

## Message from the President



Koichiro Shimada  
President  
(Representative Director)

**Through a fusion of our vast store of intellectual assets and development of active alliances with other companies, we are aiming to develop new key technologies and expand our profit-earning capacity.**

Further economic deflation, stagnant stock prices, and sluggish personal spending and private capital investment have continued to produce harsh conditions in the Japanese and global economies. However under these conditions, Nippon Kayaku's consolidated business results for FY 2003 (June 2002 – May 2003) showed an increase in income and a slight increase in profits over the previous year.

### **Development of new key technologies**

The background of Japan's current troubles is well documented. With the progress of economic globalization, key technologies have been spread across the entire world, and developing countries with their low labor costs have become overwhelmingly more cost-competitive than the more established economies. To counter this trend, establishing new key technologies is an effective strategy for breaking out of the cost competition cycle, securing a superior competitive position, and increasing profit-earning capacity.

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From this perspective, Nippon Kayaku Group is making maximum use of the business resources we currently possess, and we are supplementing our business resources through active alliances with other companies. We are focusing our efforts on our primary management theme – “Creation of the new products and new business that the market requires.”

#### **Active utilization of our vast store of intellectual resources**

Nippon Kayaku has achieved success in a broad range of fields throughout the years. From our beginnings with explosives, we have continued to develop as we challenge ourselves in new product areas including dyes, pharmaceuticals, agrochemicals, functional products, catalysts, and inflators. All along we have maintained fine chemicals as our main business base, and have consistently focused on and expanded our specialty fields to keep current with the evolving times.

One example in our pharmaceuticals business is NK911, an exciting new DDS (drug delivery system) product. This product is a microgranule, known as a polymer micelle, which contains an effective anti-cancer drug (doxorubicin). This microgranule enables selective delivery of medication directly to the cancer tissues in the body. This is one of the promising new DDS approaches we are developing, which is also a product of our nanotechnology efforts.

#### **Active utilization of alliances with other companies**

As we seek to develop new key technologies, we are not only creating a fusion of our own company’s technologies, but are also actively working to foster alliances with other leading companies in their key fields. Through these alliances, we promote a fusion of our own intellectual assets with those of other industry innovators, aiming for faster development of new products and creation of new businesses.

In the pharmaceuticals area, our strategic alliances include a licensing agreement with NanoCarrier Co., Ltd., a company with unique nanotechnology, for creation of DDS pharmaceuticals – aiming to develop new products to follow NK911. In the fine chemicals field, in December 2002 we established the subsidiary company Kayaku MicroChem Corporation. This company is a joint venture with the U.S. company MicroChem Corp. for the purpose of developing and marketing resins for micro electro mechanical systems (MEMS). In the agro & specialty chemical business, we are conducting research into synthesis processes utilizing microchips at the Research Association of Micro Chemical Process Technology, a nanotechnology research organization established last year in Japan. In addition to these examples, we are also actively engaged in a range of alliances with other companies.

#### **Acceleration of overseas business**

With the exception of some protected domestic industries, companies that lack international competitiveness are inevitably driven out of business. In this sense, internationalization is

demand of all businesses, regardless of size. Nippon Kayaku began operations in China for its dye business 5 years ago, and at the present time these operations are running smoothly. In 2003, we began active sales efforts in the China domestic market. In addition, we have purchased land next to our consolidated subsidiary WAC (Wuxi Advanced Kayaku Chemical Co., Ltd.) in the mainland China city of Wuxi. This property is now home to facilities for manufacturing resist-ink resin for functional materials, and to a polarizing film post-processing plant belonging to our consolidated subsidiary Polatechno Co., Ltd. These facilities will both begin operating in autumn 2003.

The U.S. company LifeSparc Inc. and Czech company Indet Safety Systems a.s. began full-scale manufacture of inflator squibs and micro gas generators for seatbelt pretensioners in 2003. Both these companies are production bases for local production and delivery to local customers.

### **Raising cost awareness**

Another important strategy is increasing the cost competitiveness of existing businesses. One means to accomplish this has been to operate businesses overseas. However, what is fundamentally most important is to raise cost awareness among all employees and the company as a whole. A company in which the management and all employees spend the greatest amount of time possible in the creation of added value is a company with competitive strength. The knowledge required for the creation of added value comes less from the individuals themselves than from the results of group thinking. For this reason we will continue promoting the “group creativity” programs begun under the previous president.

### **Active utilization of IT**

Our GMS (Group Management System) began operating in June 2003, centered on the enterprise resource planning application SAP R/3. This new system will be utilized to improve efficiency of indirect divisions, and will also speed up our information processing and streamline our business processes.

### **Accelerating business reforms**

Nippon Kayaku is already working to improve return on assets (ROA) and return on shareholders' equity (ROE) by strengthening the profit base and reinforcing our financial standing. In addition we have introduced new performance evaluation indexes that take capital cost into account. In the future, we will continue to accelerate business reform, with renewed focus on capital efficiency, and further strengthen our business base, in order to maximize the value of our business.

October 1, 2003



Koichiro Shimada  
President