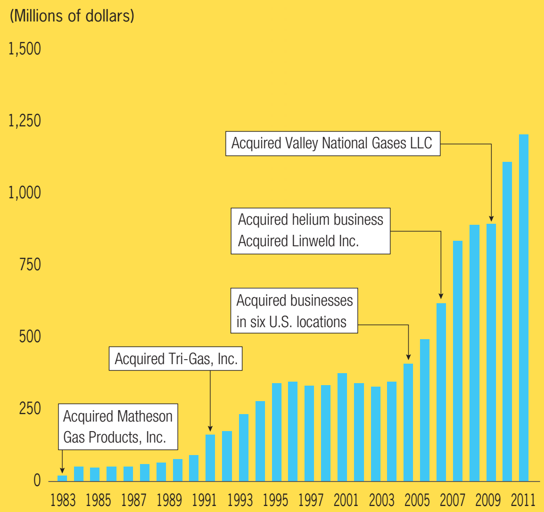
» Mr. Matsueda

Basically, our view has always been that if a company cannot achieve steady growth it will be left behind. So the question we had to ask ourselves was, what do we need to do to ensure we continue growing. Our business centers on the production of industrial gases, including oxygen, nitrogen and argon, which are essential basic materials for industry. Accordingly, the geographic markets where principal demand industries are seeing growth also naturally offer significant business opportunities for us.

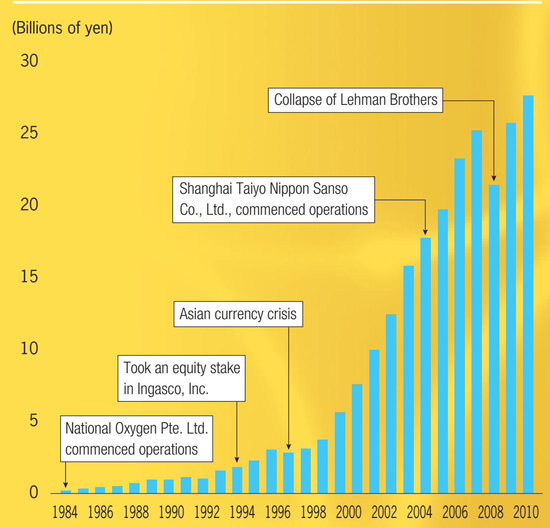
Unfortunately, growth rates in Japan over the last 10 to 20 years—often called the lost years for Japanese industry—have lagged considerably behind the stunning rates of previous decades. In contrast, in the United States, the industrial gas market has continued to grow steadily by between 3% and 5% annually. While this is low compared with China's industrial gas market, which continues to see double-digit annual growth, it means that there is a solid foundation to pursue attractive M&D opportunities. For us, "promising geographic markets" are markets in which we can make solid inroads and, through M&A deals, expand our presence and achieve substantial growth.

Much the same reason is behind our ongoing investment in China, as well as in other countries in Asia, over the past 10 or so years. Look at China, for example. Often referred to as "the world's factory"—much like Japan and South Korea were in years past—China has achieved outstanding market growth in recent years. That growth has brought an increase in demand for gases from a broad range of industries. Southeast Asian countries, including the Philippines, Singapore, Vietnam and Thailand, also continue to offer considerable potential for investment. Both China and Vietnam were late starters economically, compared with other Asian countries. For this reason, at this point in time, attractive investment opportunities abound in both countries. In India, which also continues to see robust economic growth, U.S. subsidiary Matheson Tri-Gas, Inc., acquired a local helium and mixed gas supplier, which was

Sales in North America



Sales in Asia



Note: Translated into Japanese yen using the actual rate for 2010

subsequently renamed Matheson K-Air India Private Limited. With the aim of supplying general industrial gases, we are currently building a new plant, which is scheduled to begin operating in 2013.

Regarding the concentration of resources in growth markets, the electronics industry is of crucial importance to us, as it is a principal user of oxygen, nitrogen and other chemical gases. To begin with, such gases are essential to manufacturing processes for semiconductors, liquid crystal display (LCD) panels and solar cells. We thus recognize these as major growth markets.

Q

What is your assessment of the ambitious M&A strategy you have pursued over the past three years?

›› Mr. Matsueda

Our industrial gases business consists of actually three distinct business models. The first is our upstream onsite business, which involves the construction of plants on sites adjacent to the production facilities of major users and the supply of gases to those customers via pipeline. The second is liquid gases, that is, oxygen, nitrogen and argon in liquid form, which we supply to medium-sized customers. The third, at the other end of the supply chain, is packaged gases, downstream products we provide to small- to medium-sized users. These are effectively interacting each others to bring us greater opportunities and synergy effects in our business development in overseas market.

When we first started out in the United States, our focus was on the packaged gases business. We expanded our marketing reach primarily through M&A deals, achieving a certain amount of success in terms of volume supplied. At this point, we began leveraging our proprietary technologies to establish production facilities, positioning ourselves to provide products all along the supply chain. This approach has underpinned our success to date and will continue to be a valuable tool for growing our business in the United States, as well as in other regions; as will expanding our production capacity in existing businesses and capitalizing on advantageous M&A opportunities in high-growth geographic markets, including China, Southeast Asian countries and India.

Q *Another core strategy of your previous medium-term business plan was to expand upstream businesses. Can you tell us about the background to this strategy and give us a status update?*

» Mr. Matsueda

I think I need to first explain a little more about our upstream business strategy. Traditionally, industrial gas suppliers have produced air separator gases. In contrast, for semiconductor materials gases, in particular chemical gases—used, as I said earlier, by the high-growth electronics industry—the role of industrial gas suppliers has always centered on trading. As such, our performance is easily swayed by a variety of factors. For this reason, we are shifting our focus to producing the gases we sell to customers, by establishing a solid position as a manufacturer of key specialty products.

Recent achievements under our previous medium-term business plan include the start of joint production of monosilane gas, which is used in the manufacture of thin-film silicon solar cells and LCD panels, with Evonik Degussa Japan Co., Ltd., an affiliate of Evonik Industries AG of Germany. We also began producing and supplying hydrogen selenide, which is used in copper indium gallium selenide (CIGS) compound solar cells. Semiconductor materials gases are almost unlimited in terms of variety. Our emphasis will continue to be on value-added specialty gases.

Taiyo Nippon Sanso's Electronics Business

	Gases and other products for electronics applications	General industrial gases
Business development	Global	Used where manufactured
Product lifecycle	Short	Long
Market growth potential	High	Low to medium (linked to GDP)
Risks	High	Low

➡ Formulate global-level management vision and business strategies
➡ Accelerate decision making
➡ Shorten the time needed to realize returns on investments

Positioning of New Medium-Term Business Plan (Fiscal Years 2012–2014) and Vision for the Future

Q *What sort of a future does the new medium-term business plan envisage for Taiyo Nippon Sanso?*

» Mr. Kawaguchi

In our 101st year in business, we sought to reexamine our domestic business and get back to basics, formulating a new medium-term business plan that would strengthen our operating foundation, as well as our fundamentals, in preparation for our next 50–100 years—the next phase of our evolution.

Since the merger in 2004 that created the current Taiyo Nippon Sanso, we have allocated more than ¥400 billion to capital investment. While these investments have yielded considerable benefits, they have also resulted in an increase in interest-bearing debt. Our operating environment continues to be dominated by the global wave of realignment that is transforming the industrial gases industry. For this reason, we are committed to reinforcing both our financial footing and our operating foundation, as well as to using income thus generated to fund new investments with the aim of accelerating our march forward.

We have set a medium- to long-term target for consolidated net sales of ¥1,000 billion, which we hope to achieve within 10 years. Our annual net sales are currently in the area of ¥500 billion. Bolstering our globalization strategy will be crucial to making up the difference. Today, sales in the domestic market account for 75% of consolidated sales, while overseas sales are only 25%. Given such trends as the graying of Japanese society, as well as the economic impact of the Great East Japan Earthquake, and considering that major demand industries are increasingly shifting production offshore, our projection for annual growth in domestic sales is about 2%–3%, while in overseas markets we expect sales to rise by 5%–6%. Accordingly, with the aim of achieving our net sales target at the earliest possible date, we will focus on reinforcing our operating foundation in Japan. At the same time, in other, high-growth geographic markets, we will capitalize on organic growth and expand our operations through assertive capital investment and M&A programs.

Stable Domestic Position with Overseas Expansion

- **Funding requirements significant (M&A = using money to buy time)**
- **Enjoys stable position as Japan's leading manufacturer of industrial gases—how great is the need to take risks?**

↕ **Acceleration of decision making**

Long-term vision

- **Cultivate overseas markets**
- **Expand nationwide presence in the United States—the world's largest market**

Q *Can you elaborate on your comment about getting back to basics? You have said that this is the key concept behind your new medium-term business plan.*

» Mr. Kawaguchi

Our industrial gases business began with sales of gas in cylinders. We subsequently switched our focus to sales of liquid gases via tanker truck, which enabled us to transport a significantly greater volume. Later on, to reduce costs we began supplying gases onsite via pipeline from major plants. When all is said and done, however, our industrial gases business today owes its success to our beginnings as a supplier of gas in cylinders. When we started out, demand was not tens of thousands of cubic meters like it is today. The turning point came because cylinders are also used in research facilities—because back then we took care to learn how even the smallest customers used the products we supplied and, with the hope of it leading to increased sales, placed a consistently high priority on customer care.

In other words, the reason we continue to value our cylinder business is because there is a world of information on a broad range of customers there. It is because of our solid local foundation that we have been able to pursue an ambitious global M&A program and establish extensive overseas operations.

In Japan, we have approximately 450 bases, including those belonging to affiliated companies. In addition to strengthening each of these bases, we will also promote rationalization where we can with the aim of enhancing our overall operating prowess.

Q *What prompted you to set expanding sales in overseas markets as a crucial Companywide task and what do you hope to achieve through your efforts in this area?*

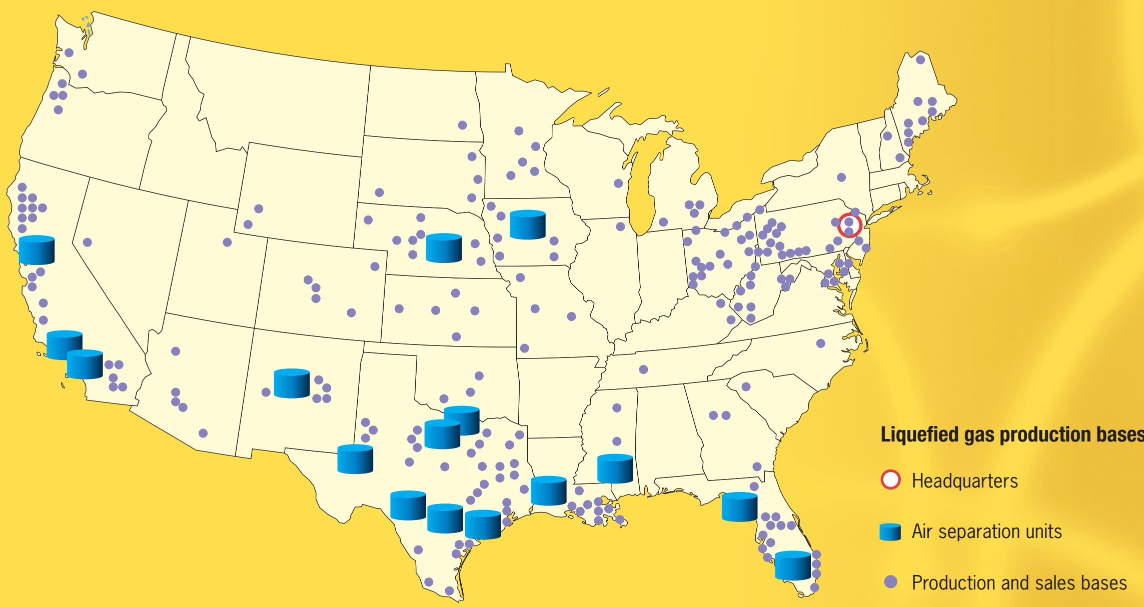
» Mr. Kawaguchi

Any discussion of our overseas businesses must begin with our U.S. subsidiary Matheson Tri-Gas. In fiscal year 2004—prior to the merger that created Taiyo Nippon Sanso—Matheson Tri-Gas's net sales were $344 million. In fiscal year 2011, the company reported net sales of $1.1 billion—testament to the tremendous growth it has achieved.

