

Business Performance for the FY 2006 First Half

(on a consolidated basis)

1. Consolidated Results for the First Half of Fiscal 2006 (April 1 to September 30, 2006)

(1) Operating results

(¥ million)

	Net sales		Operating profit		Recurring profit		Net income	
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)
Reporting 1st-half period	215,388	16.1	18,054	48.6	18,805	53.3	9,546	48.6
Previous 1st-half period	185,444	--	12,150	--	12,265	--	6,424	--
Previous term	397,308		26,788		27,115		14,444	

	Net income per share (¥)	
	Basic	Diluted
Reporting 1st-half period	23.72	--
Previous 1st-half period	15.93	--
Previous term	35.45	--

Notes:

- 1) Gains on equity-method investments
Reporting 1st-half: ¥780 million; Previous 1st-half: ¥196 million; Previous term: ¥779 million
- 2) Average number of shares issued during the term (consolidated)
Reporting 1st-half: 402,545,123 shares; Previous 1st-half: 403,105,140 shares; Previous term: 402,876,108 shares
- 3) Changes in accounting standards: None
- 4) Percentage figures indicate year-on-year changes. For the previous first-half period, year-on-year comparison is not available as the Company was created through merger of Nippon Sanso Corporation with Taiyo Toyo Sanso Co., Ltd. as of October 1, 2004.

(2)Segment Information

Previous 1st-half period (April 1 to September 30, 2005)

(¥ million; rounded off amounts less than one million yen)

	Gas Business	Machinery & Equipment Business	Housewares Business and Others	Total	Eliminations and corporate	Consolidated
Sales						
(1) Sales to customers	124,936	52,610	7,897	185,444	--	185,444
(2) Sales from inter-segment transactions and transfers	79	3,103	42	3,226	(3,226)	--
Total	125,016	55,714	7,940	188,670	(3,226)	185,444
Operating expenses	114,644	54,108	6,682	175,436	(2,142)	173,293
Operating profit	10,371	1,605	1,257	13,234	(1,083)	12,150

Reporting 1st-half period (April 1 to September 30, 2006)

(¥ million; rounded off amounts less than one million yen)

	Gas Business	Machinery & Equipment Business	Housewares Business and Others	Total	Eliminations and corporate	Consolidated
Sales						
(1) Sales to customers	148,424	58,239	8,724	215,388	--	215,388
(2) Sales from inter-segment transactions and transfers	47	6,619	69	6,736	(6,736)	--
Total	148,472	64,858	8,794	222,125	(6,736)	215,388
Operating expenses	134,057	59,962	7,461	201,481	(4,147)	197,333
Operating profit	14,414	4,896	1,332	20,643	(2,588)	18,054

2. Basic Business Policy

1) Management Strategy over the Medium-to-Long Term, and Target Business Indicators

The management of the Taiyo Nippon Sanso Corporation (TNSC) Group is pursuing a strategy of developing its industrial gases business toward the long-term goal of achieving global operations on a par with the world's leading industrial gas manufacturers. Our principal specific target is annual sales of ¥500 billion. This plan is known as "Global 5000," as 500 billion in the Japanese numbering system is 5,000 oku yen. The first phase of this plan has been drafted as the medium-term business plan, covering the three years from fiscal 2006 through 2008, under the name "Global 5000: Stage 1."

By attaining the objectives of this Global 5000 plan, we will become the Asian industrial gas provider to break into the industry's global top ranks. A significant milestone along the road to our ultimate goal will be our projected business results (on a consolidated basis) for fiscal 2008 (the term ending March 2009), when we anticipate sales of ¥450 billion, net income of ¥20 billion, and ROE of 10%.

2) Issues Faced by the TNSC Group

One of the most significant long-term plan of the management of the TNSC Group is to acquire a 10% share of the world market for industrial gases, putting our operations on a par with those of the current leading overseas industrial gas manufacturers.

We have decided on a target, for the time being, of annual sales of ¥500 billion on a consolidated basis, and as a primary-phase assault on that objective, we designed and put into effect from May of 2006 the "Global 5000: Stage 1" medium-term business plan, with which we intend to maximally leverage the synergies that have resulted from the merger of Taiyo Toyo Sanso with Nippon

Sanso. Specific numerical targets set for attainment by the end of fiscal 2008 include yearly sales of ¥450 billion and net income of ¥20 billion, and we are currently implementing measures to ensure that these goals are reached.

To realize the significant growth required to achieve these targets, we will maintain our current strategies of marketing through the dual channels of our domestic-market sales agent association and direct sales to major customers, with whom we are constantly working to forge closer relationships. At the same time, we will seek out promising M&A target companies in the industrial gases industry.

Overseas, our principal focus is on the North American and East Asian markets. In North America, we will be constantly on the lookout for powerful new partners in the form of gas sales companies with potential high profitability. We will also actively invest management resources in improving our technical capabilities to enable us to produce high-quality material gases for the manufacture of advanced electronic devices.

For major users in the steel, electronics, and petrochemical industries, which are enjoying firm upward trends in business performance, we are working to ensure that our production capacity is always sufficient to meet potential user needs, enabling us to take our business results to the next level. One of most important measures in this respect is our never-ending investment in further improving our services in the onsite plant business and in our gas supply facilities.

Meanwhile, we are also setting the standard for competition in a new field with our development of MOCVD (metal organic chemical vapor deposition) equipment for manufacturing gallium nitride compound semiconductor devices. We are already fielding a brisk inflow of inquiries regarding the use of this equipment in the manufacture of white LEDs and blue-ray LD for next-generation DVDs. In this field, we have already developed a cutting-edge MOCVD equipment model that is capable of wafer mass production, and this is expected to fully meet the current demands of the market.

