November 10, 2011
Taiyo Nippon Sanso Corporation

# New Medium-Term Business Plan "Gear Up 10"

As part of its long-term plan to boost sales to ¥1 trillion by fiscal year 2021 at the latest, Taiyo Nippon Sanso Corporation (President Yasunobu Kawaguchi) has compiled a new Medium-Term Business Plan, titled "Gear Up 10"— Challenges in Becoming a Global Company III. This three-year business plan began in fiscal year 2012. It is the first phase of the trillion yen plan.

For us to expand our global presence and ensure sustainable, profitable and efficient growth, we need to meet our "Triple 10" medium-to-long-term business targets (a 10% share of the world market, an operating margin of 10% or higher, and a rate of Return on Capital Employed (ROCE) of 10% or higher). At the same time, we need to create enhanced longer-term corporate value following the five key strategies in the previous medium-term management plan, based on six core concepts. The five key strategies are: (1) concentration of management resources in growth markets and regions, (2) strengthening of upstream strategies, (3) promotion of M&A strategy, (4) implementation of cost reductions, and (5) strengthening of Group management, all based on the core concepts of (1) strengthening compliance and ensuring safety and quality control, (2) efficient management rigorously pursuing cost and labor benefits, (3) strengthening regional sales bases, (4) focusing on the cylinder business, (5) strengthening R&D, and (6) continuing proactive investments.

## 1. Overview of the Previous Plan: "Stage 10"-Challenges in Becoming a Global Company II

In fiscal year 2009, TNSC set itself the target of becoming a global player. It also set 3 benchmarks for medium-to-long-term progress, the "Triple 10" targets, and adopted a three-year medium-term plan, "Stage 10," for the fiscal years 2009-2011.

Although we were unable to achieve initial targets during those three years, due to the shocks sustained by the global economic system as a result of the financial crisis that began in the United States in late 2008, we took the following measures to strengthen our business fundamentals for sustainable growth, within the framework of the five key strategies.

**(1) Concentration of management resources in growth markets and regions**

- Continued strategic investments in major plant expansion in North America
- Accelerated entry into new businesses in Asian markets, including Vietnam, India and other newly emerging nations
- Expanded businesses in China through measures such as new construction of plant at Changxing Island, Dalian
- Aggressively expanded liquid crystal display panel and solar cell related businesses
- Accelerated pace of MOCVD business growth.

**(2) Strengthening of upstream strategies**

- Become an established manufacturer in the fields of monosilane gas ($SiH_4$) and hydrogen selenide ($H_2Se$)
- Launch joint production of helium with Air Products & Chemicals, Inc. (scheduled for spring 2012)

**(3) Promotion of M&A strategy**

- FY 2009: Acquired Five Star Gas & Gear and Aeris
- FY 2010: Acquired Valley National Gases
- FY 2011: Acquired Western International Gas & Cylinders

**(4) Implementation of Cost reductions**

- Implemented in manufacturing and logistics
- Cut indirect marketing costs

**(5) Strengthening of Group management**

- Consolidated affiliated companies through integrations and closures
- Upgraded filling facilities

Numerical targets and longer-term business benchmarks

| | "Stage 10" Targets | FY2011 Results | % achieved |
|---|---|---|---|
| Net sales | ¥600 billion + $\alpha$ | ¥483.6 billion | 80.6% |
| Operating income | ¥54.0 billion | ¥35.4 billion | 65.6% |
| Global share *1 | 10% | 7.6% | |
| Operating margin | 10% or higher | 7.3% | |
| ROCE | 10% or higher | 7.8% | |

*1 Calculations are based on figures from CryoGas International magazine and investor relations materials from various gas companies.

**2. Overview of New Medium-term Business Plan "Gear Up 10" — Challenges in Becoming a Global Company III**

1) Positioning of the Plan

(1) A new start for TNSC's 101st year
(2) Getting back to our origins
(3) Firmer foundations for further development, and to prepare the Company for the next 50 to 100 years

2) Basic policy

Continue and develop key strategies under the previous Plan
(1) Concentration of management resources in growth markets and regions
(2) Strengthening of upstream strategies
(3) Promotion of M&A strategy
(4) Implementation of cost reductions
(5) Strengthening of Group management

Policies
(1) Strengthening compliance and ensuring safety and quality control
(2) Efficient management rigorously pursuing cost and labor benefits
(3) Strengthening regional sales bases
(4) Focusing on the cylinder business
(5) Strengthening R&D
(6) Continuing proactive investments

Based on the key strategies and policies in the previous Plan, our goal is to further create enhanced corporate value by strengthening personnel development and strengthening business fundamentals in Japan, as well as by accelerating our overseas expansion.

3) Numerical targets

| | FY2011 Results | FY2012 Forecasts | FY2014 Targets |
|---|---|---|---|
| Net sales | ¥483.6 billion | ¥493.0 billion | ¥650 billion |
| Operating income | ¥35.4 billion | ¥35.0 billion | ¥60 billion |
| Operating margin | 7.3% | 7.1% | 9.2% |
| ROCE | 7.8% | 7.7% | 10.8% |

4) Sales by business segment

| | FY2011 Results | FY2012 Forecasts | FY2014 Targets |
|---|---|---|---|
| Industrial Gases Business | ¥288.6 billion | ¥296.9 billion | ¥365.0 billion |
| Electronics Business | ¥126.4 billion | ¥125.7 billion | ¥158.0 billion |
| Energy Business | ¥37.6 billion | ¥36.6 billion | ¥38.0 billion |
| Other Businesses | ¥30.8 billion | ¥33.8 billion | ¥39.0 billion |
| Subtotal | ¥483.6 billion | ¥493.0 billion | ¥600.0 billion |
| Strategic M&A | — | — | ¥50.0 billion |
| Total | ¥483.6 billion | ¥493.0 billion | ¥650.0 billion |

