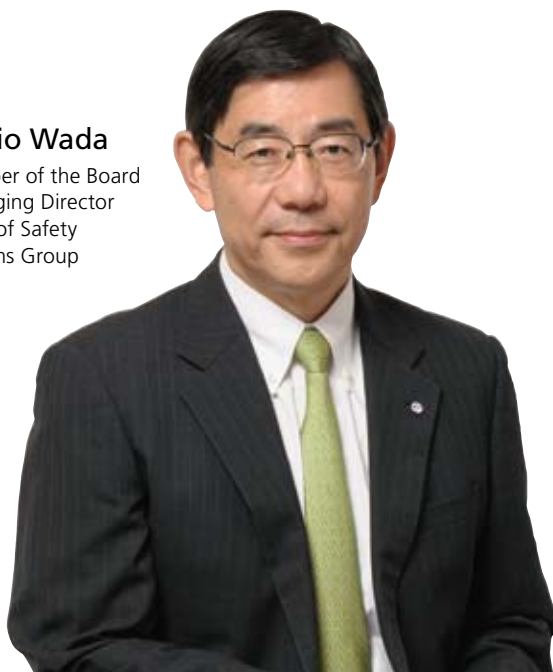


“ We are strengthening our development capability and our global production and sales strength in order to meet changing needs in the automobile market. ”

In the safety systems business, Nippon Kayaku operates a business for automobile safety systems. We are developing new airbag inflators and micro gas generators for seatbelt pretensioners, and are expanding our global business with the focus on the rapidly growing China market.

Kunio Wada
Member of the Board
Managing Director
Head of Safety
Systems Group



Business Overview

Through the manufacture of detonators at our Himeji Plant and of explosives at our Asa Plant, Nippon Kayaku has developed a long history and great wealth of technologies related to igniters, detonators, and explosive combustion. Based on these explosive technologies, the Safety Systems Group has independently developed inflators that generate the gas that expands airbags, the micro gas generators (MGG) that tighten seatbelts in the event of a collision, and the squibs that ignite these products.

These products are provided to the global market, and at present the inflators are produced in Japan and China, the MGG are produced in Japan, China, Mexico, and the Czech Republic, and the squibs are produced in Japan and the Czech Republic.

Overview of Operations for the Fiscal Year Ended May 31, 2011

The automobile industry in Japan was affected by the end of the eco-car subsidy and by the disruption of the supply chain caused by the Great East Japan Earthquake. However, overseas sales increased due to growth in China and emerging nations.

During the fiscal year ended May 31, 2011, the safety systems business in the fourth quarter was affected by the Great East Japan Earthquake, and sales to the domestic market and exports from Japan both suffered large decreases. However, sales in China continued to increase, and the total results for the year exceeded the level of the previous fiscal year.

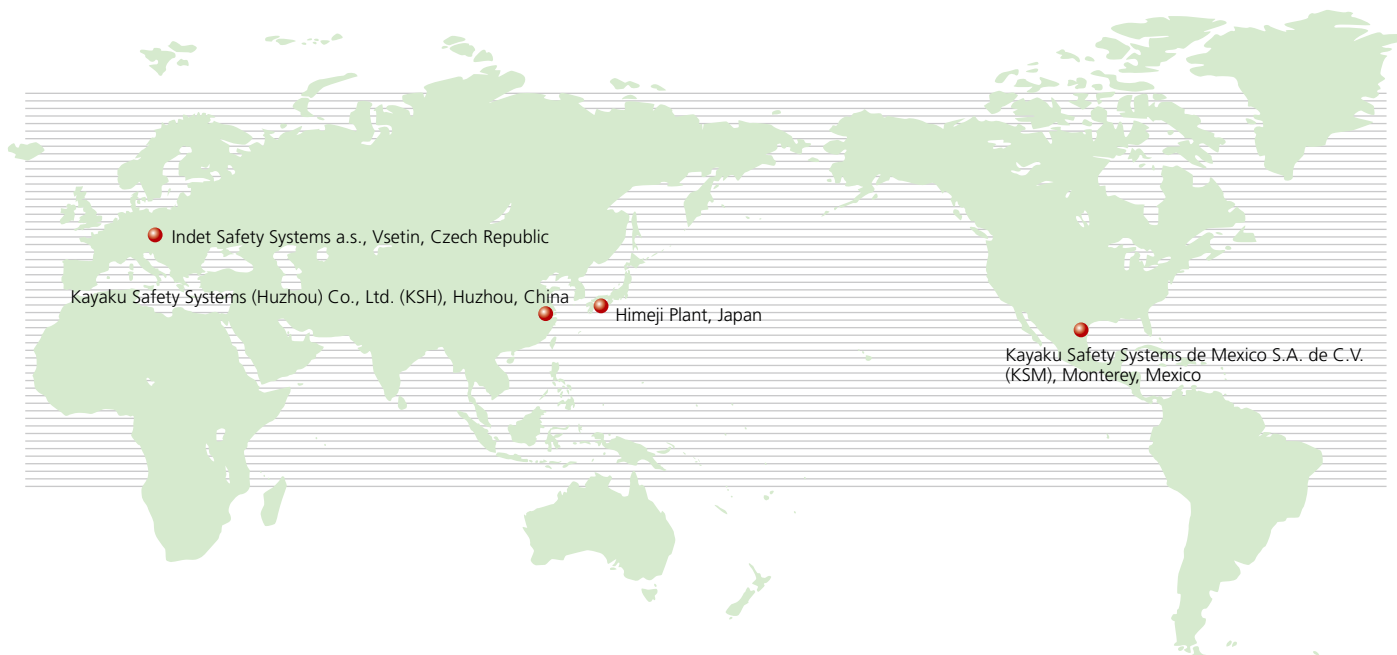


Efforts to Achieve the Targets of the Mid-Term Business Plan

Expanding supply to growth markets with a global production system

The market for automobile safety systems is growing as a result of tightening safety standards and expanding automobile production. The focus is on emerging nation markets as locations for further market growth in the future. For example, the number of automobiles manufactured in China in 2009 was approximately 13 million, and increased to over 18 million in 2010. In Brazil, the installation of front seat airbags will be mandatory by 2014, resulting in a large increase in the airbag installation rate. The installation of safety systems is expected to increase in India as well. In addition there are also demands for systems to reduce damage by springing the rear of the hood open in the event of a collision with a pedestrian, and for other pedestrian safety systems making use of explosive technologies.

The Safety Systems Group will continue to introduce new competitive products based on our explosives technologies, expand production in China, Mexico, and the Czech Republic as we supply products to growth markets, and work to localize operations in each region to strengthen our global competitiveness.



Topics in the Safety Systems Field

Development of compact inflators for side airbags

While airbags were originally installed in just the driver's seat and passenger's seat, now there is also a growing market for side airbags and curtain airbags. Nippon Kayaku has developed compact and lightweight inflators (gas generators) for side airbags. With the growing popularity of eco-cars, there are demands for smaller and lighter-weight automobile components, and we have succeeded in developing a product which is compact and weighs approximately half that of previous products. Aiming to market this product in 2012, we are working to cultivate demand in China and emerging nations as well as in Japan.