We have invested assertively in the United States in recent years. In the years ahead, we will take decisive steps to improve the efficiency of our operations there, as well as to realize new synergies, as we prepare to begin reaping the full benefits of these investments.

Our production capacity for air separator gases in the United States has increased to the extent that it is close to our capacity in Japan. However, with demand for these products soaring in the U.S. market, we currently have plans to build several new plants. As this indicates, the U.S. market still offers considerable potential returns. What this means is that we will continue working to enhance the efficiency of our

Expansion and Growth of U.S. Operations 2011



operations in the United States, as well as to realize new synergies.

In Asia, we will focus on fortifying our current operating base, although in the high-growth Chinese market our emphasis will be on expanding our operations by, among others, pursuing new M&A opportunities. In India, as already mentioned, we are in the process of building a new plant. Through such efforts, we will work to expand our businesses in overseas markets including the Middle East.

On another front, we are promoting the expansion of our Thermos vacuum bottle business in overseas markets. We currently have plants in Malaysia and in China. In late March 2011, we commenced operations at a second plant in China with the aim of bolstering our global market share, thus reinforcing our production configuration in that market.

Q ***You have also identified fortifying your operating foundation in existing businesses and promoting continued assertive investment as crucial Companywide tasks. What was the reasoning behind this and what do you hope to achieve?***

›› Mr. Kawaguchi

In the industrial gases business, interaction with customers is a particularly important consideration. Accordingly, it is essential that we promote systematic efforts that bring our head office, as well as our branch offices and sales offices, closer to our customers. As we know from our cylinder business, reinforcing relations with sales agents is also very important. From this perspective, we will work to deepen our relationships with customers in markets around the world.

We will also continue to promote assertive investments to maintain healthy growth in existing businesses. To ensure the optimum effectiveness of investments, we will of course conduct detailed advance investigations. Equally important, we must draw on our expertise and experience to guarantee the efficiency of such investments being equal to or greater than expectations. By reinforcing our operating foundation in existing businesses and promoting ongoing assertive investment, we will continue to enhance corporate value.

Strategies for Sustainable Growth

***Q** The new medium-term business plan basically carries forward the same strategies as the previous plan. One of these, enhancing Group management, depends a great deal on effective corporate governance. What are your thoughts on this?*

» Mr. Matsueda

In addition to facilitating proper internal controls for the parent company, effective corporate governance is essential from an administrative perspective—especially given the increasingly global scale of our operations—to bolster the momentum of Group companies.

The conventional approach of dispatching staff from Japan to manage overseas operations is one that no longer has currency, if for no other reason than the fact that our supply of personnel is limited. We recognize the need to promote locally hired staff to senior management and executive positions. In addition to taking into account dissimilar working environments, as well as religious, cultural and linguistic differences, the key challenge facing us is to make sure individuals in such positions understand the Taiyo Nippon Sanso philosophy and values. To this end, we are, for example, working to ensure roles and expectations are communicated clearly to staff in different regions.

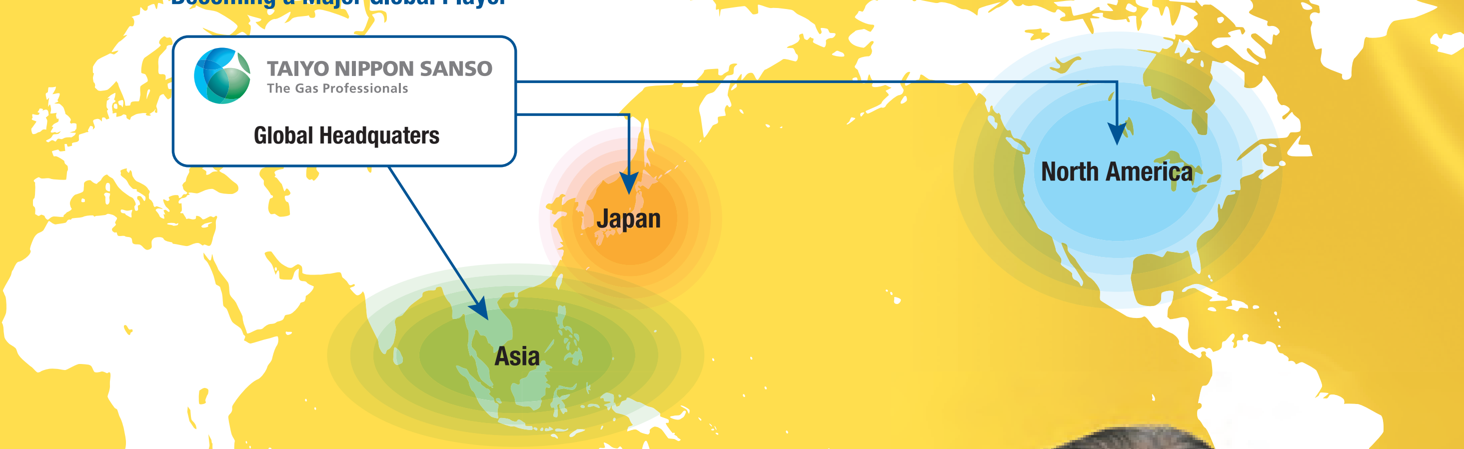
One of our stated goals is to become an Asian-born major player in the global industrial gases industry. One of the unique features of the industrial

gases business is that the extent of a company's market coverage in a given region largely determines its ability to respond effectively to demand. Similarly, securing market share in countries where we have established operations depends on our ability to make swift management decisions which, in turn, requires that we delegate authority to local staff.

We do recognize that should sales in overseas markets increase to more than 50% of sales, we would need to establish a global corporate headquarters to optimize management of the overall Group. In addition to a representative from each geographic market, this entity would encompass relevant enterprise-wide support functions, namely, finance, planning and personnel, as well as technology, and would be responsible for making decisions regarding the prioritization of investments.

In my opinion, we are currently at a stage when our management could accurately be termed multinational. My vision is to eventually create a well-balanced global management organization responsible for the entire Group, including operations in Japan.

Becoming a Major Global Player



1. Expand sales generated in overseas markets to more than 50% of consolidated net sales
2. Establish global corporate headquarters
3. Promote unified management strategies for the global corporate headquarters
4. Expand local hiring in overseas markets and increase interaction with local communities
5. Develop consistent global standards for production technologies and services, among others

Q You have set a medium- to long-term target of consolidated net sales of ¥1,000 billion. Can you tell us a bit more about this?

» Mr. Matsueda

Our annual consolidated net sales are currently in the area of ¥500 billion, so simply speaking this target represents a doubling of our sales. We estimate that achieving this target through organic growth would take anywhere from five to 10 years, so a global M&A program is definitely necessary if we hope to accelerate realization. Our increasingly robust financial condition means we are well-positioned to take advantage of promising M&A opportunities that arise.

At the same time, our efforts to introduce our accumulated proprietary gas manufacturing, supply and application technologies in the U.S. and Asian industrial gas markets are proceeding apace. Customer recognition of the value these technologies offer is growing and yielding new demand. We thus anticipate that the combination of these two strategies—an ambitious M&A program and the promotion of our distinctive technological capabilities—will be highly effective in helping us attain our target.

Q What is your policy on shareholder returns?

» Mr. Matsueda

Our basic policy is to maintain a minimum annual consolidated dividend payout ratio of 25%, although if our income performance were to improve, we would naturally raise dividends. That said, because the current Taiyo Nippon Sanso was created through a merger, we have a significant number of shares on the market. Accordingly, we intend to continue repurchasing our stocks as a way to increase share value.

The productivity of the average Japanese company is considerably lower than that of companies in the United States and Europe. We recognize that there is still room for improvement in our productivity. Addressing this challenge is one crucial key to the success of our efforts to improve profitability and enhance returns to shareholders.

Q In closing, can you tell us about your so-called "triple 10" challenge, that is, your effort to bolster growth, profitability and efficiency by at least 10%?

» Mr. Matsueda

Enhancing growth and profitability is the eternal challenge for any company. Our medium- to long-term target for growth is to increase our share of the global industrial gases market to at least 10%. For profitability, we aim to increase the ratio of operating income to sales to at least 10%. For efficiency, our goal is to achieve a return on capital employed (ROCE) of at least 10%.

Attaining these targets will require the dedication and efforts of the entire Taiyo Nippon Sanso Group. This is only natural—we should expect to work hard if we intend to reach our goal of becoming an Asian-born major global player. To ensure growth, we will continue to promote ambitious investments and seek out advantageous M&A opportunities in promising business and geographic markets to expand our operations, while to enhance profitability and efficiency we will maintain a keen eye on expected returns. I am confident that by focusing our efforts and working as one, we will succeed in achieving our "triple 10" targets.

Taiyo Nippon Sanso at a Glance

Operating Segments

Effective April 1, 2010, Taiyo Nippon Sanso revised its operating segments to better reflect its actual products, services and end-user markets. Figures for fiscal year 2010 have been restated to reflect this change.

Industrial Gas Business

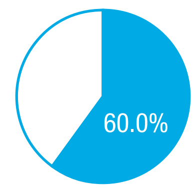
We supply oxygen, nitrogen, argon and a host of other industrial gases that are indispensable to the advanced production activities of modern industry, including cutting, welding, combusting, melting, chilling and freezing, in a number of safe forms, including via pipeline, tanker truck and cylinder. We are also a leading name in the construction of cryogenic air separation plants, which we ship to customers around the world for on-site construction.

For more detailed information, please see page 18

Share of Sales

Year ended March 31

¥288 billion



Electronics Business

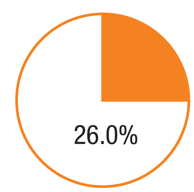
We provide a variety of products to customers in the electronics industry, including manufacturers of semiconductors and LCDs, in markets around the world. In Japan, we have grown this business by supplying a comprehensive range of gases, including high-purity nitrogen and electronic materials gases, to two LCD panel production facilities that are among the largest in the world.

For more detailed information, please see page 20

Share of Sales

Year ended March 31

¥126 billion



Energy Business

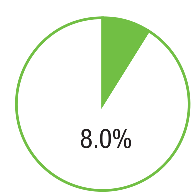
LP gas is highly valued as a clean energy source, with applications ranging from industrial to home power generation. An environment-friendly alternative to chlorofluorocarbons, LP gas is also used as an aerosol gas and as fuel for taxi fleets. With residential-use fuel cells and high-efficiency hot water heaters expected to achieve increased market penetration, LP gas—which is used to fuel cells—is attracting increasing attention as an environment-friendly energy.

For more detailed information, please see page 22

Share of Sales

Year ended March 31

¥37 billion



Other Businesses

Medical Business

Our nationwide production and sales network enables us to provide stable supplies of medical oxygen and other high-quality medical gases to a broad range of medical institutions.

Thermos Business

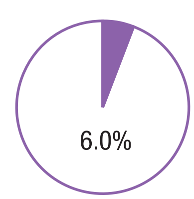
The beginnings of Thermos K.K., recognized as a pioneer in the stainless steel vacuum bottle industry, can be traced to the application of technologies cultivated by Nippon Sanso Corporation.

For more detailed information, please see page 24

Share of Sales

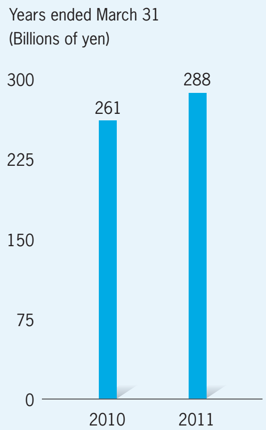
Year ended March 31

¥30 billion



Industrial Gas Business

Industrial Gas Business



We supply oxygen, nitrogen, argon and a host of other industrial gases that are indispensable to the advanced production activities of modern industry, including cutting, welding, combusting, melting, chilling and freezing, in a number of safe forms, including via pipeline, tanker truck and cylinder. We are also a leading name in the construction of cryogenic air separation plants, which we ship to customers around the world for on-site construction.

