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The Gas Professionals

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Business Performance for Fiscal 2008

(on a consolidated basis)

1. Outline of business operations for fiscal 2008 (April 1, 2008 to March 31, 2009)

(1) Operating results

(Amounts less than ¥1 million are omitted.)

	Net sales		Operating income		Recurring income		Net income	
	(¥ million)	(YoY change)	(¥ million)	(YoY change)	(¥ million)	(YoY change)	(¥ million)	(YoY change)
Fiscal 2008	495,746	(2.4)%	29,164	(24.8)%	27,948	(27.4)%	16,533	(24.6)%
Fiscal 2007	507,718	10.7%	38,783	6.3%	38,510	3.9%	21,930	9.1%
	Earnings per share (Yen)		ROE		ROA		Operating margin	
Fiscal 2008	41.21		8.6%		5.2%		5.9%	
Fiscal 2007	54.48		10.8%		7.0%		7.6%	

Business performance for fiscal 2008

Overview

During the reporting term, the real economy worldwide was impacted by a financial sector crisis originally triggered by the subprime mortgage loan problem in the United States. As a result, major downturns in economic activity were seen in the Japanese economy. Added to high prices of raw materials and fuels, plus the rapid appreciation of the yen against major currencies, this led to a sharp deterioration in the business environment.

Among the principal customer industries of the TNSC Group, the steel industry was hit by a weak demand due to a steep decline in the number of construction starts (both for buildings and houses), as well as a falloff in demand for high-end steel materials from automobile and electric appliance makers. As a result, crude steel production volume has been declining sharply from the autumn onward. Chemical manufacturers, meanwhile, struggled with higher raw materials prices due to the rise in oil prices, and also saw a decline in demand for high-performance resins. As a result, ethylene production volume has plummeted.

Among other customer industries, electronic equipment and components makers – notably makers of semiconductor devices and flat panel displays (FPDs) – have suffered due to a decline in demand for digital consumer appliances, PCs, and automotive electronics, among others, resulting in drastic production cutbacks accompanying inventory adjustments. These companies have consequently put off plans for capital investments for the time being, and an integration and reorganization of production facilities has taken place, involving the closure of some manufacturing plants.

It was amid this decline in demand for the Group's products by principal customer industries that we commenced our new medium-term business plan, under the name of Stage 10 – Toward Becoming a Global Player: Part II. Our main goals under this plan are: 1) to accelerate profitable growth; 2) to move further along the path to globalization; 3) to pursue further cost reductions; and 4) to more closely integrate the operations of TNSC Group companies. We have employed a variety of strategies in the pursuit of these four priority themes.

During the reporting term, amid a rapidly worsening business environment we took active measures to develop our business operations in regions of the world where we see good growth prospects. These include North America and East/Southeast Asia, particularly China, where strong growth is expected in the product fields of photovoltaic cells and light-emitting diodes (LEDs). In Japan, we focused on achieving more thoroughly integrated and efficient Groupwide management, as well as on cost-cutting efforts.

In North America, which we regard as a promising growth market, we further expended our operational base in the gas business. In March 2008 we acquired Five Star Gas & Gear, Inc. of Southern California, and in October we acquired Aeris, Inc. of Northern California. Both these regional distributors were made into consolidated subsidiaries of TNSC. To increase our gas production capacity in parallel with these acquisitions, we began construction of new large-scale air separation plants in Texas and Iowa.

In East/Southeast Asia, our newly constructed air separation units in Singapore and the Philippines came steadily online during the reporting term, contributing to the growth of our gas operations. In China, we set up Taiyo Nippon Sanso (China) Investment Co., Ltd. with the aim of making further investments in the air separation plant construction project being pursued by Dalian Changxing Island Taiyo Nippon Sanso Gas Co., Ltd. Over the near term, we will be constructing an industrial gas supply system that will pave the way for further business expansion in China.

In Japan, meanwhile, we established the Sakai Gases Center Co., Ltd. to handle expected strong demand for gas for use by electronics companies at the Manufacturing Complex for the 21st Century being constructed by Sharp Corporation in Sakai City, Osaka Prefecture. Construction of air separation facilities and piping is now ongoing with the goal of supplying the principal industrial gases to the LCD plant located in the complex, which is due to start operation in October 2009.

During the reporting term we established Taiyo Nissan Engineering Co., Ltd. as part of our program of amalgamating and reorganizing the Group's functions in the field of installation and maintenance of equipment for the supply of industrial gases, principally for the production of electronic devices. The new company is expected to help raise the efficiency of the Group's operations in this area, and improve competitiveness.