With regard to the reliability and safety of our industrial gases and their supply systems, upon which the prosperity of any industrial gas maker stands or falls, we have taken every possible step to ensure that our safety management system is foolproof. In environmental matters, too, we are working toward the acquisition of ISO14001 certification for the entire Company. This is only one part of our concerted efforts to rigorously enforce the principles of compliance, as embodied in its Compliance Guidelines, throughout the whole TNSC Group.

3. Business Performance and Financial Position

1) Business Performance

[1] Overview

During the reporting six-month period, steady growth was maintained across a wide spectrum of Japanese industries, thanks to increased capital investment and consumer spending. Turning to overseas developments, although the U.S. economy registered a slowdown, a continued favorable pace of growth was shown by the economies of East Asia, particularly China.

Among the TNSC Group's principal customer industries, the iron & steel industry enjoyed increased demand for sheet steel from the automotive and shipbuilding industries, as well as strong demand for steel materials from the construction industry. As a result, steelmakers recorded high capacity utilization rates. In the petrochemical industry, demand for high-performance resins for use in digital consumer electronics products was strong, and exports also increased. In the electronics industry, production volume followed an upward trend, although there are signs of excessive inventory buildup in certain sub-sectors of the industry.

Amid these circumstances, the volume of gas supply to customers followed a firm trend, while sales of equipment also posted a year-on-year increase. In addition, our four subsidiaries newly included in the scope of consolidation in the previous term (i.e., Ekika Carbon Dioxide Co., Ltd.; Tokushima Sanso Co., Ltd.; Nippoku Sanso K.K.; and Taiyo Nippon Sanso Higashikanto Corporation) made a contribution to the consolidated business performance, as a result of which sales came to ¥215,388 million, an increase of 16.1% over the previous first-half period.

Turning to profits, the Company benefited both from a higher capacity utilization rate thanks to the increased gas supply volume, and raises in selling prices. As a result, recurring profit came to ¥18,805 million (up 53.3% year-on-year), and net income amounted to ¥9,546 million (up 48.6% year-on-year).

[2] Breakdown of Performance by Division

(Gas Business)

Sales of our mainline gas products – oxygen, nitrogen, and argon – posted an increase over the previous first-half period thanks to favorable supply to domestic-market customers on the back of high capacity utilization rates, as well as a strong performance by our operations in the United States. Sales of specialty gases also recorded a year-on-year gain, driven by strong growth in volume supplied to electronics industry customers in Japan and overseas.

As a result of the foregoing, sales of the Gas Business (adjusted for intra-Group sales) came to ¥148,424 million, an increase of 18.8% over the previous first-half period, while operating profit was up 39.0% year-on-year, at ¥14,414 million.

(Machinery & Equipment Business)

We recorded a high level of sales to customers in the electronic equipment industry, thanks to an active capital investment trend across the industry. In a comparison with the previous first-half period, however, sales declined owing to the non-repetition of the concentration of large-scale contract completions seen in the first half of fiscal 2005. Although we received a brisk inflow of inquiries from makers of compound semiconductor manufacturing equipment, these orders did not result in significant sales for the reporting six months, as the handover of most equipment was not scheduled until after the end of the six-month period.

In the field of air separation plants, we completed a number of large-scale plants for steelmakers in Japan, in addition to which we received partial interim payments (which were registered as sales) on large-scale jobs for customers in the domestic and overseas markets. As a result, sales of air separation plants substantially exceeded the previous first-half level. Thanks to favorable capacity utilization rates enjoyed by customers in the iron & steel, shipbuilding, and construction industries, sales of cutting and welding equipment surpassed the level of the previous

first-half period on both the domestic and overseas markets, due particularly to strong sales of laser cutting equipment and numerically controlled cutting machines.

As a result, sales of the Machinery and Gas Equipment Business (adjusted for intra-Group sales) came to ¥58,239 million (up 10.7% year-on-year), and operating profit amounted to ¥4,896 million, a year-on-year increase of 205.0%.

(Housewares Business and Others)

The Group's business of the manufacture and sale of housewares, carried out principally through Thermos K.K., continued to enjoy favorable sales in the reporting six-month period, with increased demand for sports-use vacuum flasks and a new mug-sized thermos. Sales of thermos products surpassed the figure for the previous first-half period.

As a result, total sales of the Housewares Business (adjusted for intra-Group sales) came to ¥8,724 million, up 10.5% year-on-year, while operating profit was up 6.0% at ¥1,332 million.

[3] Forecasts for the Fiscal 2006 Full Term

(term ending March 31, 2007)

The Japanese economy, having just recorded its longest postwar period of expansion, seems set to maintain a moderate pace of growth as a whole over the near future, led by the private sector.

As for the business environment within which the TNSC Group operates, our principal customers in such industries as iron & steel, petrochemicals, and electronics continue to record strong production levels. However, in view of the possibility that the slowdown in economic activity in the United States may have a negative effect on global economic developments, there is no room for complacency.

In these circumstances, the management and employees of the TNSC Group will work as one to expand the scale of business operations of ours, and to achieve improved profitability.

Regarding our projections of the business performance of TNSC for the fiscal 2006 full term, on a consolidated basis, we forecast sales of ¥440 billion, recurring profit of ¥34.5 billion, and net income of ¥18.5 billion.

In consideration of our probable full-term earnings, we plan to pay a term-end dividend of ¥6 per share, for an increase of ¥1 per share over the previous business term. The interim dividend is scheduled to remain unchanged, at ¥5 per share.