Having built a strong technological base over many years, gaining particular expertise in low temperature, high-pressure, separation, vacuum and gas control technologies, we continue to draw on our advanced capabilities to provide a diverse range of equipment for the manufacture, supply, transport and storage of various types of gases. In these ways, we help industrial customers enhance their productivity and quality while supporting efforts to improve the environment. We also supply a wide range of testing equipment, including space simulation chambers, which replicate the conditions of outer space, for use in basic physics and the discovery of new functional materials, among others.

In addition to maintaining the largest industrial gas supply network in Japan, we are expanding our manufacturing and supply bases in the United States as well as in China and other parts of Asia.

» 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)
- Plant business
  Cryogenic air separation plants, pressure swing adsorption air separation plants, cryogenic vacuum/space simulation equipment, other chemical equipment

» Market needs

- Optimal, stable, economic supply of gases
- Use of gases to raise productivity, enhance quality, save energy and enhance the environment
- Manufacture and installation of high-performance plants

» Competitive advantages

- Japan's largest and strongest industrial gas producer, offering increased cost advantages and price competitiveness
  - » Production and sales capabilities
    Balanced, nationwide network of production bases
    Liquid gas production capacity equivalent to 35% of the domestic market
  - » Logistics capabilities
    Approximately 200 filling stations, or 40% of the estimated 500 such stations across Japan
    Tanker truck fleet and extensive network of shipping bases
    Growing marketing network, including around 250 sales agents
  - » High domestic market share for other industrial gases
    In Japan, number 1 in carbon dioxide, number 1 in helium and number 2 in acetylene
  - » Our own plant business, facilitating the provision of support for both plants and engineering on a global scale, drawing on our capabilities as a manufacturer of industrial gases
    Capable of optimizing facilities and operating efficiency
    Current focus on securing new demand for gases and expanding sales in overseas markets; expanding scale by reducing plant costs per unit of production

» Fiscal year 2011 highlights

Asia

- Built a new plant in China's Dalian Changxing Island Harbor Industrial Zone (construction completed in July 2010)
- Recently established air separation plants in the north (Hanoi) and south (Ba Ria-Vung Tau) of Vietnam
  Hanoi: Commenced operations in April 2011
  Ba Ria-Vung Tau: Scheduled to begin operating in September 2012
- Building up our first air separation plant in India, in Pune, in the state of Maharashtra (scheduled to commence operations in 2013)

North America

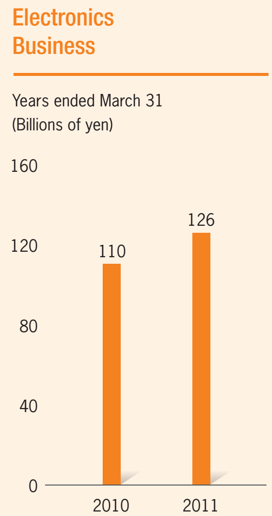
- Acquired Western International Gas and Cylinders, Inc. (wholesale producer and supplier of acetylene gas) in May 2010
  Scheduled to complete air separation plant in Tampa, Florida in March 2012
- Formulated plans to begin joint production of helium gas with Air Products of the United States in fall 2011

Japan

- Built new large-scale cryogenic air separation plants for major domestic steel industry
  Completed eighth unit for Nagoya Sanso Center and 15th unit for JFE Sanso Center, and promoted the introduction of radio frequency identification (RF) tags for cylinder management and for control systems

Our Businesses

Electronics Business



We provide a variety of products to customers in the electronics industry, including manufacturers of semiconductors and LCDs, in markets around the world. In Japan, we have grown this business by supplying a comprehensive range of gases, including high-purity nitrogen and electronic materials gases, to two LCD panel production facilities that are among the largest in the world.

Having pursued an upstream business strategy, we have established a solid position in the Japanese market as a manufacturer of specialty gases, namely, monosilane gas and hydrogen selenide. Leveraging our domestic market position, we are expanding our presence in the high-growth solar cell market, targeting Asia-based manufacturers, notably those in South Korea, Taiwan and China.

In the area of MOCVD equipment for manufacturing compound semiconductors, we are capitalizing on rising demand in the LED market to bolster sales of both equipment and materials gases. We are also benefiting the expanded market for compound semiconductors used in power devices for consumer electronics and automotive applications. To date, customers for our MOCVD equipment have been primarily in Japan. At present, however, we are taking steps to expand sales channels in South Korea, Taiwan and China.

As part of this effort, we recently established an MOCVD equipment manufacturing and sales company in South Korea in a joint venture with a local partner.

In R&D, our joint project with International Business Machines Corp. (IBM) to develop next-generation electronics materials gases is nearing conclusion. By building on our wealth of expertise and experience, we will continue striving to grow this business by providing total gas solutions—encompassing gases, equipment and quality control services—to customers in the electronics industry.

» Principal products and operations

- High-purity nitrogen and argon
- Electronic materials gases, including Safe Delivery Source® (SDS)
- MOCVD equipment
- Gas purification, abatement and other systems
- High-purity gas supply facility installation and construction

» Market needs

- Comprehensive gas supplies
- Total gas and equipment solutions

» Competitive advantages

- Strong ties with domestic and Asian electronics manufacturers
  - » Close relationships with users who employ advanced technologies
  - » Superior marketing strength through the provision of total solutions, encompassing gas, equipment and installation
  - » Highly experienced engineering department and gas center network
  - » Supply structure covering key world markets—Japan, East Asia (South Korea, China and Taiwan), Southeast Asia, the United States and Europe

» Fiscal year 2011 highlights

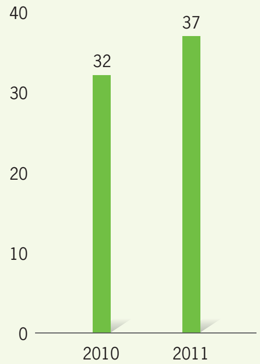
- Developed UR26K, a state-of-the-art large-scale MOCVD system
- Began supplying monosilane gas through joint venture with Evonik Degussa Japan Co., Ltd.
- Established new production base for hydrogen selenide, used in copper indium gallium selenide (CIGS) solar cells, enabling us to commence production of this material—which we already produce in the United States—in Japan
- Established Kunitomi Gas Center in Japan to supply a wide range of products and services to a solar cell production facility
- Established TNSK Corporation, an MOCVD manufacturing and sales joint venture, in South Korea

Our Businesses

Energy Business

Energy Business

Years ended March 31
(Billions of yen)



LP gas is highly valued as a clean energy source, with applications ranging from industrial to home power generation. An environment-friendly alternative to chlorofluorocarbons, LP gas is also used as an aerosol gas and as fuel for taxi fleets. With residential-use fuel cells and high-efficiency hot water heaters expected to achieve increased market penetration, LP gas—which is used to fuel cells—is attracting increasing attention as an environment-friendly energy.

In addition to wholesaling LP gas to leading dealerships, we sell LP gas for use in plants, as well as for other industrial applications. We supply LP as an aerosol propellant and as autogas for taxis, as well as for restaurants and other commercial applications and for residential use. We also sell LP gas to approximately 100,000 residential users in Japan through our network of direct sales outlets.

» Principal products and operations

- Propane, butane and other liquid gases
- Related equipment and devices (air conditioners, hot water heaters)
- Construction of LP gas supply facilities, air-conditioning facilities

» Market needs

- Stable supply of LP gas to 25 million households across Japan
- Increased market penetration of energy-efficient equipment, spurred by the need to reduce CO_2 emissions
- Shift in preference from oil to LP gas, particularly for industrial and commercial use

» Competitive advantages

- 420,000-ton LP gas supply capacity nationwide (ranked eighth in Japan)

» Fiscal year 2011 highlights

- Integrated local sales companies and established a new subsidiary to strengthen and expand our operating foundation in Japan's Chugoku region

Our Businesses

Other Businesses

Other Businesses

Years ended March 31
(Billions of yen)

Medical Business

Our nationwide production and sales network enables us to provide stable supplies of medical oxygen and other high-quality medical gases to a broad range of medical institutions. We help improve the safety and reliability of medical treatment, as well as the quality of life of patients, by developing medical support equipment and devices for home oxygen therapy (HOT), as well as through such services as regular inspection of equipment and operation of remote monitoring systems.

In addition to actively promoting the establishment of special-purpose production facilities for medical gases and technical service centers for medical equipment, we are also capitalizing on our wealth of advanced gas-related technologies to manufacture and sell stable isotopes for advanced diagnostics and treatment, as well as specialty gases and freezing and storage systems for biological use.

Thermos Business

The beginnings of Thermos K.K., recognized as a pioneer in the stainless steel vacuum bottle industry, can be traced to the application of technologies cultivated by Nippon Sanso Corporation—a predecessor of Taiyo Nippon Sanso—to develop the world's first vacuum-insulated stainless steel bottle. Today, Thermos leverages its world-renowned proprietary technologies to plan, develop, manufacture and sell Thermos-brand products, earning a reputation for its unconditional commitment to quality and highly innovative products, as well as the trust of customers in more than 120 countries and a leading global market share. Going forward, Thermos will continue to leverage the reliable technological capabilities that underpin its operations to provide products that support comfortable, environment-friendly lifestyles.

» Principal products and operations

Medical business
- Medical-related oxygen and other gases
- HOT and other home medical care devices, portable oxygen cylinders, freezing and storage systems
- Stable isotopes

Thermos business
- Stainless steel vacuum bottles
- Insulated pots and other cooking implements

» Market needs

Medical business
- Quality control and assurance for medical-use gases
- Secure supplies of stable isotopes to accommodate the increasing use of positron emission tomography (PET) in cancer diagnostics

Thermos business
- Practicality, outstanding insulation, durability, attractive design

» Competitive advantages

Medical business
- Reliable systems for the manufacture and sale of pharmaceutical products
- Continue to gather safety information and data
- Manufacturing and sales capabilities for Water–^{18}O, a pharmaceutical ingredient for reagents used in PET diagnostics
- Manufacture of Water–^{18}O that is among the top in the world in terms of quality; supply to approximately 100 medical institutions in Japan and export to approximately 20 countries

Thermos business
- A leading market share both in Japan and worldwide
- Superb planning and R&D capabilities that support the conception and development of approximately 100 new products annually

» Fiscal year 2011 highlights

Medical business
- Expanded sales of stable isotopes and continued to seek out M&A opportunities aimed at strengthening medical gas and equipment business

Thermos business
- Commenced production at newly built second factory in China (Jiangsu province)

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Hirosuke Matsueda

President
Yasunobu Kawaguchi

Executive Vice President
Fumio Hara

Executive Directors / Advisors
Konosuke Ose
Hiroshi Taguchi

Senior Managing Directors
Ken-ichi Kasuya
Shinji Tanabe
Kunishi Hazama
Tadashige Maruyama

Managing Directors
Yoshikazu Yamano
Masayuki Tanino
Yujiro Ichihara
Shigeru Amada

Executive Directors
Ryuichi Tomizawa*1
William J. Kroll

Corporate Auditors

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

Corporate Officers

Executive Corporate Officers
Hiroshi Katsumata
Kinji Mizunoe
Masanori Zaima
Shin-ichiro Hiramine
Akihiko Umekawa
Keiki Ariga
Masahiro Imagawa
Tetsuya Nakayama
Yuki Hajikano
Jun Ishikawa
Takashi Tatsumi

Corporate Officers
Masami Sakaguchi
Susumu Naka
Yoshihide Kenmochi
Shigenobu Somaya
Masahiro Sakamoto
Takashi Fukano
Masahiko Kitabatake
Mikio Yamaguchi
Hiroyuki Tanizawa
Tadashi Higashino
Atsuhiro Fujita
Toshiaki Yamazaki
Hiroshi Nagae
Takeki Hata
Kazushige Arai
Norikazu Ishikawa

(As of June 29, 2011)

