

Operating Results and Financial Position

(1) Operating Results

1. Overview

The Japanese economy continued to move steadily toward a full recovery during the reporting term. This came against the backdrop of expanding economic activity worldwide and an improvement in corporate earnings at home, leading to increased capital investment and higher production figures in export-oriented industries. Japanese consumer spending also continued its leisurely upward movement.

Overseas, however, prospects are not necessarily bright, as the expansion of the U.S. economy is showing signs of coming to an end, sparked by a downturn in the housing market.

Regarding demand for the TNSC Group's industrial gases from its principal customer segments: 1) demand from the steelmakers was strong, reflecting brisk sales of high-tensile steel and other high-end products to the automotive and shipbuilding industries; 2) our gases were in strong demand from the chemical industry, which was kept busy supplying the automotive and electric appliance manufacturers with high-performance plastics, while demand for standard-quality plastics was also firm, centered on overseas users; and 3) demand remained generally favorable in the electronics industry (despite some lingering effects from the recently-completed inventory adjustment) thanks

to growing demand for semiconductors (notably memory chips) and flat panel displays.

The TNSC Group is currently pursuing the goals set under its first medium-term business plan – dubbed Global 5000: Stage 1 -- which started in April 2006 and covers the period to March 2009. The prime objective of this plan is to transform TNSC into the first Japan-originated major manufacturer (by world standards) of industrial gases, and to build a firm position for the Group in the world market, where it can compete with the leading overseas gas producers on equal terms. The TNSC Group utilized its ample cash flows during the reporting term to lay the groundwork for future business expansion through the pursuit of an aggressive M&A policy, as well as making capital investments predicated on a projected increase in demand in the future.

Sales of the Group's mainline industrial gases followed a firm trend during the term under review, both at home and abroad, while equipment and facilities also recorded sales growth. The four companies newly included in the scope of consolidation in the previous fiscal year, i.e. Ekika Carbon Dioxide Co., Ltd.; Tokushima Sanso Co., Ltd.; Nippoku Sanso K.K.; and Taiyo Nippon Sanso Higashikanto Corporation, all made a contribution to the consolidated business results. Sales for the term on a consolidated basis were ¥458,587 million, an increase of 15.4% over the previous year.

At the earnings level, we enjoyed a reduction in costs thanks to a higher capacity utilization rate for our gas production facilities. In addition, we were able to pass on steep price increases in raw materials to the selling prices of certain

products (equipment). As a result, operating profit rose 36.2% year-on-year to ¥36,488 million, and recurring profit increased by 36.7% to ¥37,067 million. Extraordinary profits were registered on the sale of rental real estate properties in the category of gains on the sale of property, plant and equipment, but extraordinary losses were recorded on the sale of idle land. As a result, net income for the reporting period posted a gain of 39.1% over the previous term, at ¥20,094 million.

2. Breakdown of Performance by Division

The Gas Business

Thanks to high levels of capacity utilization by our principal customer industries, favorable shipment volume was recorded in our mainstay products – oxygen, nitrogen, and argon – and this was matched by a high value of sales. Both shipment volume and sales surpassed the previous year's level in oxygen supplied to customers in the steel and shipbuilding industries, while demand for nitrogen was also up over the previous year from the electronics industry (supply by small-scale onsite air separation plants), and from the chemical, steel, and food processing industries (in the form of liquefied nitrogen). Both shipment volume and sales of nitrogen were thus higher than in the previous year. Shipments of argon remained at a favorable level to makers of microcrystalline silicon, where production of 300mm wafers kept up a brisk pace. Demand for argon for use in welding and cutting also increased on a year-on-year comparison in a wide selection of industries, and both shipment volume and sales exceeded the previous year's levels. Regarding other gas products, Ekika Carbon Dioxide made a full-term contribution to

the consolidated business performance, helping to expand the overall scale of this business by a wide margin. Once again, both shipment volume and sales recorded sharp growth over the previous year's level. The shipment volume of specialty gases posted vigorous growth thanks to a high level of capacity utilization among customers in the electronics industry, both in Japan and overseas, and sales were up sharply over the previous year.

As a result of the above, sales of the Gas Business (excluding intra-Group transactions) increased by 13.9% year-on-year to ¥305,442 million, while operating profit was up sharply by 25.6%, at ¥26,996 million.

