

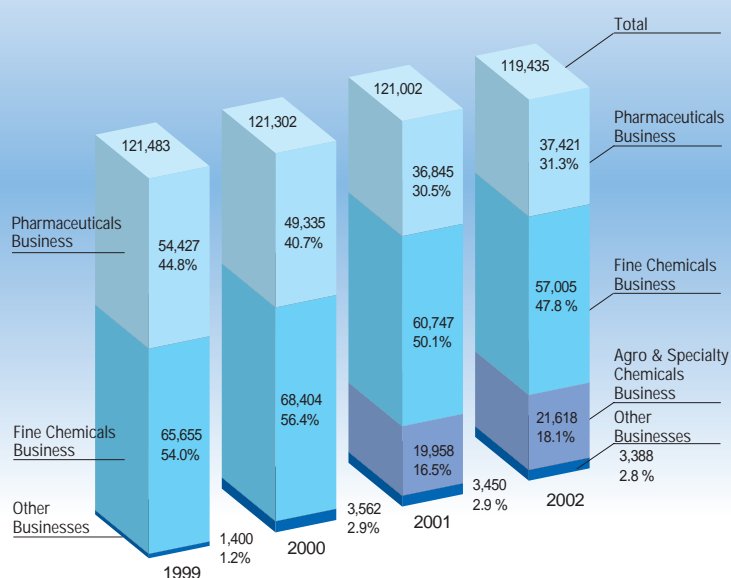
Review of Operations

(Consolidated)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
Year Ended May 31, 2002

Net Sales and Composition Ratio by Business Segment

Years ended May 31
Unit: million yen



* In June 2001 the Pharmaceuticals Group, Specialty Chemicals Division and the Fine Chemicals Group, Agro & Fine Chemicals Division were reorganized to become the Agro & Specialty Chemicals Group, Agrochemicals Division and Specialty Chemicals Division.

* Sales data for FY 2001 was calculated after reorganization of the business into three groups.

Results of Operations

With the global economic slowdown that was magnified by the terrorist attacks in the U.S. in September 2001, and with the continued deflationary cycle resulting from sluggish private capital investment, a worsening employment situation, and instability in the country's financial system, Japan's economic situation in FY 2002 continued to be extremely difficult. Although the U.S. economy showed some signs of recovery during the last half of the year, the global economy on the whole was on a downturn.

In the pharmaceuticals industry, there is an increasing trend toward control of drug prices, and in April 2002 the drug price standards were revised. In addition, because of the need for large-scale research and development such as for genome drug discoveries, there have been large mergers and other changes among overseas pharmaceutical manufacturers. These changes have affected Japan, and resulted in fierce competition among companies that are battling for their survival.

In the chemicals industry, factors including stagnating IT-related demand, and lower prices due to increased competition from neighboring countries, have led to decreased demand and slipping prices in Japan and overseas, presenting a harsh environment for the industry this year.

Under these conditions, we have been engaged in the following structural reforms:

- (1) Development and marketing of new products in growth markets
- (2) Qualitative strengthening and streamlining of the company's sales power
- (3) Restructuring of matured fields and strengthening of the business base
- (4) Structural reform of management divisions and streamlining of indirect business

However, with the effects of the IT slump, the expected increase in sales of functional products in growth markets failed to materialize. Net sales for FY 2002 were 119.435 billion yen, 1.567 billion yen (1.3%) less than the previous year. Operating income was 9.384 billion yen, 3.893 billion yen (29.3%) less than the previous year. Net income was 2.630 billion yen, 2.272 billion yen (46.4%) less than the previous year.

For the entire Group, net sales were 127% for those of the parent company alone, while net income was 67%.

