

## **Report on Business Performance for Fiscal 2004 First Half**

### **Note:**

*On October 1, 2004, Nippon Sanso Corporation merged with Taiyo Toyo Sanso Co., Ltd. to create Taiyo Nippon Sanso Corporation. In the text below, however, the term "the Company" refers to the former Nippon Sanso Corporation.*

### **Overview**

During the six-month period under review, business activity picked up across the entire range of manufacturing industries as a result of rising capital investment made possible by improved corporate earnings, and growth in exports to other East Asian countries in response to increased demand for Japanese-made products in those expanding economies. On the other hand, the prices of basic materials such as naphtha and steel rose steeply during the reporting period, while consumer spending remained lackluster. In view of such negative factors, the near-term outlook for the Japanese economy is not necessarily bright.

Among the Company's principal user industries, business performance in the iron & steel and chemical industries continued the favorable trends established in the previous term, driven by strong demand from other East Asian markets. In the electronics industry, growth in demand for wide-screen TVs, DVD recorders, and so on, as a result of the Athens Olympics, led to a surge in production of semiconductors and LCDs for use in digital electronic appliances.

As a result of the above, the volume of gas supplied to customers recorded a favorable level as a whole, and sales for the reporting period on a consolidated basis

registered an increase of 3.1% over the same period of the previous year, reaching ¥113,970 million.

An improved capacity utilization rate for the Company's production equipment, as well as reductions in costs, including payrolls, enabled the Company to register massive year-on-year gains of 100.9% in recurring profit to ¥9,321 million, and of 95.8% in net income, to ¥5,175 million.

Consolidated earnings results for the interim period are as follows: (Figures in parentheses are year-on-year percentage changes)

Sales	¥113,970 million (up 3.1%)
Operating profit	¥9,482 million (up 79.1%)
Recurring profit	¥9,321 million (up 100.9%)
Net income	¥5,175 million (up 95.8%)

### **Breakdown of Performance by Division**

#### Gas Business

Sales of our mainstay products - oxygen, nitrogen, and argon - held firm thanks to a high level of capacity utilization in users industries in Japan. Sales of specialty gases were also strong, leading to a year-on-year increase in revenue. This was mainly attributable to the continuation of the favorable level of business activity at Japanese makers of semiconductors and LEDs, which were in strong demand from users in the electronic appliance manufacturing sector. In addition, production levels were also high in user industries in other East Asian countries.

As a result of the above, sales of the Gas Business came to ¥79,961 million, a year-on-year increase of 4.0%,

while the operating profit for this business rose strongly, by 52.0% to ¥7,619 million.

#### Machinery & Equipment Business

In the field of air separation plants, despite a continued firm trend of capital investment in the electronics and steel industries, a reduced amount of construction of large-scale plants at client's premises in the six-month period under review caused revenue to fall below the same period of the previous year. On the other hand, 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 led to a steep year-on-year growth in deliveries of semiconductor manufacturing equipment. Additionally, sales of cutting and welding equipment posted growth to users in the shipbuilding, construction machinery, and steel industries, which enjoyed favorable business performances during the period.

As a result of the above, sales of machinery and equipment registered a year-on-year increase of 5.0%, to ¥34,051 million, while operating profit amounted to ¥1,908 million, more than five times the corresponding figure for the previous first-half period.

#### Housewares Business

Demand for the Company's housewares products rose sharply during the reporting period, thanks partly to the hotter-than-usual summer. Our subsidiary Thermos K.K. enjoyed good sales of its in-house-developed Easy Drink thermos bottle for cold drinks.

As a result, sales of the Housewares Business rose 19.7% year-on-year, to ¥3,610 million, while operating profit grew sharply by 45.4% to ¥690 million.

**Forecasts for the Fiscal 2004 Full Term** (term ending March 31, 2005)

Consumer spending in Japan remains as sluggish as ever, and the pace of expansion of the U.S. and Chinese economies - which have been the main engines driving the recovery of the country's economy up to now - appears to be slowing down. In addition, excess inventories of certain products are being seen in the electronics industry. Future prospects have thus begun to look rather more cloudy.

It is amid this environment that the staff of Taiyo Nippon Sanso -- the new company that came into existence on October 1 with the merger between Nippon Sanso and Taiyo Toyo Sanso - will be busily engaged for some time to come in integrating the operations of the two founding companies with the goal of producing synergistic efficiencies that will lead inevitably to improved earnings.

Regarding our forecast for business performance for the fiscal 2004 full term, on a consolidated basis, we project sales at ¥300,000 million (up 30.3% year-on-year), ordinary income at ¥22,000 million (up 63.7% year-on-year), and net income at ¥12,000 million (up 164.2% year-on-year).

In view of the favorable nature of current business performance forecasts, we plan to increase the term-end ordinary dividend by ¥1, to ¥4 per share. In addition, we will be paying a special extra dividend of ¥2 per share in celebration of the merger. The interim dividend is scheduled to remain unchanged, at ¥3 per share.