

Message from the President



Koichiro Shimada
President
Representative Director

We are striving to maximize the value of our business by targeting niche markets in the information/communications, health care, and safety systems fields, and through strategic fusion of technologies within and beyond our company.

Performance review for the fiscal year ended May 2004 (FY 2003)

The Japanese economy finally began a gradual recovery in 2003, driven by expanding demand for digital home electronics and IT-related products, and by increasing private capital investment spurred by improved business performance and from increased exports accompanying the recovery of overseas economies, primarily in the U.S. and China. Under these conditions, sales in the fine chemicals business were strong and made it possible to cover the drop in our pharmaceuticals business following revisions in drug prices and heightened competition. Consequently, Nippon Kayaku's consolidated business results in the fiscal year ended May 31, 2004 (June 2003 - May 2004) showed a rise over the previous fiscal year, with sales of 128.016 billion yen and an operating income of 10.097 billion yen.

Targeted growth markets

Nippon Kayaku Group has established maximizing the value of our business as a key management objective, and we are expanding our operations with focus on the fields of information/communications, health care, and safety systems, all of which are clear growth markets at the start of the 21st century. In the information/communications field, based on our primary technologies of resins and color chemicals, we have developed and marketed products including epoxy resins for semiconductor encapsulation and DVD optical disks, liquid-crystal sealants, projection materials and polarizing plates, colors and inks for color inkjet printers, and other electronics-related materials. In the health care field, we have introduced unique new products centered on our anti-cancer drugs, and in the safety systems field we have marketed automotive safety products based on our long-held explosives technology.

Carrying out structural reforms

In order to clarify Nippon Kayaku's business strategy and to concentrate business resources in key areas, we carried out structural reforms that were completed on August 27, 2004. Under the new organization, the Functional Chemicals Group, Pharmaceuticals Group, and Safety Systems Division have been positioned as growth businesses, while the Fine Chemicals Group has been positioned as a business generating stable income.

Targeting niche markets

The Nippon Kayaku Group focuses on markets and customers in order to target global niche markets that are suitable for the scale of our business. In other words, rather than targeting large markets, we are aiming to obtain large shares in smaller-scale markets, or to be the "only one" in these markets.

Examples are seen in the information/communications field, where Nippon Kayaku is targeting niche products for our various electronics materials. While our consolidated subsidiary Polatechno Co., Ltd. manufactures polarizing films, it also specializes particularly in materials used for projectors. Meanwhile, we have focused our main efforts on anti-cancer drugs in the health care field, and on squibs (igniters for airbag inflators) and micro gas generators (for seatbelt pretensioners) in the automotive safety products field.

Accelerating the fusion of technologies within and beyond the company

By creating a strategic fusion of the broad range of technologies possessed by the Nippon Kayaku Group while boosting the synergistic effects of these technologies, we are aiming to make maximum use of our intellectual assets and create a clear difference between ourselves and other companies.

Nippon Kayaku has achieved success in a broad range of fields since our founding in 1916. 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. Through the years, we have accumulated a vast store of intellectual assets, and it is well known that one of our company's strengths is our wealth of technologies and other intellectual assets that cover a wide variety of fields.

Our group has successfully created new products and pioneered new business areas through a comprehensive fusion of our company's technologies in polymers, organic synthesis, biotechnology, and other areas that are expected to yield next-generation key technologies.



This fusion also covers our broad range of processing technologies. We have also established the development of nanotechnologies as a corporate theme, and are planning to apply this cutting-edge technology in several strategic areas.

In October 2004, we began redevelopment at the site of our Tokyo plant, and began construction of a new integrated research building. Here we will concentrate in one location all of our research facilities for pharmaceuticals, functional chemicals, and fine chemicals,

accelerating the fusion of the advanced technologies held by each of these research facilities.

As we develop new key technologies, we are also actively developing strategic external alliances to create a fusion with technologies and capabilities beyond our company. With this cooperation, we are working to accelerate the development of new products and the creation of promising new business areas.

One example of an alliance we have created in the functional chemicals business is the establishment of Kayaku MicroChem Corporation as a joint venture with the U.S. company MicroChem Corp. This joint venture is engaged in the development and marketing of resins for micro electro mechanical systems (MEMS). In addition, it is conducting joint R&D into new photoresists with companies that develop, sell, and prototype the systems that manufacture MEMS devices. In the pharmaceuticals business, we have concluded a licensing agreement with NanoCarrier Co., Ltd., a company with unique proprietary nanotechnology, for creation of drug delivery system (DDS) pharmaceuticals. In January 2004, we also established a research center (Nanotherapy Co., Ltd.) as a joint venture with other companies and universities to develop heat immunotherapy as a new method for the treatment of cancer.

Accelerating the development of overseas business

With the advance of globalization, there are no longer national boundaries that serve to limit competition between companies. Enterprises that lack international competitiveness are inevitably driven out of business. In this sense, internationalization is demanded of all businesses, regardless of size. Nippon Kayaku began operations in China for our color chemicals business nine years ago in 1995, and we are now actively engaged in manufacturing and sales in the China domestic market. In addition, within the grounds of our consolidated subsidiary Wuxi Advanced Kayaku Chemical Co., Ltd., we have established Kayaku Chemical (Wuxi) Co., Ltd., which manufactures and sells resist ink for functional materials, as well as Wuxi Polatechno Optics Co., Ltd., which manufactures and sells polarizing film for our consolidated subsidiary Polatechno Co., Ltd. Operations at both of these new companies are proceeding smoothly. In January 2004, Polatechno also acquired the U.S. company Moxtek Inc., a manufacturer of special polarizing film.

Full-scale operations are under way at U.S. company LifeSparc Inc. and Czech

company Indet Safety Systems a.s., both of which manufacture and sell inflator squibs and micro gas generators for seatbelt pretensioners.

Raising group-wide cost awareness

While developing new technologies and expanding overseas business are important strategies for survival in a harsh competitive environment, another key strategy is increasing the cost competitiveness of existing businesses. What is fundamentally most important is to raise cost awareness among all employees and the company as a whole. Cost awareness includes the understanding that any time spent that is not related to the generation of added value is wasted time. Not only management, but all employees must spend the greatest amount of time possible in the creation of added value. The knowledge required for the creation of added value comes less from the individuals themselves than from the results of group collaboration. For this reason, we are devoting more efforts to actively promoting “group creativity” programs for small group activities.

Strengthening group management

As part of the most recent reorganization, the Business Support Center was changed to the Administration Group. This change is intended to qualitatively strengthen the business support system that covers the group, and to streamline management and staff operations throughout the entire group.


We are also working to further strengthen our group management through effective utilization of the Group Management System (GMS), which is centered on the enterprise resource planning application SAP R/3 that was introduced in 2003.

Maximizing the value of our business

Nippon Kayaku is striving to improve the 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 performance evaluation indexes that take capital cost into account and are utilizing them to evaluate each of our business divisions.

In the future, we will continue to accelerate business reforms, with renewed focus on capital efficiency, and further strengthen our business base in order to maximize the value of our business.

October 1, 2004


Koichiro Shimada
President