5) Operating income by business segment

| | FY2011 Results | FY2012 Forecasts | FY2014 Targets |
|---|---|---|---|
| Industrial Gases Business | ¥24.1 billion | ¥23.0 billion | ¥34.0 billion |
| Electronics Business | ¥8.4 billion | ¥8.3 billion | ¥15.0 billion |
| Energy Business | ¥1.4 billion | ¥1.7 billion | ¥1.9 billion |
| Other Businesses | ¥3.0 billion | ¥3.5 billion | ¥4.2 billion |
| Eliminations or Corporate | -¥1.5 billion | -¥1.5 billion | -¥1.1 billion |
| Subtotal | ¥35.4 billion | ¥35.0 billion | ¥54.0 billion |
| Strategic M&A | — | — | ¥4.0 billion |
| Efficiency savings and cost reductions | — | — | ¥2.0 billion |
| Total | ¥35.4 billion | ¥35.0 billion | ¥60.0 billion |

We will improve Group profitability and efficiency by aggressively expanding our businesses and investing ¥100 billion in strategic M&A, and further improving operational efficiency by cutting costs.

**6) Capital investment in facilities and equity (by region)**

To consolidate and grow corporate value over the longer term, we plan ongoing investments totaling ¥170 billion over a period of three years.

| | FY2012 | FY2013 | FY2014 | Total | % |
|---|---|---|---|---|---|
| Japan | ¥35.5 billion | ¥21.0 billion | ¥26.5 billion | ¥83.0 billion | 48.8% |
| U.S. | ¥14.5 billion | ¥26.0 billion | ¥21.0 billion | ¥61.5 billion | 36.2% |
| China | ¥0.5 billion | ¥6.0 billion | ¥2.5 billion | ¥9.0 billion | 5.3% |
| Rest of Asia | ¥4.5 billion | ¥5.0 billion | ¥7.0 billion | ¥16.5 billion | 9.7% |
| Total | ¥55.0 billion | ¥58.0 billion | ¥57.0 billion | ¥170.0 billion | 100.0% |

The above table does not include the ¥100 billion earmarked for strategic M&A investments.

### 7) Growth strategy, by business segment

Measures for each business segment under the key strategies in "Gear Up 10" are as follows:

| | Measures |
|---|---|
| Industrial Gases Business | Overseas<br>・ Strengthen profitability of already completed mergers and acquisitions in the United States (consolidate synergies)<br>・ Carry out further mergers and acquisitions<br>・ Strengthen China businesses<br>・ Strengthen competitiveness and profitability of businesses in the rest of Asia<br>・ Step up expansion into newly emerging markets such as India and South and Central America<br><br>Japan<br>・ Strengthen measures in growth markets such as hybrid, electric and fuel cell vehicles, and nonferrous metals (rare metals and rare earths)<br>・ Strengthen cost competitiveness by optimizing plant operation and systematic facility renewal<br>・ Cut costs across the board in manufacturing, logistics and procurement<br>・ Restructure carbon dioxide production bases |
| Electronics Business | Overseas<br>Accelerate Asia-focused business development<br>・ Increase TNSC's share of the China and Taiwan markets by expanding sales of strategic upstream products (monosilane and hydrogen selenide gas) and winning project orders in promising fields<br>・ Develop a business in MOCVD equipment through our Korean joint venture TNSK Corporation<br><br>Japan<br>Expand sales and improve profitability in growth domains<br>・ Increase market share in strategic upstream products (monosilane and hydrogen selenide gas) for the LCD and solar cell markets<br>・ Increase sales in growth markets such as LCDs, solar cells, LEDs and power devices<br>・ Improve earnings by optimizing production bases |
| Energy Business | Japan<br>・ Strengthen division in charge of direct sales of energy to households<br>・ Expand sales of new materials and products using our LP gas marketing networks<br>・ Increase sales efficiency in all areas, through four Group marketing companies around Japan |
| Other Businesses (Medical, Thermos) | Overseas<br>・ Expand market share for "Water-$^{18}$O" isotope<br>・ Expand sales of medical-use oxygen using gas production bases in China and elsewhere<br>・ Strengthen production bases in China to meet global expansion of the market for stainless steel vacuum bottles<br><br>Japan<br>・ Expand sales of "Water-$^{18}$O" isotope by building and expanding production plants<br>・ Strengthen marketing of medical-use gases and helium for MRI<br>・ Expand business of building facilities within hospitals and clinics<br>・ Expand marketing channels for Thermos-brand products (into electrical appliance megastores, websites, telemarketing and other media-based as sales channels). |

### 3. Policy on Returns to Shareholders

The Company is committed to continuously improving corporate value and ensuring adequate returns to shareholders.

Our priority is to ensure a consolidated dividend payout ratio of at least 25%, while continuing strategic investments to maintain high growth rates, and after overall consideration of consolidated earnings prospects and investment schedules. In addition, we will flexibly purchase treasury stock as needed to improve capital efficiency and raise the level of shareholder returns.

Over the three years of the “Stage 10” plan, the dividend payout ratio (consolidated basis) was 32.0% of net income, and the shareholder return ratio (comprising dividend payout and the effect of purchase of treasury stock) was 35.9%.

With regard to the full-year dividend, we have made no change to our ¥12 per share forecast previously announced in the financial statement for the first two quarters of the year ending March 31, 2012.