In the medical gases field, we established MegaCare Services Kansai Co., Ltd. to expand our operations in the at-home medical services field in the Kansai region.

In the bottled gas supply business (supply of gas in cylinders), our filling company Kawaguchi Gas Center Co., Ltd. completed construction of a new filling plant boasting one of the largest monthly filling capacities in Japan, at 800,000 cubic meters. The start of operation of this plant will help to raise the operational efficiency of our overall supply network and to lower labor costs.

In the field of welding and cutting equipment, we concluded a business tie-up agreement with Koike Sanso Kogyo Co., Ltd. under which we have begun talks on the establishment of a new company to undertake joint development and production. This will facilitate the efficient development and production of competitive products, taking full advantage of the fund of expertise possessed by both companies.

As a result of these measures, demand in the first half of the reporting period for our mainline gases, as well as our equipment and installation/construction services, held comparatively firm from the previous term. In the second half, however, a sharp drop in demand was seen from our principal users and a wide range of other customer enterprises. The business slowdown led to major production cutbacks and inventory adjustments, as well as further declines in capital investment levels. As a result, the TNSC Group recorded a year-on-year decline of 2.4% in sales on a consolidated basis, to ¥495,746 million.

Regarding earnings, we posted an increase in depreciation expenses accompanying a shortening of the useful life of property, plant and equipment in line with amendments to taxation legislation in fiscal 2008. Additionally, expenses for the amortization of goodwill held by overseas subsidiaries rose as a result of changes in accounting standards, and electric power costs were sharply higher than forecast. These negative factors were compounded by a steep and sudden decline in demand from the start of second half. As a result, recurring income registered a year-on-year decline of 27.4%, to ¥27,948 million. Extraordinary income was posted on the sale of property, plant and equipment, but this was more than offset by extraordinary losses resulting from the costs of disposal of these assets, and losses on the sale of the assets. Consequently, the Group posted a net income of ¥16,533 million, for a decline of 24.6% from the previous term.

On a non-consolidated basis, sales were down by 2.0% at ¥267,047 million, recurring income fell 32.8% to ¥14,672 million, and net income posted a sharp 39.8% decline, to ¥8,274 million.

Breakdown of business performance by operational segment

Gas Business

Supply volume and sales of the Group's mainline gases – oxygen, nitrogen, and argon – posted figures in line with our expectations for the first half of the reporting term, both in Japan and overseas, thanks partly to the effects of M&As. In the second half, however, the worsening global business downturn caused a sharp drop-off in demand for gases. Demand from Japanese manufacturers fell due to sharp cutbacks in production accompanying drastic inventory reductions. As a result, year-on-year declines were recorded in both shipment volume and sales.

Shipments and sales of oxygen posted year-on-year declines due to a steep drop in demand from large-lot users such as steel and chemicals manufacturers. Shipments and sales of nitrogen remained roughly at the previous term's level, thanks to a firm undertone in demand from steelmakers, chemical companies, and electronics manufacturers for nitrogen for use in ensuring process safety, for purging (protection from impurities), and for other quality-assurance purposes. Shipments and sales of argon fell from the previous year's level owing to steep falls in demand for use in stainless steel smelting, welding, and the manufacture of silicon crystals, among other applications.

In the category of other industrial gases, demand for carbon dioxide from shipbuilders held firm, but demand from automotive firms and construction machinery makers declined. As a result, shipments and sales of carbon dioxide stayed at roughly the same level as the previous term. Supply was tight for the raw-material gases from which carbon dioxide is derived, due to production cutbacks by petrochemical companies, but the TNSC Group took steps to ensure uninterrupted supply. Shipment volumes of helium to electronics makers and optical fiber cable manufacturers registered a decline, but the Group was able to push through increased selling prices in the North American and European markets, thanks to which sales rose over the previous term.

A decline was seen in demand for hydrogen from the glass-making and electronics industries, but we were able to keep sales at the previous term’s level.

Sales of LPG fell below the previous term’s level, due to the combined effect of a sudden drop in imported oil prices against the background of the global economic downturn, and a sharp fall in industrial demand, also as a result of the downturn.

Demand for specialty gases remained steady in the first half of the reporting term, thanks to production capacity increases implemented in the previous term by domestic electronics makers, who are our principal customers. In the second half, however, sharp production cutbacks were carried out by makers of semiconductor devices, LCDs, digital consumer appliances, and automotive components. In addition, capacity utilization rates at Taiwanese semiconductor and LCD makers also fell dramatically. As a result of these factors, sales of specialty gases posted a year-on-year decrease.

