

1. Business Performance Figures for the First Half of Fiscal 2007 (April 1 to Sept. 30, 2007) on a Consolidated Basis

(Amounts of less than ¥1 million have been discarded.)

	Net sales		Operating profit		Recurring profit		Net income	
	(¥ million)	(YoY change)	(¥ million)	(YoY change)	(¥ million)	(YoY change)	(¥ million)	(YoY change)
Reporting first half	244,289	13.4%	19,910	10.3%	20,278	7.8%	11,167	17.0%
Previous first half	215,388	16.1%	18,054	48.6%	18,805	53.3%	9,546	48.6%
Reference: FY2006 full term	458,587	-	36,488	-	37,067	-	20,094	-

	Earnings per share (Yen)
Reporting first half	27.74
Previous first half	23.72
Reference: FY2006 full term	49.93

The Company has no securities outstanding with potential dilutive effect.

* Reference: Gains on equity-method investments - reporting first half, ¥913 million; previous first half, ¥780 million; previous full term, ¥1,300 million

Operating Results and Financial Position

(1) Operating Results

1. Overview

The Japanese economy maintained its growth trend during the fiscal 2007 first-half reporting period in spite of uncertainty regarding the immediate future. Despite a certain lack of vigor in consumer spending, capital investment by the private sector displayed a firm undertone. Production and export figures rallied across the board, led by the IT sector, where substantial progress was being made in the inventory adjustment process. Overseas, on the other hand, a plus growth slowdown became apparent in the real economies of a number of countries (most notably the United States) as a result of the rising concern over the future of the financial markets stemming from the sub-prime mortgage loan issue. Consequently, doubts began to grow as to whether exports could continue to play the prime supporting role for the Japanese manufacturing sector.

Regarding demand for the TNSC Group's industrial gases from its principal customer segments: 1) demand from the steelmakers remained firm as a result of favorable levels of demand for high-end steel products from the automotive and shipbuilding industries, as well as firm demand from the construction industry; 2) the Group's gases remained in strong demand in the chemical industry as a result of rising demand for plastics and other products, particularly in other East Asian countries; and

3) demand for TNSC's gases from the electronics industry recorded favorable levels thanks to the progress in inventory adjustment made by companies in the IT sector, as well as an expansion in the market for digital products such as flat-screen televisions.

In these circumstances, a firm trend was followed by shipments of the Group's mainline industrial gases during the reporting period to customers both in Japan and overseas. Sales of equipment also increased, and a significant contribution to total sales was made by the M&A during the fiscal 2006, i.e. the purchase of Linweld Inc. of the U.S. and the helium operations of Linde BOC. As a result, total sales on a consolidated basis amounted to ¥244,289 million, for a year-on-year increase of 13.4%.

At the earnings level, increased depreciation expenses resulting from a change in the taxation system were more than offset by increased earnings stemming from the increased sales. Consequently, recurring profit posted a year-on-year gain of 7.8%, at ¥20,278 million, while net income was up 17.0% year-on-year, at ¥11,167 million.

2. Breakdown of Performance by Division

Gas Business

Sales of our mainstay products – oxygen, nitrogen, and argon – exceeded those for the corresponding period of FY2006, thanks mainly to brisk shipments to users in Japan, whose capacity utilization rates were at a high level. Our sales in the United States were also favorable, in line with our expectations. Shipments of specialty gases posted good growth to electronics

industry customers in Japan, and sales were up over the previous first-half period.

As a result of these factors, total sales of the TNSC Group's gas business (excluding intra-Group transactions) came to ¥163,314 million for a year-on-year growth of 10.0%, and operating profit was up 11.9% at ¥16,131 million).

Machinery & Equipment Business

Against the backdrop of vigorous capital investment by the Japanese electronics industry in ambitious projects and general production facilities expansion, sales of electronic equipment and materials for the reporting period maintained a high level. Owing to a concentration of orders for MOCVD (metal organic chemical vapor deposition) equipment from makers of compound semiconductors, sales of this equipment surpassed the level in the previous first-half period.

