

Business Performance for the Fiscal 2004 (on a consolidated basis)

(1) Operating Results

Overview

During the period under review, the Japanese economy sustained a steady recovery until the middle of the year, thanks to rising capital investment and growing overseas demand. However, the pace of recovery slowed in the second half in the face of negative factors such as a steep rise in prices of raw materials and an increase in inventories in some industries. The rate of growth in the U.S. and Chinese economies has been gradually decelerating and losing the strong momentum seen in the past. Among the principal user industries of Taiyo Nippon Sanso, business performance in the iron and steel sector remained favorable, thanks to growing domestic demand and firm orders from East Asia. The chemical industry also enjoyed strong exports, driven by massive demand from East Asia and the continued benign business environment in Japan. In the electronics industry, on the other hand, companies were increasingly adjusting to growing inventory stockpiles, which in turn reflected the expansion of supply capacity to respond to the higher rate of penetration of digital electronic appliances.

In this environment, the Company made a new start as Taiyo Nippon

Sanso Corporation following the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd. on October 1, 2004, and began focusing on expanding its mainstay industrial gases business. In November 2004, we acquired a part of the operations in the United States owned by Air Liquid, Ltd., a leading overseas industrial gas maker, through its subsidiary Matheson Tri-Gas, Inc. As a result, our production capacity of liquefied gas doubled in the United States to a level equal to 70% of our domestic production capacity. In China, an air separation plant commenced operation in the Shanghai region to reliably supply high-purity nitrogen and a range of industrial gases to the electronics industry, and began a gas distribution service for local customers. In Japan, the Company vigorously invested in an array of fields and completed construction of a high-purity oxygen plant, one of the largest of its kind in Japan, in the Keihin region, to enable operations with a lower gas production cost.

As a result of these initiatives, the volume of gas supplied to customers, the core operations of Taiyo Nippon Sanso, was at a healthy level in both Japan and overseas, and sales for the period on a consolidated basis reached ¥300,055 million. Reflecting the influence of cost cutting driven by improved capacity utilization for gas production facilities as well as strong earnings of consolidated subsidiaries including

Matheson Tri-Gas, Inc., operating profit amounted to ¥20,727 million, while recurring profit came to ¥20,805 million. Net income stood at ¥11,568 million as a result of extraordinary profits such as the gain on the sale of property, plant and equipment related to the expropriation of land, although the Company did also post extraordinary losses such as merger expenses.

Breakdown of Performance by Division

Gas Business

Sales of our mainstay products—oxygen, nitrogen, and argon—held firm both in terms of value and volume, thanks to a high level of capacity utilization in user industries. In oxygen, shipments of liquefied gas to the iron & steel and shipbuilding industries was firm, and in nitrogen, a small-scale on-site supply to the electronics industry and the shipment of liquefied gas to industries, including the automotive and food sectors, were also strong. Argon enjoyed robust demand from users in a wide array of industries for stainless steel production and welding, and shipments to silicon crystal manufacturers enjoying robust demand for large-diameter (300mm) silicon wafers rose. Sales of special gases remained buoyant, reflecting the growing demand from the Japanese electronics industry, which pursued an aggressive capital investment policy,

and a high level of operations in East Asian countries. Consequently, sales of the Gas Business (to outside customers) came to ¥207,049 million, while operating profit for this business amounted to ¥16,062 million.

Machinery & Equipment Business

Sales of electronic materials-related equipment remained firm given the strong demand from the electronics industry overseas, including the United States, where capital investment was impressive. Increased capital investment by electronic device manufacturers, centered on optical devices such as laser pick-up units for DVD players and LEDs for cell phones, generated strong growth in the number of deliveries and sales of compound semiconductor manufacturing equipment. On the other hand, in air separation plants, sales were weak, primarily as a reaction to the concentration of large-scale projects on the previous year. Sales of cutting and welding equipment, particularly laser cutting equipment and NC cutters, posted a healthy performance in both Japan and overseas, driven by strong operations in user industries such as steel, shipbuilding and construction machinery.

As a result, sales of machinery and equipment (to outside customers) stood at ¥82,697 million, while operating profit amounted to ¥5,625 million.