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

Years ended March 31	2011	2010	2009	2008	2007	2006
	Millions of yen					
Net sales	**¥483,620**	¥433,390	¥495,746	¥507,718	¥458,587	¥397,308
Operating income	**35,468**	27,556	29,164	38,783	36,488	26,788
Net income	**12,736**	15,748	16,533	21,930	20,094	14,444
Selling, general and administrative expenses/Net sales (%)	**26.1%**	27.5%	24.7%	23.1%	23.2%	24.0%
Return on equity (%)	**6.5%**	8.3%	8.6%	10.8%	10.6%	8.7%
Return on assets (%)	**2.1%**	2.4%	3.1%	4.0%	3.6%	3.1%
Capital expenditures	**31,991**	38,366	66,010	36,260	35,891	22,176
Depreciation and amortization	**32,167**	30,143	28,339	25,506	21,210	18,982
Research and development expenses	**3,924**	4,137	3,936	2,903	2,713	2,223
Interest-bearing debt	**250,409**	259,111	191,074	159,500	152,232	122,196
Total net assets	**207,416**	212,396	194,250	217,813	216,068	178,055
Total assets	**617,676**	617,215	534,350	547,237	547,791	471,602
	Yen					
Per share data:						
Net income[1]	**¥31.86**	¥39.39	¥41.21	¥54.48	¥49.93	¥35.45
Cash dividends	**12.00**	12.00	12.00	12.00	12.00	10.00
	Times					
Price earnings ratio	**21.75**	23.20	15.55	14.65	21.31	24.54

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

Management's Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

As of March 31, 2011, Taiyo Nippon Sanso Corporation had 75 consolidated subsidiaries (47 based in Japan and 28 based overseas), including newly acquired Western International Gas and Cylinders, Inc. and Matheson K-Air India Pte. Ltd., a consolidated subsidiary from fiscal year 2011; and 25 equity-method affiliates (10 based in Japan and 15 based overseas).

A total of 50 consolidated subsidiaries and 15 equity-method affiliates are accounted for in the Industrial Gas segment. The Electronics segment and the Energy segment comprise 13 and four consolidated subsidiaries, respectively. The Other segment encompasses eight consolidated subsidiaries and 10 equity-method affiliates.

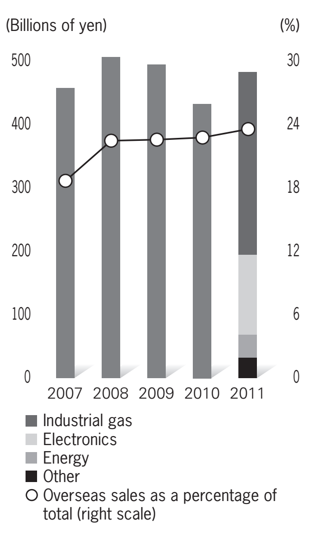
Operating Results

In fiscal year 2011, ended March 31, 2011, consolidated net sales rose 11.6%, to ¥483,620 million. Cost of sales increased 12.3%, to ¥321,885 million. Selling, general and administrative expenses were also up, rising 5.8%, to ¥126,265 million, owing principally to an increase in expenses for salaries and to packing and freight expenses for outbound freight. Reflecting these and other factors, operating income climbed 28.7%, to ¥35,468 million. The ratio of operating income to sales improved by 0.9 percentage point, to 7.3%.

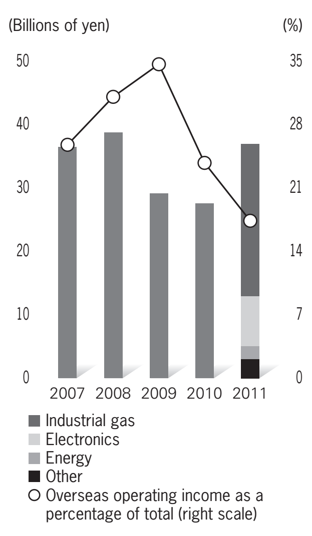
Other income declined 93.6%, to ¥177 million, attributable primarily to the absence of a gain on sales of subsidiaries' stocks, a major contributor in fiscal year 2010. In contrast, owing to a provision to cover a surcharge payment order issued by Japan's Fair Trade Commission, included as "provision of allowance for government surcharge," other expenses soared 363.5%, to ¥7,593 million. As a consequence, net income declined 19.1%, to ¥12,736 million. Net income per share was ¥31.86, while return on equity (ROE) was 6.5%, 1.8 percentage points lower than in the previous fiscal year. At the general meeting of the Company's shareholders on June 29, 2011, a proposal to pay a full-term dividend of ¥12.00 per share for the period under review was approved.

Capital expenditures, including the cost of construction, totaled ¥31,991 million in the period under review, approximately ¥6,375 million lower than in fiscal year 2010. In contrast, depreciation and amortization rose ¥2,024 million, to ¥32,167 million. Investment in R&D declined ¥213 million, to ¥3,924 million, equivalent to approximately 0.8% of net sales.

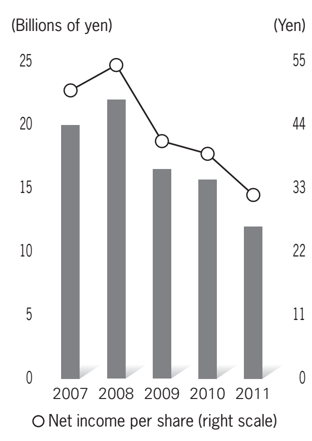
Net Sales



Operating Income



Net Income



Results by Segment

Effective from fiscal year 2011, the Company reorganized its operations into four reportable segments—Industrial gas, Electronics, Energy and Other—based on the markets in which the Company's products are sold, with the aim of facilitating the more effective allocation of management resources, accelerating decision making and accurately assessing operating performance. Operating results for each segment in fiscal year 2011 are outlined below. Segment results for the previous fiscal year have been restated for the purpose of comparison.

Industrial Gas

Demand for oxygen and nitrogen supplied by pipeline from steel and chemicals companies, the principal users of these gases, rose substantially, while demand for liquefied oxygen and nitrogen remained firm from small and medium-sized users both in Japan and overseas. Owing to these results, as well as to the positive impact of M&A deals in North America, segment sales were up from the previous fiscal year.

Sales of cutting and welding equipment and of materials also increased, bolstered by improved economic conditions in the United States, as well as by a recovery in demand from the automotive, shipbuilding and construction industries in Japan. Sales in the gas-related equipment and engineering business climbed substantially, reflecting favorable results for large-scale engineering projects for, among others, cryogenic air separation plants.

As a consequence of these and other factors, sales to third parties in the Industrial gas segment rose 10.6%, to ¥288,644 million. Operating income climbed 34.2%, to ¥24,128 million.

Electronics

Segment sales rose significantly. This result reflected robust demand for mainstay electronics-related gases in Japan from LCD panel manufacturers, including the Green Front Sakai complex, and from semiconductor and related manufacturers. We also saw an increase in demand from customers overseas, particularly South Korea- and Taiwan-based semiconductor and related manufacturers, from manufacturers of LCD panels, as well as brisk demand for argon for use in single crystal silicon production.

Results for electronics-related equipment and installation projects were largely in line with projections. Shipments of metal organic chemical vapor deposition (MOCVD) equipment for manufacturing LED chips and power devices reached a record high, pushing sales in this business above the level of the previous fiscal year.

Owing to the aforementioned factors, segment sales to third parties increased 14.3%, to ¥126,495 million. Operating income advanced 28.4%, to ¥8,453 million.

Energy

Against a backdrop of steeply rising purchase prices for imports, sales of LP gas were significantly higher than in fiscal year 2010, reflecting an improvement in demand for industrial applications. As a consequence, segment sales to third parties rose 16.4%, to ¥37,643 million. Operating income, at ¥1,400 million, was up 10.7%.

Other

Sales in the medical business increased, bolstered by firm demand for medical-use oxygen and home-use oxygen concentrators. Sales were also up in the Thermos business, owing to increased shipments, attributable to extraordinarily hot summer weather and a resulting increase in sales of sports-use vacuum bottles and portable mugs, and to an autumn sales promotion.

Sales for the two major businesses accounted for in this segment to third parties amounted to ¥30,836 million, an increase of 4.9%, while operating income declined 8.0%, to ¥3,041 million.

Financial Position

As of March 31, 2011, total assets amounted to ¥617,676 million, an increase of 0.07%. Approximately ¥22,400 million of this total reflects a ¥10.61 increase in the value of the yen against the U.S. dollar as of the last day of the fiscal year. The current ratio was 122%, down 15.0 points from the fiscal 2010 year-end.

Property, plant and equipment, net, dipped 1.3%, to ¥256,494 million. Total investments and other assets declined 7.2%, to ¥140,953 million, owing to declines in investment securities and goodwill, the former attributable to plummeting stock prices and the latter to the impact of yen appreciation on goodwill in subsidiaries outside Japan.

Total current liabilities rose 20.7%, to ¥180,527 million, reflecting a ¥16,573 million increase in short-term loans payable, as well as to a provision for government surcharge of ¥5,193 million. Total noncurrent liabilities fell 10.0%, to ¥229,732 million, attributable to declines in long-term loans payable, a result of the shift of loans due within one year to current liabilities, and in deferred tax liabilities, attributable to a decrease in unrealized gains on investment securities. As a consequence, interest-bearing debt fell ¥233 million, to ¥2,118 million.

Total net assets decreased ¥4,980 million, to ¥207,416 million. This result was despite an ¥8,013 million increase in retained earnings, adjusted for net income and dividends, and was due to a ¥4,452 million decline in valuation differences on available-for-sale securities, reflecting a decrease in unrealized gains on securities of listed companies held for investment purposes, and foreign currency translation adjustments of ¥33,621 million, owing to the appreciation of the yen. The net asset ratio slipped 1.1 percentage points, to ¥31.2%, while net assets per share slipped ¥16.21 to ¥481.71.

Cash Flows

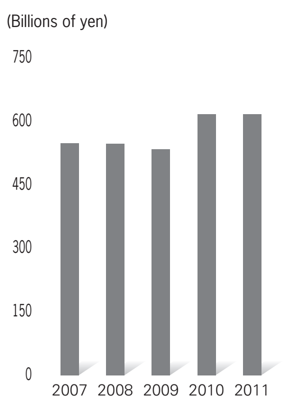
In fiscal year 2011, net cash provided by operating activities amounted to ¥65,897 million, an increase of ¥25,167 million. The main factors at work here included depreciation and amortization of ¥32,167 million, a ¥4,869 million decrease in notes and accounts receivable–trade and a ¥4,006 million decrease in notes and accounts payable–trade. The interest coverage ratio improved 4.1 points, to 13.5 times.

Net cash used in investing activities, at ¥44,834 million, was down ¥58,863 million. This result reflected the application of ¥10,672 million to purchases of investments in subsidiaries resulting in a change in the scope of consolidation and ¥29,915 million to purchases of property, plant and equipment, both significantly less than in the previous fiscal year.

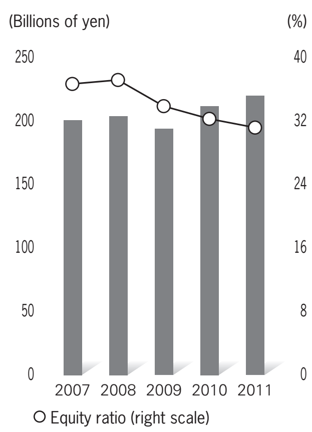
Net cash used in financing activities came to ¥3,343 million, compared with net cash provided by such activities in fiscal year 2010. The principal factors contributing to this result included proceeds from long-term loans payable of ¥27,106 million and the application of ¥30,157 million to the repayment of long-term loans payable.

As a consequence of the Company's operating, investing and financing activities in fiscal year 2011, cash and cash equivalents at end of period totaled ¥43,877 million, an increase of ¥20,154 million from the fiscal 2010 year-end.