In the field of air separation plants, progress was achieved in the construction of large-scale air separation plants for South Korean companies and Japanese steelmakers, on which sales were recognized on a percentage-of-completion basis. As a result, sales of air separation plants posted year-on-year growth. Sales of cutting and welding equipment also recorded a year-on-year gain, the principal factors being favorable sales of medium-sized and large cutting equipment for steelmakers, shipbuilders, and makers of construction machinery in Japan, as well as an expansion of our business in the United States and increased exports to China.

As a result of the above, sales of machinery and equipment (excluding intra-Group transactions) recorded a year-on-year

growth of 22.9% to reach ¥71,603 million, while operating profit declined by 2.2% to ¥4,789 million.

Housewares Business and Others

Sales of the TNSC Group's housewares products, which are manufactured and sold primarily by Thermos K.K., exceeded the previous first-half figures, thanks to a good performance by our Portable Mug series of vacuum flasks and increased sales of sports-use vacuum flasks.

As a result, sales of the Housewares Business and Others (excluding intra-Group transactions) came to ¥9,372 million, for a year-on-year growth of 7.4%, but operating profit declined 14.6% to ¥1,137 million.

Forecasts for the Fiscal 2007 Full Term

The ongoing expansion of the Japanese economy would appear to be nearing its end, in view of factors such as the slowdown of the U.S. economy and the persistent high price level of crude oil.

Although the TNSC Group's principal user industries – steel, chemicals, and electronics, among others – are still maintaining favorable rates of production, we cannot afford to take an over-optimistic view of our business environment.

Amid this situation, the TNSC Group will make even greater efforts than hitherto to expand sales and improve its level of management efficiency with the goal of realizing higher earnings. Our projections for the business performance of Taiyo Nippon Sanso Corporation, on a consolidated basis, for the fiscal 2007 full term are as follows: sales of ¥497.0 billion, operating profit of ¥39.6 billion recurring profit of ¥39.2 billion, and net income of ¥21.8 billion. On a non-consolidated basis, our forecasts are: sales of ¥266.0 billion, operating profit of ¥20.9 billion, recurring profit of ¥21.1 billion, and net income of ¥12.8 billion.

As our business performance (on a consolidated basis) for the first half of the current term has exceeded our initial expectations, thanks in part to the good business results of our U.S. subsidiaries, and in view of the favorable state of the market and the trends being followed by orders received, we anticipate that overall business performance for the full term will be approximately as initially projected.

Note: The above business performance forecasts are based on information available to the management of the Company as of the time of writing, and the reader should bear in mind that actual business performance figures could vary substantially from these forecasts as a result of various unforeseeable factors.

3. Our Management Policies

(1) Basic Policies

The corporate philosophy of the TNSC Group is summed up in the motto: ‘Market-driven collaborative innovation: improving the future through gases.’ We employ the various words used in this motto to convey specific meanings and serve our management and staff as guiding principles. ‘Market-driven’ means listening closely to our customers’ opinions and suggestions, while ‘collaborative’ implies that we use our expertise in gas-related technologies to work together with user companies in many industries. And when we say ‘Improving the future,’ we mean helping to bring about a richer and more fulfilling society.

Since its establishment, the TNSC Group has consistently pursued a business strategy of placing the supply of industrial gases at the core of its activities. Industrial gases themselves are not defined as raw materials used in production, but as auxiliary materials required for various production processes. Our gases are now indispensable to a wide variety of industries. Based on our corporate philosophy, we have adopted for ourselves the nickname: ‘The Gas Professionals’. We will continue to search for new, as-yet unknown applications and possibilities for industrial gases, and will make it a matter of high priority to contribute to society by meeting the needs of a wide range of customers.

In line with this stance, the TNSC Group will focus its management resources on the industrial gases business, while working to develop and offer innovative new products and systems

to meet user needs in the growing markets for electronics-use and medical-use gases, and in the on-site gas separation plant field.

