



# Fine Chemicals Business

**We are carrying out further reforms in order to stabilize earnings.**

## **A faster pace of reform**

One year has passed since the launch of the Fine Chemicals Group, which was created by reorganization of our business in 2004. This group has dedicated its full efforts to reforms aimed at achieving a transformation to a stable-earnings business, which has been our mission for this past year. However, the market in which the Fine Chemicals Group operates continues to shrink, and we have continued to face a difficult struggle.

Under these conditions, it was due to the sales from the agrochemicals business that our performance exceeded that of last year, however our profit situation worsened. Demand for dyes in Japan continues to decline, and sales from the color chemicals business fell. However efforts to improve profits by cutting costs and reducing fixed expenditures were successful, and the profit situation for this business improved. Like the color chemicals business, the explosives business also saw a drop in sales, however there was a dramatic improvement in profits due to the effects of the cost-cutting activities which have been continuing for the past two years. The result was a slight decline in sales, and a slight increase in profits, for the group as a whole.

With the expected continuing contraction of the market, the market forecast is not optimistic. However, in both the color chemicals business and explosives business, some progress was made towards the goal of establishing these businesses as generators of stable earnings. However, drastic reforms are needed in the agrochemicals business, and these reforms have just recently gotten under way. In the future, we will strive to increase the pace of these reforms, aimed at generating stable earnings.



## **Regeneration of the agrochemicals business**

Struggling against trends such as the shrinking area under cultivation and reductions in the use of agricultural chemicals, the agrochemicals business suffered an extreme slump in the fiscal year ended May 31, 2005. Major causes of this slump were the lack of any influential new products and a decline in domestic sales. While the color chemicals business and explosives business have begun to show improved profits, the immediate reorganization of the agrochemicals business has become an urgent issue for this group. For this reason, we have constructed a business regeneration scenario for the agrochemicals business and have begun to carry it out. The following is an overview of this scenario.

- (1) Strengthen the ailing Japan sales system.
- (2) Review the research and development themes and organization, and construct a system for systematic and rapid marketing of new products.
- (3) Eliminate waste from the organization, and construct a slim and efficient management system.

Due to a change in the method of calculating sales from consigned products in the fiscal year ending May 31 2006, sales will show a large decline even if the actual sales essentially remain the same. However, we will be certain to achieve improved profits. The reforms required for this regeneration will be painful, however we will carry out these reforms to their full extent, aiming for a return to rising business performance.

## Color chemicals business

The dye market in Japan is forecast to continue shrinking. Fortunately, however, sales from our China subsidiary have finally begun taking off. In addition, while prices of the color chemicals used for paper pulp are declining, the amounts used are increasing. For these reasons, sales of color chemicals, which had previously been in continuous decline, are expected to flatten out in the fiscal year ending May 31, 2006. We will continue to raise our profit rate by marketing unique products and by cutting costs, aiming to boost profits. We also intend to generate good business results from the functional chemicals which have been in development for a long period of time.

## Explosives business

Efforts at cutting costs which have been under way since 2003 are showing results, and profits in this business have made a rapid recovery. However, the decline in public works continues to result in lower sales of industrial explosives. Our current level of competitiveness is not enough to ensure the survival of this business under these conditions. We will make definite and devoted efforts to becoming the strongest manufacturer of industrial explosives in Japan.

## Future development

The environment surrounding the Fine Chemicals Group has been harsh for all business areas. However the business of this group is an essential part of our lives, and it is unthinkable that it will disappear. Nippon Kayaku maintains a vast supply of technologies and expertise that we have built up over our many years of experience. We will make even better use of these strengths in order to make our existing products easier to use, more convenient, safer, and more competitive, and we will work to develop new products which differentiate us from other companies. By improving our business, we aim to become a unique, if small, business group.

## Topics

### Expanded production of textile dyes in China

Our consolidated subsidiary in China, Wuxi Advanced Kayaku Chemical Co., Ltd., manufactures and sells water-soluble dyes, disperse dyes, and other textile dyes. Currently, approximately three-fourths of the products produced in China are exported to Japan. However as the dye market in Japan shrinks, expanding Japan sales has become difficult. Instead, Nippon Kayaku is planning to expand its business by increasing sales in China. Our goal is to sell three-fourths of these products in China in the fiscal year ending May 31, 2007.

In order to reinforce the sales system for expanding sales, we are planning to gradually increase the number of sales staff at the Wuxi Advanced Kayaku Chemical branch in Shanghai. While there is still ample production capacity at the current plant overall, we will add facilities as necessary for the appropriate dye types, and will construct a new plant in the next few years to meet the needs of future sales plans.

### Successful granulation of slurried explosives

In February 2005, Nippon Kayaku developed and marketed a new product, Landex. This product is the world's first granulated slurried explosive, a type of explosive that is used in projects such as tunnel blasting. Patents are currently pending in Japan and overseas.

Slurried explosives contain moisture, and are also called "emulsion explosives." They have several advantages, including little production of toxic gas, which have led to their use in tunnel blasting work. However, because they are in liquid form, previously these explosives had to be sealed in a cylindrical shape using waterproof paper or film. This meant that the explosives had to be loaded by hand at the time of the blasting work. This increased the level of danger and required more time. However Landex comes in pellets 4 millimeters in diameter. This makes it possible to use a loading machine, improving both safety and efficiency.

## Business Areas

### Agrochemicals

We manufacture and sell agrochemicals and similar products.

#### Major products

- DIAZINON
- MATRIC
- SAFROTIN
- EVISECT
- CYCLOSAL
- MCPB
- CHLOROPICRIN
- CUCUMERIS
- RATDEN
- SIMETRYN
- CHLORPIC-FLOW



### Color Chemicals

We manufacture and sell fabric and textile dyes and dyes for paper pulp.

#### Major products

- KAYALON POLYESTER
- KAYACRYL-ED
- KAYACELON REACT
- KAYARUS
- KAYACION
- KAYAFECT
- KAYAPHOR LIQUID
- KAYASET



### Explosives

We manufacture and sell explosives, black powder, and pyrotechnic products.

#### Major products

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