Machinery and Equipment Business

Sales of electronic equipment and materials for the reporting term posted a sharp increase over the previous year against the backdrop of expanded capital investment by our principal customer segment – the Japanese electronics industry. Sales of manufacturing equipment for compound semiconductors performed a complete turnaround from the previous year's sluggish sales level, with a sharp increase in customer demand pushing sales up by a large year-on-year margin. As a result of the high-level capacity utilization rates in the steel, shipbuilding, and construction machinery industries, sales of cutting and welding equipment – mainly handled by Group member Nissan Tanaka Corporation – recorded growth, particularly for laser cutting equipment and NC cutters, and sales of this equipment category were well above the previous year's level.

Sales of air separation plants posted a large year-on-year increase as a result of continued vigorous capital investment by

the Japanese electronics and steel industries, as well as firm demand from customers in Korea, Taiwan, and various Southeast Asian countries.

As a result of the foregoing, sales of machinery and equipment (excluding intra-Group transactions) came to ¥136,896 million, an increase of 20.5% over the previous year, while operating profit soared 96.8% to ¥11,615 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 year's level, thanks mainly to continued good sales of sports-use insulated flasks and a growth in demand for personal-use small insulated flasks.

As a result, sales of the Housewares Business and Others (excluding intra-Group transactions) came to ¥16,248 million (up 5.5% year-on-year), while operating profit stood at ¥1,822 million (down 2.0% from the previous year).

3. Forecasts for Fiscal 2007

Looking at the near-term prospects for the Japanese economy, companies are expected to maintain their current high level of capital investment, in view of their strong earnings. Consumer spending is also projected to recover slightly. Overall, the movement of the economy toward recovery is likely to continue. Overseas, however, there are a number of clouds on the horizon, including the slowdown in the U.S. economy's growth rate, and various causes of apprehension regarding the financial markets, most notably the direction of the yen's exchange rate against the

major currencies. There is thus little room for optimism. In these circumstances, the TNSC Group intends to make even more determined efforts to expand its business scale and improve its earnings.

Fiscal 2007 will see the full-term contribution to the Group's business performance on a consolidated basis of the M&A initiatives undertaken in the reporting term, including the purchase of Linweld Inc. and of the helium operations of the Linde BOC. On the negative side, however, the recent revision of the taxation system will cause a large increase in depreciation expenses. As a result, we forecast business performance for fiscal 2007, on a consolidated basis, as set out below.

(¥ billions; %)

	Net Sales	Operating Profit	Recurring Profit	Net Income
FY2007	485.0	38.3	37.1	20.5
FY2006	458.5	36.4	37.0	20.0
Year-on-year change (%)	5.8	5.0	0.1	2.0

Note: The taxation system was revised for the calculation of depreciation expenses on existing assets effective fiscal 2007. Operating profit and recurring profit for fiscal 2007 are estimated using the new standards, which will result in an increase in depreciation expenses in the amount of ¥1.4 billion.

Progress Achieved under Medium-Term Business Plan

Under its current medium-term business plan, the TNSC Group is targeting net sales of ¥450 billion, operating profit of ¥38 billion, recurring profit of ¥37 billion, and net income of ¥20 billion for the fiscal 2008 business term, ending March 2009 (all on a consolidated basis). Regarding the Group's business performance for the reporting term, ended March 2007, the figures exceeded our initial forecast as a combined result of strong

sales in the Japanese market due to firm demand from our customer industries, and the contribution made by the overseas businesses purchased during the period. As a result, we succeeded in achieving our targets -- two years ahead of schedule -- under the previous medium-term business plan for sales, recurring profit, and net income.

The management of TNSC will continue to pursue an active M&A strategy with regard to companies in the industrial gas business, and will take all other measures deemed necessary to reach our goals -- a 10% share of the global industrial gases market, and sales of ¥500 billion per annum on a consolidated basis.

**Business Performance for the Reporting Term (April 1, 2006
to March 31, 2007)**

(Millions of yen)

	Gas Business	Machinery and Equipment Business	Housewares Business and Others	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit						
Sales						
(1) Sales to customers	305,442	136,896	16,248	458,587	-	458,587
(2) Sales from inter- segment transactions and transfers	99	12,299	182	12,581	(12,581)	-
Total	305,542	149,196	16,430	471,169	(12,581)	458,587
Operating Expenses	278,545	137,581	14,608	430,735	(8,635)	422,099
Operating Profit	26,996	11,615	1,822	40,434	(3,945)	36,488
II. Assets, depreciation and amortization, impairment loss, and capital expenditures						
Assets	378,606	72,182	19,101	469,890	77,900	547,791
Depreciation	18,607	1,695	612	20,915	294	21,210

and amortization						
Impairment loss	-	-	-	-	813	813
Capital expenditures	32,941	1,800	1,426	36,168	(277)	35,891

Notes:

Methods of segmentation and lists of principal products
under each segment: