

Message from the President

In the fields of *environment and energy conservation, health care, and safety systems*, Nippon Kayaku is using a fusion of technologies as a tool for rapid implementation of our business strategies, as we strive to be No. 1 in global niche markets.

I would like to offer my sincere sympathies to everyone who was affected by the Great East Japan Earthquake, and also my prayers for a recovery in the disaster-struck regions that is as rapid as possible.

This earthquake brought unprecedented damage, however all employees of the Nippon Kayaku Group were confirmed safe, and we were able to quickly restore operations at the Kashima, Takasaki, and Tokyo plants, and at the Tohoku and Kita-Kanto sales offices, all of which were affected by the disaster.



Akira Mandai
President




In the fiscal year ended May 31, 2011, net sales, operating income, and net income all reached the highest marks in our company's history

The results for the Nippon Kayaku Group during this fiscal year were consolidated net sales of 148.9 billion yen (106% year-on-year), operating income of 20.8 billion yen (130% year-on-year), and net income of 13.0 billion yen (132% year-on-year)—all the highest such numbers ever. We were able to overcome the effects of the Great East Japan Earthquake to increase income, achieving the objectives for all income categories in Phase I (FY 2011–FY 2013) of the mid-term business plan one year ahead of schedule. As a result, we have revised the target figures upward for the fiscal year ending May 31, 2013. The target for operating income is now 25.0 billion yen (previously 22.0 billion yen) and the ROE target is now “10% or higher” (previously 10%). The sales target of 180.0 billion yen and overseas share target of 40% remain unchanged.

One reason for our strong performance during this fiscal year was our reinforced overseas operations targeting the strong economies of China and emerging nations. These allowed the functional chemicals business and safety systems business to act as the driving forces for growth in profits throughout the entire Group. The pharmaceuticals business continued to deliver strong results and saw growth in sales of our generic anti-cancer drugs. As a result of cost reductions and other improvements aimed at improving profit performance, we succeeded in lowering the break-even point and secured a gross profit ratio of 40%.

Unique venture business ideas and the strengths of the Nippon Kayaku Group

One of the strengths of the Nippon Kayaku Group is that we have a portfolio that contains a good balance of future growth business areas, business areas that generate a current cash flow, and mature business areas. In each of these business areas, we also have a history of utilizing our unique strengths and adapting flexibly to changes in the times. For example in the pharmaceuticals field, we have specialized in cancer-related products, and in addition to having the largest anti-cancer drug lineup of any Japanese pharmaceutical manufacturer, we are also developing polymer micelle anti-cancer drugs that make use of applied nanotechnology. In the resins field, our epoxy resins for semiconductor encapsulation have established a position as the *de facto* standard. Our polarizing films for LCD devices and colors for inkjet printers that utilize dye technologies are highly rated in the market. In addition, the industrial explosive technologies that were the launching point for our Group have changed over time and are now used in airbags and other automobile safety systems.



When we take an overall view of the Nippon Kayaku Group business, we see a collection of unique products that in total forms a business group of considerable size. While maintaining the strengths of a venture business—namely, flexibility in response to changes, speed, and pioneering niche markets, we also possess advantages of capital and human resource that a venture business does not have, and as a result we are able to construct a truly unique business by creating a fusion of technologies.

A list of the strengths held by the Nippon Kayaku Group includes the following.

- We possess a broad range of business areas and technologies, and have created a unique portfolio.
- We create a fusion of diverse technologies, such as by applying technologies from a mature business area to growth business, allowing us to develop one-of-a-kind products.
- We are able to conduct rapid, flexible, and agile business operations.

The Nippon Kayaku Group growth strategy as we approach our 100th Anniversary in June 2016

As we work toward the 100th Anniversary of the Nippon Kayaku Group in 2016, we have positioned *environment and energy conservation*, *health care*, and *safety systems* as key business areas and are utilizing our top technologies and business resources to create a fusion of technologies. We will use this fusion as a tool for rapid implementation of our business strategy as we strive to be No. 1 in global niche markets.

In the environment and energy conservation field (Functional Chemicals Group), we will work for further expansion of growth drivers such as our environmentally friendly epoxy resins for semiconductor encapsulation, and also establish a growth foundation for our liquid crystal sealants, polarizing films, and other products. We are proceeding with the development of LED encapsulation resins and adhesive sheets with high heat resistance and thermal conductivity, and are aiming to commercialize these products at an early date.

In the health care field (Pharmaceuticals Group), our plans include further expansion of our cancer-related generic drug business. We will also accelerate the development of polymer micelle anti-cancer drugs and aim to rapidly place our biosimilar drugs on the market. In the IVR field as well, we will introduce new products and expand our business.

In the safety systems field (Safety Systems Group), we will develop and market new airbag inflator products. The expansion of Indet Safety Systems a.s. (Czech Republic) and Kayaku Safety Systems (Huzhou) Co., Ltd. (China) will strengthen our global operations for the automobile safety systems business.

During the fiscal year ending May 31, 2012, we will establish a controlling company in China aimed at strengthening the global capabilities of the Nippon Kayaku Group as a whole. In light of the recent earthquake disaster, we are also working to reinforce our BCP (Business Continuity Plan), and with the expectation that there will be a prolonged energy shortage in Japan we are aiming to become an energy-saving company.

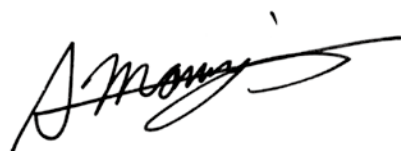
As we carry out these efforts, the functional chemicals business and safety systems business are acting as the drivers of our company during Phase I (FY 2011–FY 2013) of the mid-term business plan. During Phase II (FY 2014–FY 2016) of this plan, as we approach the 100th Anniversary of our founding, we will work for continued growth, and the functional chemicals business and safety systems business will be joined by an additional growth driver, the pharmaceuticals business, as our investment in research and development begins to produce results.

Providing society with the best products which meet customers' needs by means of endless innovation and real cooperation based on our high-esteemed ethics

The corporate vision of the Nippon Kayaku Group is what we call *KAYAKU spirit*. *KAYAKU spirit* represents the ideal concept of our Group, which can be described as “providing society with the best products which meet customers' needs by means of endless innovation and real cooperation based on our high-esteemed ethics.” We will conduct true CSR management by always carrying out our business operations based on this *KAYAKU spirit* in order to fulfill our economic, social, and environmental responsibilities and meet the expectations of all our stakeholders.

I ask for everyone's continued and further support in the future.

October 1, 2011



Akira Mandai
President