The electronics industry expects to see a strong increase in demand for photovoltaic cells and LEDs on a worldwide scale, thanks to rising public awareness of the importance of energy conservation and environmental preservation initiatives. In view of this, in line with the Group’s priority strategic stance, we are focusing management resources on products and services targeting these growth industries. We are also collaborating with IBM in a project to develop materials gases for use in technology for the production of next-generation semiconductors, and with the Belgian research center Interuniversitaire Micro-Electronics

Centrum vzw in a project to develop a production method for high-intensity green-light LED devices.

As a result of the above, the Group's Gases Business recorded sales of ¥329,813 million for the reporting term, for a year-on-year decline of 2.5%.

Machinery & Equipment Business

The TNSC Group's machinery and equipment business was also heavily impacted by the global financial crisis and its concomitant economic downturn. Our main customer industries made sharp cuts in expenditure on plant and equipment, and sales fell below the previous year's level in both the domestic and overseas markets.

In the field of electronics-related equipment, the Group sells a wide range of products and systems to ensure safe and uninterrupted gas supplies, including gas piping systems, exhaust gas purifiers, and gas purification systems. We also offer construction and maintenance services for such equipment. In the Japanese market, large-scale projects made steady progress, but a major fall in demand from digital appliance makers was seen in the latter half of the term, against the backdrop of the sudden economic downturn. This led to a drop in the numbers of semiconductor devices and LCDs manufactured for installation in such digital appliances, and all companies in the electronics industry implemented major cuts in their capital investment plans. As a result, sales in this category by the Group failed to reach the previous year's level.

In the field of compound semiconductor manufacturing equipment (MOCVD), although the Group experienced a slowdown in demand for such equipment for the production of white-light LEDs, which are forecast to grow strongly for use as backlights in LCDs and as general light sources, the basic undertone of demand was still firm. We have recently seen a resurgence in inquiries for large-sized models of compound semiconductor manufacturing equipment, and we expect this to translate into increased orders as soon as the economy bottoms out.

Shipments of welding equipment and welding materials to shipbuilding companies posted a steady trend during the reporting term, in line with our expectations, as the shipbuilders continue to hold a solid backlog of orders. On the other hand, a decline was seen in demand for welding equipment and materials from the transportation equipment and construction machinery industries, leading to a year-on-year decrease in sales.

In the field of the construction of air separation plants, as the deterioration of the economy became increasingly clear during the reporting term, moves to cut back on capital investments were seen by customer industries such as steel, digital appliances, carbon fibers, automobiles, and electronics (both in Japan and overseas), all of which had hitherto been bullish on contracting for additional gas supplies.

Demand for cryogenic equipment from universities and research institutions registered a decline, and demand from government bodies for equipment related to aerospace research continued to follow a long-term weakening trend. However, a resurgence was seen in private-sector plans for large-scale equipment, and we have hopes of receiving increased orders in the near future.

Amid these business circumstances, orders received during the reporting term on the domestic market amounted to 1 air separation plant, 1 oxygen compressor, and 1 nitrogen compressor. On the overseas market we received orders for 2 air separators and 3 nitrogen production plants.

As a result of the foregoing, sales for the reporting term by the Group's Machinery & Equipment Business declined by 2.8% from the previous year, to ¥147,445 million.

Housewares Business and Others

In the Group's production and sale of housewares, carried out principally by Thermos K.K., we enjoyed an increase in sales for the reporting term. This was attributable to good sales of newly launched products and firm shipments of existing products including mainline sports bottles, insulated mugs, and the Shuttle Chef slow-cooking pot. As a result, sales for this business rose 4.7% year-on-year, to ¥18,488 million.

2. Prospects for fiscal 2009

The economic downturn is expected to worsen on a global scale for some time to come. Although Japan and other leading economies are taking concerted countermeasures, the outlook remains extremely uncertain. It is likely to take quite some time before the economy hits bottom and begins once more to follow an upward path. For the time being, at the TNSC

Group we will continue taking every measure we can to reduce total costs and secure an adequate level of earnings.

Business performance forecasts for fiscal 2009

(¥ million)

	Net sales	Operating income	Recurring income	Net income
FY2009	450	27.4	24.6	13.3
FY2008	495.7	29.1	27.9	16.5
YoY decrease (%)	9.2	6.0	12.0	19.6

Note: For the purposes of these forecasts, the average exchange rate of the Japanese yen against the U.S. dollar in fiscal 2009 is assumed to be ¥95/$1.