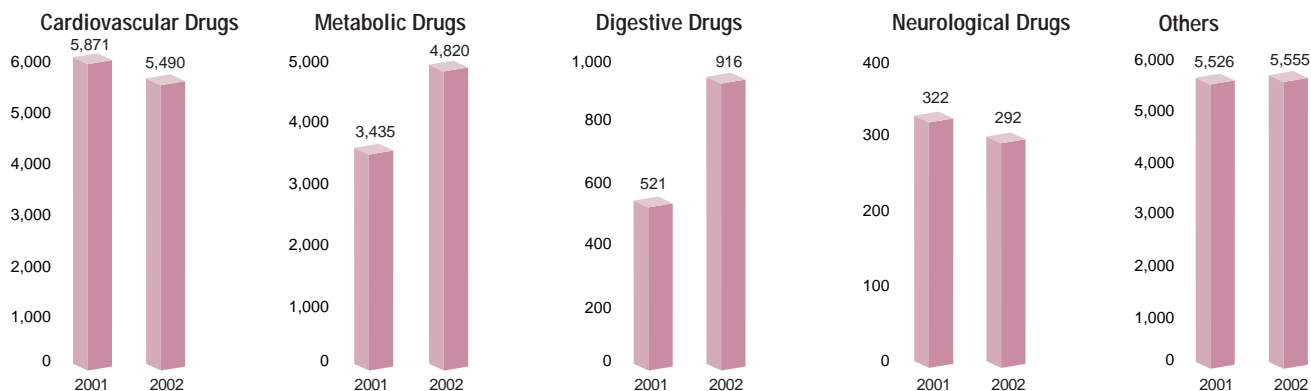
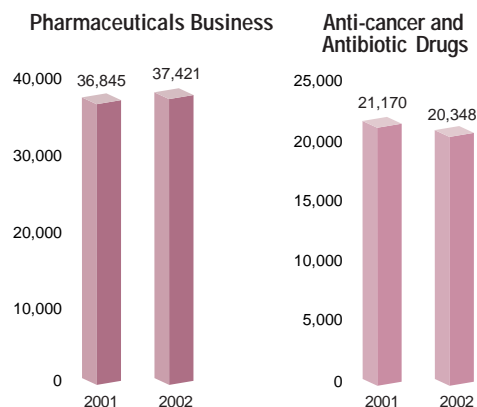
Pharmaceuticals Business

Net sales reached 37.421 billion yen, an increase of 576 million yen (1.6%) over the previous year. Operating income was 7.967 billion yen, 1.408 billion yen (15.0%) less than the previous year.

Among pharmaceutical products for the Japanese domestic market, sales of two of our anti-cancer drugs FARESTON and PINORUBIN increased. In addition, SALIGREN, a drug for treatment of dry-mouth symptoms, MS-TWICELON, a sustained-release drug for cancer pain, and the new drug AREDIA, a bone resorption inhibitor, contributed to the increased sales. Sales decreased for MILLISROL, a vasodilator, and ODYNE and LASTET, two anti-cancer drugs, but overall sales exceeded those of the previous year.

Exports of the anti-cancer drug ETOPOSIDE increased, while those of another anti-cancer drug, BLEO, decreased. However, total exports were above those of the previous year. For our diagnostic agents, sales increased for LANAZYME ST-493 PLATE, used in the diagnosis of breast cancer, while sales fell for LANA 1,5 AG AUTO LIQUID, a diabetes diagnostic agent. Total sales of diagnostic agents were higher than those of the previous year.

Total Sales
Years ended May 31
Unit: million yen



* Sales data for FY 2001 was calculated after reorganization of the business into three groups.

Fine Chemicals Business

Net sales in the fine chemicals business were 57.005 billion yen, 3.742 billion yen (6.2%) less than the previous year. Operating income was 4.288 billion yen, 3.419 billion yen (44.4%) less than the previous year.

In the inflator business, sales this year of micro gas generators for seatbelt pretensioners continued to increase. Sales of airbag inflators decreased; however, total sales in this area exceeded those of the previous year. LifeSparc, a U.S. consolidated subsidiary of Nippon Kayaku, has constructed a new plant for production of squibs and micro gas generators for seatbelt pretensioners, and has completed a system for U.S. production.

