

TNSC's FY2006-2008 Medium-Term Business Plan

The following is a report on the medium-term business plan recently drawn up by the Company's management.

Taiyo Nippon Sanso came into being with the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd. in October of 2004. Immediately after the merger, we announced targets for fiscal 2007 (the term ending March 2008), on a consolidated basis of ¥400 billion in sales and ¥14 billion in net income. We succeeded in effectively achieving these targets in fiscal 2005, two years ahead of schedule.

Armed with this achievement, we announced two new basic policies - the further expansion of our scale of business operations, and the further improvement of management efficiency. In line with this, we have drafted our first-ever three-year medium-term business plan as TNSC, under the name "Global 5000: Stage 1" This plan is thus named because it is the first phase in a longer-term plan whose objective is to transform the Company into a truly global operator ranking alongside the world's top industrial gas manufacturers, with annual sales of ¥500 billion, or "5,000 *oku yen*" in the Japanese numbering system (one *oku* is 100 million). In doing so, we would become the first Asian industrial gas provider to break into the global top ranks of the industrial gas industry.

1. Objectives of the Global 5000 Plan: Stage 1

Global 5000 plan is to lay down the groundwork (Stage 1) of our long-term plan to become a global operator comparable in scale with our top overseas rivals, with an eventual annual sales target of ¥500 billion

2. Basic Policies

(1) Effectively utilize cash flow to invest into new business areas

(2) Aim at higher efficiency in managing business operations

By these means, we hope to raise the efficiency of our industrial gas business, expand our operational scale, and obtain improved profitability.

3. Companywide Business Strategy

(1) Expand and improve profitable operations through effective and efficient investment

(2) Launch original new products and services on the market based on extensive research into user needs and preferences

(3) Pursue greater efficiency by reviewing and restructuring all our business operations, including those of subsidiaries and affiliated companies

(4) Restructuring of low-profit businesses, to improve the profitability of the Group as a whole

(5) Rigorously apply security, safety and product quality monitoring and assurance systems in a complete break from conventional methods and attitudes

4. Quantitative Targets (on a consolidated basis)

(¥ billion; percent)

Principal indicators	FY2005 Results	FY2008 targets	Growth rates
Sales	397.3	450.0	13.3%
Operating profit	26.8	38.0	41.8%
Recurring profit	27.1	37.0	36.5%
Net income	14.4	20.0	38.9%
ROE	8.7%	10.0%	--
ROCE*	9.0%	11.5%	--

* ROCE = Rate on capital employed

Operating profit/(shareholders' equity + interest-bearing debt)

5. Dividend Policy

The Company's aims to pay annual dividend of more than ¥10 per share.

6. Basic Policies of Each Business Segment

Industrial Gases Business

We will reexamine our performance in all our functions from production through marketing to logistics to ensure that they conform to the standards expected of the country's leading supplier of industrial gases. We intend on making a start on radical restructuring of our operations by reexamining the gas supply business from the basics upward. By so doing, we expect to create a strong business base that generates a reliable level of earnings.

For this purpose, we will reinforce our domestic network of sales agencies and restructure our logistics system. We will also review the particular functions and roles of each of our affiliated companies, so as to create the optimal division of responsibilities among the Group as a whole.

In overseas operations, we will make active use of the M&A strategy and proactively invest in additional production capacity to meet increased demand in advance. While assigning our best marketing and technical staff to areas with good growth potential, we will also invest management resources into the development of new technologies for gas utilization, so as to open up possibilities for completely new marketing avenues.

(consolidated basis; ¥ billion)	FY2005 result	FY2008 target	Growth rate
Sales:	169.9	196.0	15.4%

Electronics related Business

As the leading supplier of gases and related equipment to electronic equipment manufacturers, TNSC is living up to its name and reputation by constantly developing new and better products and technologies. At the same time, we offer a total solutions service for our users in the manufacturing fields of flat panel displays (LCDs and others), next-generation semiconductors, compound semiconductors, and other fast-growing fields. We believe that forming a close and mutually beneficial partnership with each of our users is the optimum method for realizing stronger, more profitable business operations. In collaboration with Group member Matheson Tri-Gas, Inc. in the U.S., we are working to build a stronger business network in the United States and Asia.