3. Results by operating segment

Fiscal 2007 (April 1, 2007 to March 31, 2008)

(Millions of yen)

	Gas Business	Machinery and Equipment Business	Housewares Business and Others	Total	Eliminations or Corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	338,347	151,717	17,653	507,718	-	507,718
(2) Sales from inter-segment transactions and transfers	19	11,720	150	11,890	(11,890)	-
Total	338,366	163,438	17,804	519,608	(11,890)	507,718
Operating expenses	307,421	153,037	15,871	476,331	(7,396)	468,934
Operating income	30,945	10,400	1,932	43,277	(4,494)	38,783
II. Assets, depreciation, impairment and capital expenditures						
Assets	394,125	75,178	19,322	488,626	58,611	547,237
Depreciation	22,507	2,121	647	25,276	230	25,506
Impairment loss	-	-	-	-	49	49
Capital expenditures	33,312	2,081	826	36,220	40	36,260

4. Fiscal 2008 (April 1, 2008 to March 31, 2009)

(Millions of yen)

	Gas Business	Machinery and Equipment Business	Housewares Business and Others	Total	Eliminations or Corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	329,813	147,445	18,488	495,746	-	495,746
(2) Sales from inter-segment transactions and transfers	20	23,362	57	23,441	(23,441)	-
Total	329,834	170,807	18,546	519,187	(23,441)	495,746
Operating expenses	307,384	159,219	16,313	482,917	(16,335)	466,582
Operating income	22,449	11,587	2,232	36,269	(7,105)	29,164
II. Assets, depreciation, impairment and capital expenditures						
Assets	390,458	79,757	19,405	489,621	44,729	534,350
Depreciation	25,141	2,454	767	28,363	(23)	28,339
Impairment loss	-	-	-	-	141	141
Capital expenditures	58,862	7,939	667	67,469	(1,459)	66,010

Notes

1. Segmentation method

Products (whether developed and/or made in-house or by other companies [i.e. bought-in merchandise]) are allocated to one of the three segments of the Gas Business, the Machinery and Equipment Business, and the Housewares Business and Others.

2. The principal products and services included in the three segments are shown in the table below.

Business segment	Main products
Gas Business	Oxygen, nitrogen, argon, carbon dioxide, helium, rare gases such as xenon and neon, hydrogen, medical gases(oxygen, dinitrogen monoxide), specialty gases (semiconductor materials gases, standard reference gas), dissolved acetylene, liquid petroleum gas (LPG), other gases, stable isotopes, equipment lease
Machinery and Equipment Business	Cutting and welding equipment, welding materials, cylinders, semiconductor related engineering/equipment, semiconductor manufacturing equipment, medical equipment, air separation plants (oxygen, nitrogen, argon, rare gases), cryogenic air separation plants, ultra-low-temperature equipment, high-vacuum equipment, pressure swing adsorption (PSA) gas generators, hydrogen generators, gas compressors, gas expanders, liquefied gas storage/pumps, vacuum brazing, atomic power/space development equipment and other related equipment
Housewares Business and Others	Stainless steel vacuum bottles(household, laboratory), vacuum thermal insulation cooking pots, assembly, processing and inspection of electronic components, maintenance of facilities, other outsourced business

5. Results by geographical segment

Fiscal 2007 (April 1, 2007 to March 31, 2008)

(Millions of yen)

	Japan	North America	Other countries	Total	Eliminations or Corporate	Consolidated
I. Sales and operating income Sales						
(1) Sales to external customers	393,227	84,833	29,656	507,718	-	507,718
(2) Sales from inter-segment transactions	5,762	13,128	3,178	22,069	(22,069)	-
Total	398,990	97,962	32,834	529,787	(22,069)	507,718
Operating expenses	369,542	87,940	30,778	488,261	(19,326)	468,934
Operating income	29,447	10,021	2,056	41,525	(2,742)	38,783
II. Assets	311,037	121,374	40,479	472,890	74,346	547,237

Fiscal 2008 (April 1, 2008 to March 31, 2009)

(Millions of yen)

	Japan	North America	Other countries	Total	Eliminations or Corporate	Consolidated
I. Sales and operating income Sales						
(1) Sales to external customers	383,936	82,006	29,802	495,746	-	495,746
(2) Sales from inter-segment transactions	7,177	9,985	3,298	20,461	(20,461)	-
Total	391,114	91,992	33,101	516,208	(20,461)	495,746
Operating expenses	368,386	83,462	31,513	483,362	(16,779)	466,582
Operating income	22,728	8,529	1,587	32,846	(3,682)	29,164
II. Assets	324,729	102,332	34,653	461,715	72,635	534,350

Notes

1. Principal countries in the North America and Other Countries segments are as follows:

(1) North America: The United States of America

(2) Other countries: Singapore, Malaysia, Philippines, China, Taiwan etc.