In the catalyst business, a decline in the acrylic acid market resulted in sluggish demand for catalysts used in producing acrylic acid, and sales were lower than those of the previous year. The functional products business was strongly affected by the IT slump which began in the latter half of the previous year. Sales of epoxy resins for semiconductor encapsulation fell sharply, and sales of UV-curing resins and composite

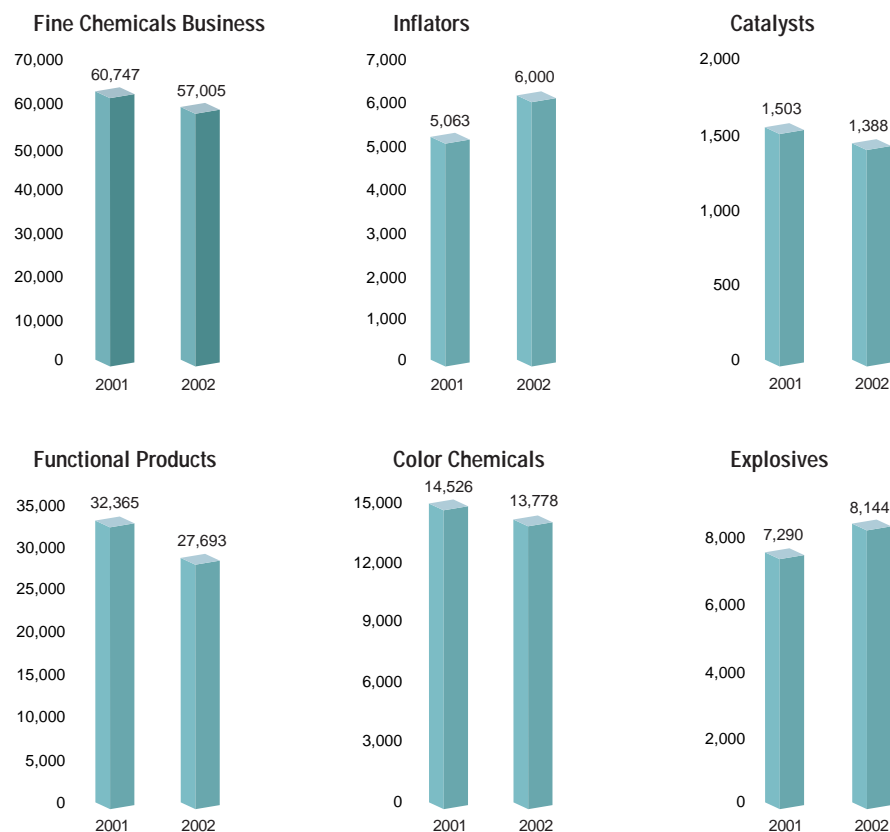
materials for electronics-related materials also declined, resulting in total sales that were lower than those of the previous year. Business performance of Polatechno Co., Ltd. also was below that of the previous year due to the effects of the slump in IT-related industries.

In the color chemicals business, sales continued to increase steadily for colors used in color inkjet printers. However, the effects of the depressed market resulted in poor performance of fabric dyes and special color chemicals for non-textiles that are used for paper, pulp, and plastics. As a result, overall sales in this field were less than those of the previous year.

In the explosives field, sales of the hyper-potent new type of ANFO explosives increased. There was the effect of restricted public investment in civil engineering works; however, total performance was above that of the previous year.

Total Sales

Years ended May 31
Unit: million yen



* Sales data for FY 2001 was calculated after reorganization of the business into three groups.

Agro & Specialty Chemicals Business

The Agro & Specialty Chemicals Group was established in June 2001 for the purposes of stabilizing income and creating new business areas.

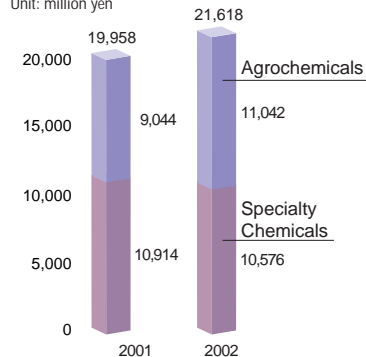
Net sales were 21.618 billion yen, an increase of 1.660 billion yen (8.3%) over the previous year. Operating income was 1.244 billion yen, an increase of 173 million yen (16.2%) over the previous year.

Performance in agrochemicals was improved over the previous year, as a result of the purchase of business rights for two new products and an increase in the level of already consigned products.

The Specialty Chemicals Division suffered poor domestic sales of functional intermediates and bulk substances (consisting of base chemicals for pharmaceuticals, and intermediates for pharmaceuticals and agrochemicals), while its exports of bulk substances increased. As a result, total sales were below those of the previous year.

Total Sales

Years ended May 31
Unit: million yen



* Sales data for FY 2001 was calculated after reorganization of the business into three groups.

Other Businesses

Net sales in this area were 3.388 billion yen, 61 million yen (1.8%) less than the previous year. Operating income improved to 1.038 billion yen, an increase of 224 million yen (27.6%) over the previous year.

Income from rent on real estate was approximately the same as the previous year. The concrete waterproofing treatment seal business is just beginning operation and is still operating on a small scale; yet business development integrating materials and construction is being actively carried out.

Product List by Business Segment

Pharmaceuticals Business



- Anti-cancer Drugs and Cancer-related Drugs
- MS-TWICELON (2001)
 - AREDIA (2001)
 - FARESTON (1995)
 - ODYNE (1994)
 - STARASID (1992)
 - PINORUBIN (1988)
 - LASTET (1987)
 - BESTATIN (1987)
 - RANDA (1984)
 - PEPELO (1981)
 - BLEO (1969)



- Immunosuppressants
- SPANIDIN (1994)



- Cardiovascular Drugs
- ADEHL (1999)
 - MILLISTAPE (1998)
 - NITROPEN TABLETS (1988)
 - MILLISROL (1984)
 - NITROGLYCERINE TABLETS (1953)



- Neurological Drugs
- SALIGREN (2001)
 - MUSCALM (1975)



- Diagnostics
- LANA TP AUTO (2001)
 - LANA 1,5AG AUTO LIQUID (2000)
 - LANAZYME BFP PLATE (2000)
 - LANAZYME ST-439 PLATE (1999)

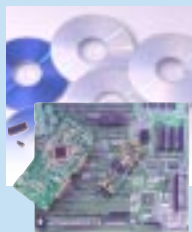
Fine Chemicals Business



- Inflators
- Airbag Inflators
 - Squibs
 - Micro Gas Generators for Seatbelt Pretensioners



- Catalysts
- Catalysts
 - Plant License Business



- Functional Products
- Epoxy Resins (EOCN-1020, EPPN-500, NC-3000, BREN)
 - KAYATORON
 - KAYAHARD
 - KAYARAD
 - KAYAMER
 - KAYACURE
 - KAYANOVA
 - KAYASORB
 - KAYAMIRROR



- Color Chemicals
- KAYALON POLYESTER
 - KAYACRYL-ED
 - KAYACELON REACT
 - KAYARUS
 - KAYACION
 - KAYAFECT
 - KAYAPHOR LIQUID
 - Colors for Color Inkjet Printers



- Explosives
- Dynamite
 - Slurried Explosives
 - Ammonium Nitrate Fuel Oil Explosive (ANFO Explosive)
 - Black Powder
 - Electric Detonators

Agro & Specialty Chemicals Business

- Agrochemicals
- DIAZINON
 - MATRIC
 - PROPETAMPHOS
 - CYCLOSAL
 - MCPB
 - CHLOROPICRIN
 - CUCUMERIS
 - RATDEN
 - NAMEHUNTER
 - EVISECT



- Specialty Chemicals
- Raw Materials for Pharmaceutical Products
 - Intermediates for Pharmaceutical and Agrochemicals
 - PANAKAYAKU
 - Methionine for Animal Feed
 - Specialty Chemicals for High Performance Products



Other Businesses

- Healthcare
- GRANDMA



- Repair Material for Waterproofing
- FLOWSEALER

* Year in parentheses is the year the product was launched.