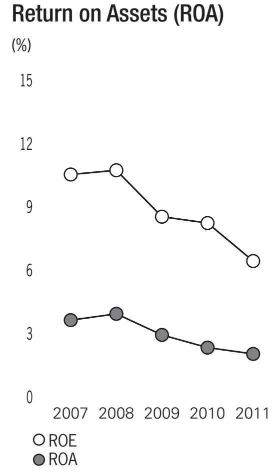
Total Assets



Equity



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



Management Policies, Business-Related Risks

Purchase of Property, Plant and Equipment

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

Reliance on Specific Industries

The Company supplies gases to a wide range of industries and its exposure to risks from reliance on specific industries is thus low. Nevertheless, changes in key electronics markets (semiconductors, liquid crystal (LC) panels, solar cells) could have a significant impact on the Company's business performance.

Manufacturing Costs

Electricity is the major component of the cost of manufacturing such core products as oxygen, nitrogen and argon. Accordingly, a sharp increase in the price of crude oil could result in a substantial increase in electricity charges, which the Company may be unable to reflect in the pricing of its products in a timely manner.

Overseas Factors

The Company maintains operations overseas, particularly in the United States and in other parts of Asia, including China, where the Company has substantial gas operations. Political and economic changes in countries where the Company has operations may have an adverse impact on its business performance.

Technological and Safety Factors

Technological Development

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

Intellectual Property

The Company's business depends on proprietary technological development. The Company endeavors to obtain intellectual property rights as necessary for its proprietary technologies. However, there are no guarantees that its technologies are completely protected.

Product Defects

The Company sells high-pressure gas-related products and handles toxic and flammable gases used in electronics manufacturing (semiconductors, LC panels, solar cells). While the Company strives to ensure the effective management of related risks, it cannot guarantee that all of its products are free of defects.

Financial Risks and Other Factors

Foreign Exchange Risk

The Company exports products for sale outside of Japan. The Company strives to hedge foreign exchange risks by entering into forward exchange contracts and other derivatives transactions. However, the Company may not be able to respond to sudden fluctuations in currency rates, which therefore may have an adverse impact on its business performance.

Retirement Benefit Liabilities

A sudden deterioration in retirement plan returns resulting in an increase in retirement benefit costs may have an adverse impact on the Company's business performance.

Natural Disasters

The occurrence of earthquakes or other natural disasters in areas where the Company has manufacturing facilities may damage facilities. In particular, damage to the Company's large-scale manufacturing facilities may lead to a significant decline in production capacity and incur major recovery costs. Such factors may adversely affect the Company's business performance.

Legal Issues

Unanticipated changes to existing laws and the introduction of new laws—particularly in countries overseas where the Company maintains operations—may adversely affect the Company's business performance. Revisions to environmental laws that result in a tightening of restrictions may result in an increase in costs to ensure compliance, which may also adversely affect the Company's business performance.

Medium-Term Business Plan

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

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

March 31	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 4) 2011
Assets			
Current assets:			
Cash and deposits (Notes 15 and 22)	**¥ 44,549**	¥ 24,029	**$ 535,767**
Notes and accounts receivable–trade (Notes 6 and 15)	**126,207**	127,687	**1,517,823**
Merchandise and finished goods	**16,750**	16,227	**201,443**
Work in process	**9,295**	12,474	**111,786**
Raw materials and supplies	**7,848**	7,353	**94,384**
Deferred tax assets (Note 10)	**6,390**	6,359	**76,849**
Other	**9,873**	12,158	**118,737**
Allowance for doubtful accounts	**(689)**	(976)	**(8,286)**
Total current assets	**220,227**	205,313	**2,648,551**
Property, plant and equipment (Notes 8, 9 and 21)	**635,455**	616,202	**7,642,273**
Accumulated depreciation	**(378,961)**	(356,239)	**(4,557,559)**
Property, plant and equipment, net	**256,494**	259,963	**3,084,714**
Investments and other assets:			
Investment securities (Notes 5 and 15)	**53,569**	62,178	**644,245**
Long-term loans receivable	**5,387**	2,921	**64,787**
Goodwill	**43,343**	47,441	**521,263**
Other intangible assets	**18,647**	20,772	**224,257**
Prepaid pension cost (Note 13)	**11,427**	11,230	**137,426**
Deferred tax assets (Note 10)	**2,221**	2,248	**26,711**
Other	**8,475**	7,780	**101,924**
Valuation allowance for investments	**(1,277)**	(1,357)	**(15,358)**
Allowance for doubtful accounts	**(839)**	(1,278)	**(10,090)**
Total investments and other assets	**140,953**	151,938	**1,695,165**
Total assets	**¥ 617,676**	¥ 617,215	**$ 7,428,455**

See notes to consolidated financial statements.

March 31	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 4) 2011
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable–trade (Note 15)	**¥ 66,896**	¥ 67,926	**$ 804,522**
Short-term loans payable (Notes 7 and 15)	**64,002**	47,429	**769,717**
Income taxes payable (Note 10)	**8,173**	7,051	**98,292**
Provision for loss on disaster	**1,263**	—	**15,189**
Provision for government surcharge	**5,193**	—	**62,453**
Other	**34,997**	27,174	**420,890**
Total current liabilities	**180,527**	149,583	**2,171,100**
Noncurrent liabilities:			
Long-term loans payable (Notes 7 and 15)	**182,398**	201,197	**2,193,602**
Pension and severance indemnities (Note 13)	**5,003**	5,051	**60,168**
Deferred tax liabilities (Note 10)	**27,740**	32,305	**333,614**
Negative goodwill	**757**	1,181	**9,104**
Lease obligations (Note 7)	**6,563**	8,957	**78,930**
Other	**7,268**	6,541	**87,408**
Total noncurrent liabilities	**229,732**	255,236	**2,762,862**
Contingent liabilities (Note 14)			
Total liabilities	**410,259**	404,819	**4,933,963**
Net assets (Notes 11 and 23):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**325,183**
Capital surplus	**44,910**	44,910	**540,108**
Retained earnings	**150,439**	142,426	**1,809,248**
Treasury stock, at cost—			
3,326,579 shares in 2011 and 3,268,919 shares in 2010	**(2,321)**	(2,307)	**(27,913)**
Total shareholders' equity	**220,068**	212,068	**2,646,639**
Accumulated other comprehensive income:			
Valuation differences on available-for-sale securities	**6,428**	10,880	**77,306**
Deferred gains or losses on hedges	**(163)**	27	**(1,960)**
Foreign currency translation adjustments	**(33,621)**	(23,773)	**(404,342)**
Pension liability adjustment of foreign subsidiaries	**(140)**	(124)	**(1,684)**
Total accumulated other comprehensive income (loss)	**(27,496)**	(12,990)	**(330,679)**
Minority interests	**14,845**	13,317	**178,533**
Total net assets	**207,416**	212,396	**2,494,480**
Total liabilities and net assets	**¥617,676**	¥617,215	**$7,428,455**

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	2011	2010	2011
Net sales	¥483,620	¥433,390	$5,816,236
Cost of sales (Note 17)	321,885	286,529	3,871,137
Gross profit	161,734	146,861	1,945,087
Selling, general and administrative expenses (Note 17)	126,265	119,305	1,518,521
Operating income	35,468	27,556	426,554
Other income (expenses):			
Interest and dividend income	1,080	928	12,989
Interest expenses	(4,873)	(4,352)	(58,605)
Amortization of negative goodwill	616	750	7,408
Gain on sales of noncurrent assets (Note 18)	57	151	686
Gain on extinguishment of tie-in shares	—	332	—
Compensation income	—	264	—
Loss on sales and retirement of noncurrent assets (Note 18)	(374)	(1,146)	(4,498)
Foreign exchange losses	(182)	—	(2,189)
Loss on valuation of investment securities	(608)	(1)	(7,312)
Loss on valuation of golf club memberships	(55)	(68)	(661)
Gain on sales of subsidiaries' stocks	—	1,225	—
Loss on sales of subsidiaries' stocks	—	(18)	—
Gain on sales of subsidiaries and affiliates' stocks	—	49	—
Equity in earnings of affiliates	1,541	1,385	18,533
Impairment loss (Note 19)	(94)	(570)	(1,130)
Provision of valuation allowance for investments	(40)	(240)	(481)
Reversal of valuation allowance for investments	120	32	1,443
Reversal of allowance for doubtful accounts	—	716	—
Provision of allowance for government surcharge	(5,193)	—	(62,453)
Loss on disaster	(1,600)	—	(19,242)
Environmental expenses	—	(108)	—
Other	891	1,305	10,716
	(8,717)	634	(104,835)
Income before income taxes and minority interests	26,751	28,191	321,720
Income taxes (Note 10):			
Current	13,756	11,155	165,436
Deferred	(963)	146	(11,581)
	12,792	11,301	153,842
Income before minority interests	13,959	16,890	167,877
Minority interests in income	1,222	1,142	14,696
Net income	¥ 12,736	¥ 15,748	$ 153,169

	Yen		U.S. dollars (Note 4)
Amounts per share:			
Net assets	¥481.71	¥497.92	$5.79
Net income	31.86	39.39	0.38
Cash dividends	12.00	12.00	0.14

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen	Thousands of U.S. dollars (Note 4)
Year ended March 31	2011	2011
Income before minority interests	¥ 13,959	$ 167,877
Other comprehensive income (Note 20):		
Valuation differences on available-for-sale securities	(4,433)	(53,313)
Deferred gains or losses on hedges	(191)	(2,297)
Foreign currency translation adjustments	(9,137)	(109,886)
Pension liability adjustment of foreign subsidiaries	(15)	(180)
Share of other comprehensive income of associates accounted for using the equity method	(631)	(7,589)
Total other comprehensive income (loss)	(14,408)	(173,277)
Comprehensive income (loss)	¥ (449)	$ (5,400)
Total comprehensive income (loss) attributable to (Note 20):		
Owners of the Company	¥ (1,770)	$ (21,287)
Minority interests	1,320	15,875

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen												
		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at March 31, 2009	403,092,837	¥27,039	¥44,910	¥131,478	¥(2,181)	¥201,247	¥ 3,076	¥(111)	¥(23,011)	¥(163)	¥(20,209)	¥13,212	¥194,250
Disposal of treasury stock	—	—	0	—	14	14	—	—	—	—	—	—	14
Change of scope of equity method	—	—	—	—	(40)	(40)	—	—	—	—	—	—	(40)
Dividends from surplus	—	—	—	(4,799)	—	(4,799)	—	—	—	—	—	—	(4,799)
Net income	—	—	—	15,748	—	15,748	—	—	—	—	—	—	15,748
Purchase of treasury stock	—	—	—	—	(100)	(100)	—	—	—	—	—	—	(100)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	7,804	139	(762)	38	7,219	104	7,324
Balance at March 31, 2010	403,092,837	¥27,039	¥44,910	¥142,426	¥(2,307)	¥212,068	¥10,880	¥ 27	¥(23,773)	¥(124)	¥(12,990)	¥13,317	¥212,396
Disposal of treasury stock	**—**	**—**	**0**	**—**	**15**	**15**	**—**	**—**	**—**	**—**	**—**	**—**	**15**
Dividends from surplus	**—**	**—**	**—**	**(4,798)**	**—**	**(4,798)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,798)**
Net income	**—**	**—**	**—**	**12,736**	**—**	**12,736**	**—**	**—**	**—**	**—**	**—**	**—**	**12,736**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(30)**	**(30)**	**—**	**—**	**—**	**—**	**—**	**—**	**(30)**
Change of scope of consolidation	**—**	**—**	**—**	**54**	**—**	**54**	**—**	**—**	**—**	**—**	**—**	**—**	**54**
Increase by merger	**—**	**—**	**—**	**21**	**—**	**21**	**—**	**—**	**—**	**—**	**—**	**—**	**21**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**(4,452)**	**(191)**	**(9,847)**	**(15)**	**(14,506)**	**1,528**	**(12,978)**
Balance at March 31, 2011	**403,092,837**	**¥27,039**	**¥44,910**	**¥150,439**	**¥(2,321)**	**¥220,068**	**¥ 6,428**	**¥(163)**	**¥(33,621)**	**¥(140)**	**¥(27,496)**	**¥14,845**	**¥207,416**