(2) Our Target Business Indicators

From the start of fiscal 2006, the Group adopted a three-year medium-term business plan under which annual sales of ¥450 billion and net income of ¥20 billion were targeted for the final year of the plan. These targets were attained, however, in the very first year.

(3) The Company's Medium-to-Long-Term Business Strategies

On the basis of the achievement described in (2), above, the Company's management are currently drawing up a new medium-term business plan, scheduled to commence from fiscal 2008. This new plan will make clear the important business strategies that the Group should adopt, and will point the way toward accelerating the pace of expansion of the Group's business activities, as well as toward improving operational efficiency.

(4) Issues Facing the Company

The major business goals we have set for the TNSC Group up to now have been achieving a 10% share of the world market and annual sales of ¥500 billion on a consolidated basis. The previous medium-term business plan, commenced from April 2006, constituted the first step towards these goals, but thanks to the steady growth in demand from our user industries and the successes we have achieved in M&As both in Japan and overseas, the Group's business performance has been better than projected. If we continued to pursue the various projects we have designed as

means of achieving our long-term goals, the attainment of the target of ¥500 billion in annual sales appears to be only just around the corner.

Given this situation, the healthy future development of the TNSC Group clearly depends on the successful exploitation of the world's principal markets – East Asia, the United States, and other major overseas markets. In these circumstances, to successfully develop our business we must greatly transform our business models, increase investment amounts, and expand our operational scale. To meet these requirements, we have to strengthen the Group's competitiveness and achieve further growth by mobilizing our technological and human resources to optimally ride the current wave of globalization. These are the urgent management issues that we face today.

The TNSC Group has amassed an impressive amount of know-how relating to technologies for the utilization of industrial and other gases, as well as for the production and supply of those gases, and this expertise will constitute an effective tool for ensuring that the Group

is competitive in overseas markets.

To ensure the effectiveness of the strategies that will be incorporated in the new medium-term business plan currently being drawn up, we need personnel capable of conducting management from a global perspective. This means that, from amongst the ranks of middle management, we must continuously foster a supply of top management personnel possessing the requisite skills. At the same time, we must actively tackle the tasks of ensuring that each staff member's specialist knowledge is effectively utilized, and that the corporate culture of the TNSC Group is energized.

As a result of the merger three years ago between Nippon Sanso and Taiyo Toyo Sanso, the Group has successfully realized synergies between the two partners' operations. There is still plenty of room for the discovery of further synergy, however, such as in the construction of a Companywide system for the distribution of liquefied gases. At TNSC, we have set up project teams to radically redesign the gas distribution process and to address such problems as rising fuel prices and the need to substantially reduce our carbon dioxide emissions.

In the new medium-term business plan currently being drawn up, we will clarify the business strategies whose adoption we believe to be of vital importance, and on that basis will proceed to speed up our initiatives aimed at improving operational efficiency and raising the enterprise value of TNSC and the other companies in its group.

The prime corporate mission of all companies engaged in the production and sale of industrial gases is to put their full efforts into ensuring safe plant operations, as well as the safety and high quality of their products throughout the entire product lifecycle from development to final consumption. In addition, such companies must operate their businesses with full awareness of the need to protect the natural environment. The TNSC Group intends to continue reinforcing its activities in the field of corporate social responsibility, and to create a stronger system of internal control. In this way, we will be assured of making substantial progress in raising the Group's enterprise value.

Previous First-half Period (April 1 to September 30, 2006)

(Millions of 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

Reporting First-half Period (April 1 to September 30, 2007)

(Millions of yen)

	Gas Business	Machinery & Equipment Business	Housewares Business and Others	Total	Eliminations and corporate	Consolidated
Sales						
(1) Sales to customers	163,314	71,603	9,372	244,289	-	244,289
(2) Sales from inter-segment transactions and transfers	69	4,997	86	5,153	(5,153)	-
Total	163,383	76,600	9,458	249,443	(5,153)	244,289
Operating Expenses	147,251	71,811	8,321	227,384	(3,005)	224,378
Operating Profit	16,131	4,789	1,137	22,058	(2,147)	19,910