(consolidated basis; ¥ billion)	FY2005 result	FY2008 target	Growth rate
Sales:	114.4	126.0	10.1%

On-site & Plant Business

In this business, the most vital element is the creation and maintenance of a mutually beneficial business relationship between ourselves and the customer companies on whose premises our air separation plants and other equipment are located. We are working to expand our business scale in this segment through the promotion of new, ancillary businesses such as efficient plant replacement and new carbon monoxide piping work.

In the air separation plant business, we are investing management resources with the aim of further improving our technological expertise while not losing existing know-how that is still valid. At the same time, we are making efforts to reduce the number of human or systemic errors that lead to financial losses, and to raise our productivity levels. We are also making even further and even more rigorous efforts to pursue across-the-board cost reductions, an issue we have been seriously tackling for some time. Success in this initiative will bear fruit in the form of higher earnings.

(consolidated basis; ¥ billion)	FY2005 result	FY2008 target	Growth rate
Sales:	49.0	51.0	4.1%

Medical related Business

To further cement our position in the medical-use gases and related equipment industry, we are actively utilizing M&As and collaborations with domestic companies that possess leading-edge proprietary technology. We are also leveraging the advantages of the TNSC Group, including its possession of a nationwide network of sales agents with an extensive and loyal customer base. We are therefore multiplying the marketing channels we make use of to boost our annual sales. With stable, long-term expansion in mind, we are entering new overseas markets and introducing new types of products and services into the market.

(consolidated basis; ¥ billion)	FY2005 result	FY2008 target	Growth rate
Sales:	11.7	20.0	70.9%

LP Gases Business

The LPG business is unique among our business segments in being highly localized, as there are limitations to the distances that LPG in cylinders or larger tanks can be efficiently delivered to customers. For greater efficiency, therefore, we will transfer the cylinder-based LPG sales operations currently conducted by our head office staff to affiliated sales companies. At the same time, we will consolidate operations performed by LPG sales companies to accelerate the process of amalgamation and other restructurings of our nationwide network of LPG sales companies. Rationalization is being pursued through the integration of operating centers and their staff, with inefficient business sites being closed down and staff reassigned and transferred for greater cost-effectiveness. In these ways, we are working toward the goal of creating a service network that will produce improved customer satisfaction, leading to higher earnings. Regarding forms of energy other than LPG, such as LNG and hydrogen, we intend to pursue these avenues of opportunity through alliances with other companies.

(consolidated basis; ¥ billion)	FY2005 result	FY2008 target	Growth rate
Sales:	41.5	45.0	8.4%

7. Geographical breakdown of sales & operating income

Japan

(¥ billion)

	FY2005 (result)	FY2008 (target)	Growth rate
Sales	329.4	375.0	13.8%
Operating profit	22.8	31.0	36.0%

United States

(¥ billion)

	FY2005 (result)	FY2008 (target)	Growth rate
Sales	47.4	50.0	5.5%
Operating profit	5.1	6.5	27.5%

Other Overseas Markets

(¥ billion)

	FY2005 (result)	FY2008 (target)	Growth rate
Sales	20.5	25.0	22.0%
Operating profit	1.3	2.5	92.3%

8. Plans for new investments

Three-year plan ¥115.0 billion

Japan

(¥ billion)

Investments	75.0
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(of which, by segment)

Industrial gases: ¥20 billion

Electronics: ¥22 billion

On-site & plant: ¥16 billion Medical: ¥7 billion

LPG: ¥5 billion R&D: ¥4 billion

Overseas

(¥ billion)

Investments	40.0
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(of which, by region)

USA: ¥25 billion

Southeast Asia: ¥10 billion

China, Taiwan, Korea: ¥5 billion

9. Cash flows

(¥ billion)

Operating cash flow *1	126.0
Capital investment, equity investments, and loans	115.0
Balance of interest-bearing debt	130.0

*1 (of which, depreciation = ¥72 billion)