	Thousands of U.S. dollars (Note 4)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at March 31, 2010	$325,183	$540,108	$1,712,880	$(27,745)	$2,550,427	$130,848	$ 325	$(285,905)	$(1,491)	$(156,224)	$160,156	$2,554,372
Disposal of treasury stock	**—**	**0**	**—**	**180**	**180**	**—**	**—**	**—**	**—**	**—**	**—**	**180**
Dividends from surplus	**—**	**—**	**(57,703)**	**—**	**(57,703)**	**—**	**—**	**—**	**—**	**—**	**—**	**(57,703)**
Net income	**—**	**—**	**153,169**	**—**	**153,169**	**—**	**—**	**—**	**—**	**—**	**—**	**153,169**
Purchase of treasury stock	**—**	**—**	**—**	**(361)**	**(361)**	**—**	**—**	**—**	**—**	**—**	**—**	**(361)**
Change of scope of consolidation	**—**	**—**	**649**	**—**	**649**	**—**	**—**	**—**	**—**	**—**	**—**	**649**
Increase by merger	**—**	**—**	**253**	**—**	**253**	**—**	**—**	**—**	**—**	**—**	**—**	**253**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(53,542)**	**(2,297)**	**(118,425)**	**(180)**	**(174,456)**	**18,376**	**(156,079)**
Balance at March 31, 2011	**$325,183**	**$540,108**	**$1,809,248**	**$(27,913)**	**$2,646,639**	**$ 77,306**	**$(1,960)**	**$(404,342)**	**$(1,684)**	**$(330,679)**	**$178,533**	**$2,494,480**

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	**2011**	2010	**2011**
Operating activities			
Income before income taxes and minority interests	**¥ 26,751**	¥ 28,191	**$ 321,720**
Depreciation and amortization	**32,167**	30,143	**386,855**
Impairment loss	**94**	570	**1,130**
Amortization of goodwill	**3,635**	3,153	**43,716**
Interest and dividends income	**(1,080)**	(929)	**(12,989)**
Interest expense	**4,873**	4,352	**58,605**
Equity in earnings of affiliates	**(1,541)**	(1,385)	**(18,533)**
Loss on sales and retirement of noncurrent assets	**244**	941	**2,934**
Gain on sales of investment securities	**(18)**	(1,275)	**(216)**
Gain on extinguishment of tie-in shares	**—**	(332)	**—**
Loss on sales of subsidiaries' stocks	**6**	18	**72**
Loss on disaster	**1,600**	—	**19,242**
Provision of allowance for government surcharge	**5,193**	—	**62,453**
Decrease (increase) in accounts receivable–other	**816**	(78)	**9,814**
Decrease (increase) in notes and accounts receivable–trade	**4,869**	(8,517)	**58,557**
Decrease (increase) in advance payments	**1,657**	(337)	**19,928**
Decrease in inventories	**1,891**	11,420	**22,742**
Decrease in notes and accounts payable–trade	**(4,006)**	(14,918)	**(48,178)**
Increase (decrease) in accrued expenses	**2,121**	(1,934)	**25,508**
(Decrease) increase in advances received	**(159)**	664	**(1,912)**
(Increase) decrease prepaid pension costs	**(196)**	1,287	**(2,357)**
Decrease in provision for retirement benefits	**(94)**	(170)	**(1,130)**
Other, net	**3,409**	3,873	**40,998**
	82,237	54,736	**989,020**
Interest and dividends income received	**1,410**	1,353	**16,957**
Interest expenses paid	**(4,864)**	(4,315)	**(58,497)**
Income taxes paid	**(12,885)**	(11,043)	**(154,961)**
Net cash provided by operating activities	**65,897**	40,730	**792,508**
Investing activities			
(Increase) decrease in short-term investments	**(12)**	137	**(144)**
Proceeds from sales of marketable securities	**390**	—	**4,690**
Purchases of property, plant and equipment	**(29,915)**	(40,830)	**(359,771)**
Proceeds from sales of property, plant and equipment	**496**	576	**5,965**
Purchases of intangible assets	**(474)**	(160)	**(5,701)**
Purchases of investment securities	**(1,843)**	(4,685)	**(22,165)**
Proceeds from sales of investment securities	**42**	1,229	**505**
Payments for assets purchase (Note 22)	**—**	(2,137)	**—**
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 22)	**(10,672)**	(56,100)	**(128,346)**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 22)	**—**	1,547	**—**
Payments of loans receivable	**(2,655)**	(2,622)	**(31,930)**
Other, net	**(191)**	(651)	**(2,297)**
Net cash used in investing activities	**(44,834)**	(103,697)	**(539,194)**
Financing activities			
Net increase (decrease) in short-term loans payable	**¥ 6,561**	¥ (6,516)	**$ 78,906**
Net decrease in commercial papers	**—**	(1,000)	**—**
Proceeds from long-term loans payable	**27,106**	81,345	**325,989**
Repayment of long-term loans payable	**(30,157)**	(10,986)	**(362,682)**
Proceeds from issuance of bonds	**—**	15,000	**—**
Redemption of bonds	**—**	(15,000)	**—**
Proceeds from issuance of common stock	**10**	—	**120**
Repayments of lease obligations	**(1,678)**	(1,444)	**(20,180)**
Cash dividends paid	**(4,799)**	(4,800)	**(57,715)**
Cash dividends paid to minority shareholders	**(346)**	(469)	**(4,161)**
Purchase of treasury stock	**(41)**	(82)	**(493)**
Proceeds from sales of treasury stock	**1**	2	**12**
Net cash (used in) provided by financing activities	**(3,343)**	56,048	**(40,204)**
Effect of exchange rate change on cash and cash equivalents	**583**	1,674	**7,011**
Net increase (decrease) in cash and cash equivalents	**18,302**	(5,243)	**220,108**
Cash and cash equivalents at beginning of period	**23,723**	28,776	**285,304**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**1,343**	108	**16,152**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**508**	82	**6,109**
Cash and cash equivalents at end of period (Note 22)	**¥ 43,877**	¥ 23,723	**$ 527,685**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

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

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed herein as required under Japanese GAAP in Note 20.

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

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

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 75 significant subsidiaries (70 in 2010). All significant intercompany accounts and transactions have been eliminated in consolidation.

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

The differences at the dates of acquisition between the cost and the underlying net equity in investments in consolidated subsidiaries and the companies accounted for by the equity method are amortized equally over the years for which their effect are reasonably estimated.

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

(b) Cash equivalents

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

(c) Investment securities

Investments in securities are classified into three categories: trading securities, held-to-maturity securities and available-for-sale securities. The Company and certain consolidated subsidiaries have marketable securities classified as available-for-sale securities, which are carried at fair value with any changes in valuation difference on available-for-sale securities, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. Under the Companies Act of Japan (the "Act"), unrealized gain or loss on available-for-sale securities, net of the applicable income taxes, is not available for distribution as dividends.

(d) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost, determined by the average method, specific identification method or the moving-average method (lower than book value due to decline in profitability).

As for overseas consolidated subsidiaries, inventories are stated at the lower of cost or market, cost being determined by the first-in first-out method.

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

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

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 15 years

(f) Intangible assets

Goodwill and other intangible assets are stated at cost. As for the Company and its consolidated domestic subsidiaries, goodwill and other intangible assets are amortized by straight-line method based on their estimated useful life. Consolidated overseas subsidiaries record goodwill according to Accounting Standards Codification 350, issued by the Financial Accounting Standards Board of the USA ("Goodwill and Other Intangible Assets," former FASB Statement No. 142).

(g) Leases

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

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

(h) Translation of foreign currency transactions

All monetary assets and liabilities, regardless of short-term or long-term, denominated in foreign currencies other than receivables and payables hedged by qualified foreign exchange forward contracts, are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

The accounts of the overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, except for net assets, which are translated at historical rates, and income statement items are translated into yen at average exchange rates during the year. Differences arising from the translations are stated under "Foreign currency translation adjustments" and "Minority interests" in the accompanying consolidated balance sheets.

(i) Pension and severance indemnities

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

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

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

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

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

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

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

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

The allowance included ¥439 million ($5,280 thousand) and ¥436 million for corporate officers at March 31, 2011 and 2010, respectively.

(k) Provision for loss on disaster

The provision for loss on disaster is provided for the estimated amounts for recovery of assets damaged by the Great East Japan Earthquake.

The amount recorded in loss on disaster in the accompanying consolidated statements of income corresponds to expenses required for recovery of damaged assets, such as repair expenses of property, plant and equipment, and loss on disposal of inventories. The amount includes ¥1,263 million ($15,189 thousand) recorded on the accompanying consolidated balance sheet for an allowance for loss on disaster as of March 31, 2011.

(l) Provision for government surcharge

The provision for government surcharge is provided for the estimated amounts based on the preliminary notification for payment related to claims that the Company was in violation of the "Act on Prohibition of Private Monopolization and Maintenance of Fair Trade."

(m) Research and development expenses

Research and development expenses are charged to operations as incurred.

(n) 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.

(o) 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, 2011 and 2010.

(p) Allowance for doubtful accounts

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

(q) Valuation allowance for investments

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

(r) Derivative and hedging transactions

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

Under the "Accounting Standard for Financial Instruments" (Statement No. 10, issued by the Accounting Standards Board of Japan (ASBJ) on March 10, 2008) derivative transactions are valued at market prices, except for hedging transactions whose gains or losses are deferred and recorded in the balance sheet until the hedged transactions are settled. Moreover, if interest-rate swaps in Japan are specifically tied to the hedged loan transactions, unrealized gains or losses on those swaps are not recognized in the consolidated financial statements as such gains or losses are to be offset with those on the hedged transactions. Deferred hedge accounting is applied to currency swaps.

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

(s) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

3. Changes in Accounting Standards

(a) Equity method of accounting for investments

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16, issued by the ASBJ on March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (Practical Issues Task Force (PITF) No. 24, issued by the ASBJ on March 10, 2008).

There was no effect as a result of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2011.

(b) Asset retirement obligations

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Accounting Standard for Asset Retirement Obligations" (Statement No. 18, issued by the ASBJ on March 31, 2008) and the "Implementation Guidance on Accounting Standard for Asset Retirement Obligations" (Implementation Guidance No. 21, issued by the ASBJ on March 31, 2008).

There was no effect as a result of this change on operating income and income before income taxes and minority interests for the year ended March 31, 2011.

(c) Income before minority interests

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Cabinet Office Ordinance Partially Revising Regulation for Terminology, Forms and Preparation of Financial Statements" (Cabinet Office Ordinance No. 5, issued on March 24, 2009), based on the "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by the ASBJ on December 26, 2008). Accordingly, "Income before minority interests" is newly presented in the accompanying consolidated statements of income.

(d) Presentation of comprehensive income

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Accounting Standard for Presentation of Comprehensive Income" (Statement No. 25, issued by the ASBJ on June 30, 2010).

(e) Business combinations

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Accounting Standard for Business Combinations" (Statement No. 21, issued by the ASBJ on December 26, 2008), the "Accounting Standard for Consolidated Financial Statements" (Statement No. 22, issued by the ASBJ on December 26, 2008), the "Partial Amendments to Accounting Standard for Research and Development Costs" (Statement No. 23, issued by the ASBJ on December 26, 2008), the "Revised Accounting Standard for Business Divestitures" (Statement No. 7, issued by the ASBJ, Revised 2008), the "Accounting Standard for Equity Method of Accounting for Investments" (Statement No. 16, issued by the ASBJ, Revised 2008), and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Guidance No. 10, issued by the ASBJ, Revised 2008).