Housewares Business

Demand for the Company's housewares products, which are manufactured and sold primarily by Thermos K.K., experienced robust growth during the period, thanks to the unusually warm summer, which led to strong sales of Thermos's own unique Easy Drink thermos bottle for cold drinks.

Sales of the Housewares Business (to outside customers) therefore reached ¥10,308 million, while operating profit came to ¥1,303 million.

<Supplementary Information> Year-on-Year Comparison with Simple Summation

Taiyo Nippon Sanso was created as a new entity after the merger on October 1, 2004. Consequently, the consolidated business results for the full year ended March 31, 2005 do not include the results of Taiyo Toyo Sanso Co., Ltd. for the first half of the year (from April 1, 2004 to September 30, 2004). If the results of Taiyo Toyo Sanso Co., Ltd. for the first half of the year are added, the full-year results would be sales of ¥366,412 million, operating profit of ¥23,790 million, recurring profit of ¥24,354 million and net income of ¥13,429 million.

Unit: Million yen

	Year ended March 31, 2005		
	Taiyo Nippon Sanso	Taiyo Toyo Sanso First half	Simple summation
Sales	300,055	66,357	366,412
Operating profit	20,727	3,063	23,790
Recurring profit	20,805	3,549	24,354
Net income	11,568	1,861	13,429

	Year ended March 31, 2004		
	Nippon Sanso	Taiyo Toyo Sanso	Simple summation
Sales	230,272	127,430	357,703
Operating profit	14,317	4,410	18,728
Recurring profit	13,441	5,161	18,602
Net income	4,541	2,279	6,820

	Increase	YoY change
Sales	8,709	2.4%
Operating profit	5,062	27.0%
Recurring profit	5,752	30.9%
Net income	6,608	96.9%

The simple summation for the year ended March 31, 2005 does not eliminate transactions in the first half of the year between the Nippon Sanso Group and the Taiyo Toyo Sanso Group for consolidation. The simple summation for the year ended March 31, 2004 does not eliminate transactions between the Nippon

Sanso Group and the Taiyo Toyo Sanso Group for consolidation.

A comparison of simple summations by segment is as follows.

	Year ended March 31, 2005		
	Taiyo Nippon Sanso	Taiyo Toyo Sanso First half	Simple summation
External Sales	300,055	66,357	366,412
Gas	207,049	45,823	252,872
Machinery & Equipment	82,697	14,963	97,660
Other	10,308	5,570	15,878
Operating profit	20,727	3,063	23,790
Gas	16,062	2,434	18,496
Machinery & Equipment	5,625	318	5,943
Other	1,303	634	1,938
Elimination	(2,263)	(324)	(2,587)

	Year ended March 31, 2004		
	Nippon Sanso	Taiyo Toyo Sanso	Simple summation
External Sales	230,272	127,430	357,703
Gas	155,660	88,469	244,129
Machinery & Equipment	68,919	28,147	97,066
Other	5,692	10,813	16,506
Operating profit	14,317	4,410	18,728
Gas	12,222	4,143	16,365
Machinery & Equipment	3,035	202	3,238
Other	713	912	1,626
Elimination	(1,654)	(848)	(2,502)

	Year-on-year increase (decrease)
External Sales	8,709
Gas	8,742
Machinery & Equipment	594
Other	(627)
Operating profit	5,062
Gas	2,130
Machinery & Equipment	2,705
Other	311
Elimination	(84)

Forecasts for the Fiscal 2005 Full Term (term ending March 31, 2006)

Although production in the steel, chemical and electronics industries remains robust, the operating environment surrounding the Company does not warrant optimism, given the negative effect of the rising prices of raw materials on our user industries. Taiyo Nippon Sanso will respond to the challenges by bolstering profitability and leveraging the merger consolidation effect to the fullest extent.

Regarding our forecast business performance for the fiscal 2005 full term, on a consolidated basis, we project sales of ¥380,000 million, recurring profit of ¥24,500 million, and net income of ¥13,000 million. With respect to dividends, we plan to pay an annual dividend of ¥8 per share.