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 ¥83.15=U.S.$1, the approximate rate of exchange at March 31, 2011. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

5. Investment Securities

At March 31, 2011 and 2010, information with respect to available-for-sale securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011			**2011**		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥31,902**	**¥20,411**	**¥11,490**	**$383,668**	**$245,472**	**$138,184**
Unrecognized loss items: Stock	**2,078**	**2,516**	**(437)**	**24,991**	**30,259**	**(5,256)**
Total	**¥33,981**	**¥22,927**	**¥11,053**	**$408,671**	**$275,731**	**$132,928**

	Millions of yen		
	2010		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥40,253	¥21,447	¥18,806
Unrecognized loss items: Stock	929	1,155	(226)
Total	¥41,183	¥22,603	¥18,579

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥59 million ($710 thousand) and ¥54 million with an aggregate gain on sales of ¥18 million ($216 thousand) and ¥0 million for the years ended March 31, 2011 and 2010, respectively, and an aggregate loss on sales of ¥9 million ($108 thousand) and ¥0 million for the years ended March 31, 2011 and 2010, respectively.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Accounts receivable transferred by liquidation	**¥4,074**	¥2,800	**$48,996**
Notes receivable transferred by liquidation	**1,399**	2,327	**16,825**

(b) Notes receivable discounted at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Notes receivable discounted	**¥70**	¥—	**$842**

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

At March 31, 2011 and 2010, short-term loans payable and the current portion of long-term loans payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Bank loans	**¥23,356**	¥17,825	**$280,890**
Current portion of long-term loans payable	**25,645**	29,604	**308,419**
Total	**¥49,002**	¥47,429	**$589,321**

The average interest rates applicable to short-term loans payable outstanding at March 31, 2011 and 2010 are 1.26% and 1.51%, respectively.

Long-term loans payable at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Loans from banks due through 2018 at average interest rate of 1.89% in 2011 and 1.96% in 2010	**¥157,398**	¥161,197	**$1,892,940**
1.81% unsecured bonds, payable in yen, due 2011	**—**	15,000	**—**
1.58% unsecured bonds, payable in yen, due 2012	**10,000**	10,000	**120,265**
1.13% unsecured bonds, payable in yen, due 2014	**15,000**	15,000	**180,397**
	¥182,398	¥201,197	**$2,193,602**

Short-term lease obligations at March 31, 2011 and 2010 included in other current liabilities were ¥3,392 million ($40,794 thousand) and ¥1,525 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2011 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 25,645	$ 308,419
2013	28,331	340,722
2014	49,178	591,437
2015	36,852	443,199
2016	18,444	221,816
2017 and thereafter	24,593	295,767
	¥183,044	$2,201,371

The annual maturities of lease obligations subsequent to March 31, 2011 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2012	¥3,392	$ 40,794
2013	2,059	24,762
2014	938	11,281
2015	1,238	14,889
2016	447	5,376
2017 and thereafter	1,879	22,598
	¥9,956	$119,735

8. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥191 million ($2,297 thousand) and ¥136 million, long-term loans payable of ¥643 million ($7,733 thousand) and ¥714 million, accounts payable-trade of ¥114 million ($1,371 thousand) and ¥307 million, and other of ¥85 million ($1,022 thousand) and nil at March 31, 2011 and 2010, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Property, plant and equipment, at net book value	**¥1,156**	¥2,110	**$13,903**

9. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Property, plant and equipment	**¥411**	¥411	**$4,943**

10. Income Taxes

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

Significant components of the Company's deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥2,509**	¥2,134	**$30,174**
Loss from valuation of inventory	**334**	313	**4,017**
Accrued expenses	**1,755**	2,153	**21,106**
Provision for loss on disaster	**513**	—	**6,170**
Other	**1,928**	1,975	**23,187**
Deferred tax assets—subtotal	**7,041**	6,577	**84,678**
Valuation allowance	**(650)**	(171)	**(7,817)**
Deferred tax assets—net	**6,391**	6,405	**76,861**
Deferred tax liabilities	**(1)**	(46)	**(12)**
Net deferred tax assets	**¥6,390**	¥6,359	**$76,849**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (82)**	¥ (134)	**$ (986)**
Deferred tax liabilities—subtotal	**(82)**	(134)	**(986)**
Offset by deferred tax assets	**1**	46	**12**
Net deferred tax liabilities	**¥ (81)**	¥ (88)	**$ (974)**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,551**	¥ 1,571	**$ 18,653**
Reserve for retirement benefits	**1,305**	1,335	**15,695**
Net operating loss carryforward for tax purposes	**58**	130	**698**
Other	**8,617**	7,946	**103,632**
Deferred tax assets—subtotal	**11,533**	10,983	**138,701**
Valuation allowance	**(5,195)**	(4,659)	**(62,477)**
Deferred tax assets—net	**6,337**	6,324	**76,212**
Deferred tax liabilities	**(4,115)**	(4,075)	**(49,489)**
Net deferred tax assets	**¥ 2,221**	¥ 2,248	**$ 26,711**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (4,503)**	¥ (7,553)	**$ (54,155)**
Reserve for replacement of fixed assets	**(5,082)**	(5,846)	**(61,118)**
Reserve for special depreciation	**(109)**	(145)	**(1,311)**
Reserve for replacement of fixed assets—special	**(365)**	(270)	**(4,390)**
Depreciation	**(10,363)**	(10,634)	**(124,630)**
Other	**(11,432)**	(11,929)	**(137,486)**
Deferred tax liabilities—subtotal	**(31,856)**	(36,380)	**(383,115)**
Offset by deferred tax assets	**4,115**	4,075	**49,489**
Net deferred tax liabilities	**¥(27,740)**	¥(32,305)	**$(333,614)**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2011 was as follows:

	2011
Statutory tax rate	**40.69%**
Entertainment expenses and others not deductible permanently	**1.15**
Dividends received and others	**(7.48)**
Valuation allowance for deferred tax assets	**3.08**
Provision of allowance for loss on disaster	**1.79**
Provision of allowance for government surcharge	**7.90**
Other	**0.70**
Effective tax rate	**47.82%**

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

11. Shareholders' Equity

(a) Dividends

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

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate.

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

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

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

(c) Treasury stock and treasury stock acquisition rights

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

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

12. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2011 and 2010, 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
	2011	2010	**2011**
Acquisition costs:			
Property, plant and equipment	**¥4,448**	¥7,699	**$53,494**
Other assets	**255**	325	**3,067**
	¥4,704	¥8,026	**$56,572**
Accumulated depreciation:			
Property, plant and equipment	**¥3,288**	¥5,608	**$39,543**
Other assets	**202**	227	**2,429**
	¥3,491	¥5,835	**$41,984**
Net book value:			
Property, plant and equipment	**¥1,159**	¥2,091	**$13,939**
Other assets	**53**	98	**637**
	¥1,212	¥2,190	**$14,576**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥718 million ($8,635 thousand) and ¥1,254 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, 2011 and 2010, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 and 2010 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011		
2012	**¥ 582**	**$ 6,999**
2013 and thereafter	**630**	**7,577**
Total	**¥1,212**	**$14,576**
2010		
2011	¥ 910	
2012 and thereafter	1,280	
Total	¥2,190	

(b) Future minimum lease payments subsequent to March 31, 2011 and 2010 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2011		
2012	**¥ 1,904**	**$ 22,898**
2013 and thereafter	**10,896**	**131,040**
Total	**¥12,801**	**$153,951**
2010		
2011	¥ 2,113	
2012 and thereafter	8,532	
Total	¥10,646	

13. Pension and Severance Indemnities

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

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

Certain consolidated overseas subsidiaries have a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2011 and 2010 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Projected benefit obligation	**¥ 34,610**	¥ 34,450	**$ 416,236**
Plan assets at fair market value	**(29,454)**	(29,494)	**(354,227)**
Unfunded retirement benefit liabilities	**5,156**	4,956	**62,008**
Net unrecognized actuarial losses	**(12,779)**	(12,209)	**(153,686)**
Difference at change of accounting standard	**(1,839)**	(2,312)	**(22,117)**
Unrecognized prior service cost	**1,821**	2,131	**21,900**
Prepaid pension cost	**11,427**	11,230	**137,426**
Allowance for employees' retirement benefits	**(3,787)**	(3,796)	**(45,544)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Current service cost	**¥1,526**	¥1,411	**$18,352**
Interest cost	**594**	583	**7,144**
Expected return on plan assets	**(693)**	(660)	**(8,334)**
Expense of actuarial loss	**1,214**	1,271	**14,600**
Net loss on change in accounting standard for employees' retirement benefits	**475**	466	**5,713**
Adjustment for prior service cost	**(237)**	(241)	**(2,850)**
Total of retirement benefit expenses	**¥2,879**	¥2,831	**$34,624**
Other	**843**	786	**10,138**
Total	**¥3,722**	¥3,617	**$44,762**

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

	2011	2010
Discount rate	**Mainly 2.0 %**	Mainly 2.0 %
Rate of return on assets	**Mainly 3.0 %**	Mainly 3.0 %
Period of recognition of actuarial gains or losses	**Mainly 12 to 16 years**	Mainly 12 to 16 years
Period of recognition of transition gains or losses	**Mainly 15 years**	Mainly 15 years
Period of recognition of prior service costs	**13 to 16 years**	13 to 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

14. Contingent Liabilities

At March 31, 2011 and 2010, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥6,686 million ($80,409 thousand) and ¥8,442 million, which included reguarantees by joint investors amounting to ¥458 million ($5,508 thousand) and ¥649 million and commitments to guarantees amounting to ¥279 million ($3,355 thousand) and ¥777 million, respectively.

15. Financial Instruments

(a) Policy for financial instruments

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

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

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

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

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

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

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

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

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

(c) Fair value of financial instruments

The fair value of financial instruments is based on their market price, if available. When there is no market price available, fair value is reasonably estimated. In addition, the notional amounts of derivatives in Note 16. "Derivative and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(1) Fair value of financial instruments

Carrying amount on the consolidated balance sheet as of March 31, 2011 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2011			2011		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	**¥ 44,549**	**¥ 44,549**	**¥ —**	**$ 535,767**	**$ 535,767**	**$ —**
Notes and accounts receivable–trade	**126,207**	**126,207**	**—**	**1,517,823**	**1,517,823**	**—**
Investment securities:						
Available-for-sale securities	**33,981**	**33,981**	**—**	**408,671**	**408,671**	**—**
Total assets	**¥204,738**	**¥204,738**	**¥ —**	**$2,462,273**	**$2,462,273**	**$ —**
Notes and accounts payable–trade	**¥ 66,896**	**¥ 66,896**	**¥ —**	**$ 804,522**	**$ 804,522**	**$ —**
Short-term loans payable	**23,356**	**23,356**	**—**	**280,890**	**280,890**	**—**
Long-term loans payable	**223,044**	**226,030**	**2,986**	**2,682,429**	**2,718,340**	**35,911**
Total liabilities	**¥313,297**	**¥316,283**	**¥2,986**	**$3,767,853**	**$3,803,764**	**$35,911**

	Millions of yen		
	2010		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 24,029	¥ 24,029	¥ —
Notes and accounts receivable–trade	127,687	127,687	—
Investment securities:			
Available-for-sale securities	41,183	41,183	—
Total assets	¥192,899	¥192,899	¥ —
Notes and accounts payable–trade	¥ 67,926	¥ 67,926	¥ —
Short-term loans payable	17,825	17,825	—
Long-term loans payable	230,802	234,035	3,233
Total liabilities	¥316,554	¥319,787	¥3,233

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

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

Cash and deposits and notes and accounts receivable–trade

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

Investment securities

The fair value of stocks is based on quoted market prices of the stock exchange. For information on securities classified by holding purpose, please refer to Note 5. "Investment securities."

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

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

Long-term loans payable

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

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Unlisted stocks	**¥19,588**	¥19,995	**$235,574**
Preferred stocks	**—**	1,000	**—**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
	Due in one year or less		
Cash and deposits	**¥ 44,549**	¥ 24,029	**$ 535,767**
Notes and accounts receivable–trade	**126,207**	127,687	**1,517,823**

(4) Redemption schedule for long-term loans payable as of March 31, 2011 and 2010

Years ending March 31	Millions of yen **2011**	Thousands of U.S. dollars **2011**
2012	**¥ 40,645**	**$ 488,815**
2013	**38,331**	**460,986**
2014	**49,178**	**591,437**
2015	**51,852**	**623,596**
2016	**18,444**	**221,816**
2017 and thereafter	**24,590**	**295,731**
	¥223,044	**$2,682,429**

Years ending March 31	Millions of yen 2010
2011	¥ 29,606
2012	39,611
2013	26,872
2014	40,004
2015	64,944
2016 and thereafter	29,761
	¥230,802

(5) Unused overdraft agreement and loan commitment line were ¥49,556 million ($595,983 thousand) and ¥52,555 million as of March 31, 2011 and 2010, respectively.

16. Derivative and Hedging Activities

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

(a) Currency-related

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

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

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

	Hedged item	Thousands of U.S. dollars **2011** Contract amount	 Due after one year	 Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable–trade			
USD		**$ 1,768**	**$ —**	*****
TWD		**36**	**—**	
MYD		**12,977**	**—**	
Buy:	Accounts payable–trade			
USD		**37,414**	**—**	
EUR		**1,888**	**—**	
GBP		**120**	**—**	
CHF		**481**	**—**	
TWD		**8,455**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**11,726**	**11,726**	
Buy:				
SGD		**11,197**	**11,197**	
Total		**$86,121**	**$22,934**	

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

(b) Interest-related

	Hedged item	Millions of yen **2011** Contract amount	 Due after one year	 Fair value	Thousands of U.S. dollars **2011** Contract amount	 Due after one year	 Fair value
Short-cut method							
Interest-rate swap agreements:							
Receive floating/Pay fix	Long-term loans payable	**¥66,453**	**¥57,521**	*****	**$799,194**	**$691,774**	*****

	Hedged item	Millions of yen 2010 Contract amount	 Due after one year	 Fair value
Short-cut method				
Interest-rate swap agreements:				
Receive floating/Pay fix	Long-term loans payable	¥61,109	¥49,520	*

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

17. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2011 and 2010 totaled ¥3,924 million ($47,192 thousand) and ¥4,137 million, respectively.

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

Significant components of the gain on sales of noncurrent assets of ¥57 million ($686 thousand) and ¥151 million for the years ended March 31, 2011 and 2010, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Land	**¥57**	¥151	**$686**

Significant components of the loss on sales and retirement of noncurrent assets of ¥374 million ($4,498 thousand) and ¥1,146 million for the years ended March 31, 2011 and 2010, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Machinery	**¥—**	¥631	**$—**

19. Impairment Loss

The Company and its consolidated subsidiaries categorize business assets by business segmentation and idle assets without a specific future use are categorized separately. For idle assets affected by a decrease in the fair market value of land, the book values are written down to the recoverable amount and such write-downs were recorded as impairment loss of ¥94 million ($1,130 thousand) and ¥570 million for the years ended March 31, 2011 and 2010, respectively, due to lack of recovery provability of market value or recovery provability in the near future. Recoverable amounts for relevant assets are net selling price (selling price based on contract, valuation by property tax or valuation by inheritance tax).

20. Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Other comprehensive income:	
Valuation difference on available-for-sale securities	¥7,777
Deferred gains or losses on hedges	139
Foreign currency translation adjustments	(862)
Pension liability adjustment of foreign subsidiaries	38
Share of other comprehensive income of associates accounted for using the equity method	117
Total other comprehensive income	¥7,210

Total comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of yen
	2010
Total comprehensive income attributable to:	
Owners of the Company	¥22,968
Minority interests	1,133
Total comprehensive income	¥24,101

21. Segment Information

Effective from the beginning of the fiscal year, April 1, 2010, the Company has adopted the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Statement No. 17, issued by the ASBJ on March 27, 2009) and the "Implementation Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Implementation Guidance No. 20, issued by the ASBJ on March 21, 2008). The segment information for the year ended March 31, 2010 under this new accounting standard is also disclosed hereunder as required.

(a) Overview of reportable segments

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

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

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

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

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

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

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

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

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

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

	Millions of yen						
	2010						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	¥261,003	¥110,636	¥32,344	¥29,406	¥433,390	¥ —	¥433,390
Intersegment sales or transfers	1,024	106	1,358	2,670	5,160	(5,160)	—
Total	262,027	110,742	33,703	32,077	438,551	(5,160)	433,390
Segment income (operating income)	¥ 17,981	¥ 6,583	¥ 1,265	¥ 3,306	¥ 29,136	¥(1,580)	¥ 27,556
Other item:							
Depreciation expenses	¥ 18,018	¥ 9,466	¥ 548	¥ 1,550	¥ 29,584	¥ 559	¥ 30,143

	Thousands of U.S. dollars						
	2011						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	$3,471,365	$1,521,287	$452,712	$370,848	$5,816,236	$ —	$5,816,236
Intersegment sales or transfers	20,734	1,227	22,225	33,289	77,474	(77,474)	—
Total	3,492,099	1,522,514	474,937	404,137	5,893,710	(77,474)	5,816,236
Segment income (operating income)	$ 290,174	$ 101,660	$ 16,837	$ 36,572	$ 445,268	$(18,701)	$ 426,554
Other item:							
Depreciation expenses	$ 235,646	$ 115,538	$ 10,066	$ 19,579	$ 380,854	$ 6,001	$ 386,855

Notes: 1. Adjustments for segment income of ¥(1,555) million ($(18,701) thousand) and ¥(1,580) million as of March 31, 2011 and 2010 include intersegment eliminations of ¥(186) million ($(2,237) thousand) and ¥(196) million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,369) million ($(16,464) thousand) and ¥(1,383) million, respectively.
2. The Company does not allocate assets to reportable segments.

(d) Information by geographical area

(1) Net sales

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

Thousands of U.S. dollars			
2011			
Japan	The United States	Others	Total
$4,317,234	$945,111	$553,867	$5,816,236

(2) Property, plant and equipment

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

Thousands of U.S. dollars			
2011			
Japan	The United States	Others	Total
$2,012,399	$825,340	$246,963	$3,084,714

(e) Information about major customers

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

(f) Information on impairment loss by reportable segments

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

	Thousands of U.S. dollars					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	$—	$469	$—	$—	$661	$1,130

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

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

	Thousands of U.S. dollars					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	$ 48,058	$ 0	$3,067	$—	$—	$ 51,137
Unamortized balance	515,105	72	6,073	—	—	521,263

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

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

	Thousands of U.S. dollars					
	2011					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$6,470**	**$361**	**$301**	**$265**	**$—**	**$7,408**
Unamortized balance	**6,855**	**782**	**722**	**722**	**—**	**9,104**

Information about operations in different business segments, geographical segments and overseas sales of the Company and its consolidated subsidiaries for the year ended March 31, 2010, which is based on the previous standard, is as follows:

(a) Business Segments

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

Notes: 1. The business segments are classified into "Gas business," "Plant and gas equipment business" and "Housewares business and others" on the basis of the kind and character of products and merchandise.

2. The amounts of the operating costs and expenses included in the column "Eliminations or corporate" for the fiscal year ended March 31, 2010 were ¥3,541 million, which mainly consisted of the expenses in business administration department.

3. The amounts of the corporate assets included in the column "Eliminations or corporate" as of March 31, 2010 were ¥86,215 million, which mainly consisted of surplus working funds, investment securities and the assets in the business administration department.

(b) Geographical Segments

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

Notes: 1. Main countries or areas other than Japan
North America: the United States
Other countries: Singapore, Malaysia, Philippines, China, Taiwan, etc.
2. The amounts of the operating costs and expenses included in the column "Eliminations or corporate" for the fiscal year ending March 31, 2010 were ¥3,541 million, which mainly consisted of the expenses in business administration department.
3. The amounts of the corporate assets included in the column "Eliminations or corporate" as of March 31, 2010 were ¥86,215 million, which mainly consisted of surplus working funds, investment securities and the assets in the business administration department.

(c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its overseas consolidated subsidiaries, for the year ended March 31, 2010 is summarized as follows:

Year ended or as of March 31	North America	Other	Total
	Millions of yen		
Overseas sales	¥67,634	¥37,448	¥105,082
Consolidated net sales			433,390
Ratio of overseas sales to consolidated net sales	15.6%	8.6%	24.2%

Notes: 1. Main countries or areas
North America: the United States
Other countries: Singapore, Malaysia, Philippines, China, Taiwan, etc.
2. "Overseas sales" are sales outside of Japan by the Company and its consolidated subsidiaries.

22. Supplementary Cash Flow Information

Cash and cash equivalents as of the years ended March 31, 2011 and 2010 were reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash and deposits	**¥44,549**	¥24,029	**$535,767**
Time deposits with maturities of more than three months	**(672)**	(306)	**(8,082)**
Cash and cash equivalents	**¥43,877**	¥23,723	**$527,685**

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 1,944**	**$ 23,379**
Noncurrent assets	**6,680**	**80,337**
Goodwill	**4,451**	**53,530**
Current liabilities	**(602)**	**(7,240)**
Noncurrent liabilities	**(1,618)**	**(19,459)**
Acquisition cost of assets	**(10,855)**	**(130,547)**
Cash and cash equivalents	**183**	**2,201**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥(10,672)**	**$(128,346)**

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

	Millions of yen
Current assets	¥ 6,526
Noncurrent assets	31,839
Goodwill	31,393
Current liabilities	(2,752)
Noncurrent liabilities	(10,206)
Acquisition cost of assets	(56,800)
Cash and cash equivalents	699
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(56,100)

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

	Millions of yen
Current assets	¥ 697
Noncurrent assets	1,634
Goodwill	221
Current liabilities	(127)
Noncurrent liabilities	(41)
Acquisition cost of assets	(2,384)
Cash and cash equivalents	247
Payments for asset purchase	¥(2,137)

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

	Millions of yen
Current assets	¥ 657
Noncurrent assets	1,071
Current liabilities	(313)
Noncurrent liabilities	(575)
Minority interests	(283)
Foreign currency translation adjustments	(55)
Gain on sales of subsidiaries' stocks	1,225
Sales amount of stocks	1,725
Cash and cash equivalents	(177)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	¥1,547

23. Subsequent Events

Appropriation of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2011, were approved at the shareholders' meeting held on June 29, 2011.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.072) per share	**¥2,399**	**$28,851**

Report of Independent Auditors

ERNST & YOUNG

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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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, 2011 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 ShinNihon LLC

June 29, 2011

Investor Information

(At March 31, 2011)

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

Number of Employees:
10,269

Date of Incorporation:
October 1910

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

Minimum Trading Unit:
1,000 shares

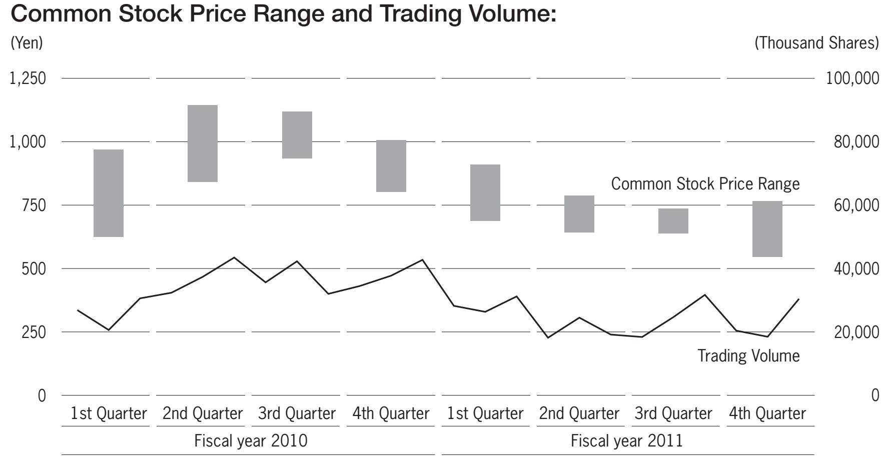
Number of Stockholders:
24,365

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

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	60,947	15.12%
JFE Steel Corporation	25,254	6.26
Taiyo Nippon Sanso Client Shareholding Society	18,221	4.52
Meiji Yasuda Life Insurance Company	16,007	3.97
Japan Trustee Services Bank, Ltd. (Trust Account)	14,875	3.69
Mizuho Corporate Bank, Ltd.	14,484	3.59
Dai-ichi Mutual Life Insurance Company	10,037	2.48
The Norinchukin Bank	10,000	2.48
National Mutual Insurance Federation of Agricultural Cooperatives	8,431	2.09
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,348	2.07
	186,607	46.29%

Common Stock Price Range and Trading Volume:



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