

Message from the President

We have worked for a company-wide fusion of technology and human resources, in order to expand and grow our business in global niche markets.

Increased income and profits in the consolidated results for the year ended May 31, 2006

In the fiscal year ended May 31, 2006, net sales for the Nippon Kayaku Group were a new record of 140.026 billion yen, an increase of 5.821 billion yen from the previous fiscal year. Due to factors such as higher sales and cost-cutting measures, operating income increased by 3.053 billion yen to 13.219 billion yen. Net income increased by 4.325 billion yen to reach 9.641 billion yen, due in part to income from the sale of land at the former site of Yono company housing.

Looking at individual business areas, we see that in the functional chemicals business, sales were strong for products such as the epoxy resins used to encapsulate semiconductors, colors for inkjet printers, LCD display sealants, and plasma display films. In the safety systems business, sales of micro gas generators for seatbelt pretensioners were strong both in Japan and overseas. In the pharmaceuticals business, sales of new cancer-related products were strong, and we succeeded in cutting costs through a change to in-house production and other means. The fine chemicals business delivered profits at the same level as the previous year, due to strong sales of textile dyes.

Working for growth in global niche markets by selecting growth markets for concentrating resources, and by creating a fusion of technology and human resources

In the manufacturing industry, and the Nippon Kayaku Group in particular, because a long period of time is required for the creation of a new business or product, it is essential to have a clear vision for the mid- and long-term. Over the past few years, we have selected certain business areas and concentrated our resources in them. At the same time, we recognize that being involved in many business areas and forming an appropriate business group is an important strategy for growth. By working for a fusion of the fundamental technologies, patents, production technologies, and expertise we possess in each business area, we can generate new development, and accelerate the creation of the new businesses and products that only Nippon Kayaku is capable of.

The basic strategy of the Nippon Kayaku Group is to rapidly execute our business strategy for targeting niche markets by utilizing a fusion of technologies within and beyond our company. We have identified three growth fields: information/communications, health care, and safety systems. We intend to expand and grow our business in global niche markets by efficient business expansion that suits the size of our operations, and by creating a fusion of technologies from all different fields. Nippon Kayaku has positioned the functional chemicals business, which focuses on the information/communications and safety systems fields, and the pharmaceuticals business, which focuses on the health care field, as growth businesses, where



we are concentrating business resources and aiming for expansion and growth through rapid research and development. We have positioned the fine chemicals business as a stable income business, and are aiming to secure stable income by carrying out thorough cost-cutting and by introducing new products that meet market needs.

Introduction of the project system, aiming to cross compartmentalizing barriers and resolve issues rapidly


A company is continually exposed to fierce competition, and in order to emerge victorious from this competition the most important keys are accurately identifying the issues that need to be resolved, and rapidly resolving those issues. The conventional compartmentalized business organization is insufficient for this purpose, and for this reason we have introduced the project system to promote horizontal cooperation that is appropriate for the conduct of actual operations. By introducing this project system, we are aiming to be a company in which we can cross compartmentalizing organizational barriers to bring together team members from various divisions to be in charge of operations, and where these team members can share information, combine their expertise, and quickly carry out their work without hindrance.

Fulfilling social responsibilities, and working to maximize the value of our company

In order to fulfill our company's social responsibilities, we have placed the environment, safety, and quality at the core of Nippon Kayaku Group management, and have worked to strengthen our environmental safety management. In addition, we have strengthened our corporate governance and internal administration systems and are dedicating ourselves to total compliance. We are also engaged in timely and fair information disclosure, in order to improve the soundness and transparency of our management.

While we expect that the Japanese economy will continue its gradual expansion, there are also eventualities that can defy prediction, such as a possible slowdown in the U.S. economy or a spike in the price of oil. While the business environment surrounding the Nippon Kayaku Group is expected to remain a demanding one, we will work to maximize the value of our company in the future by following our basic strategy and achieving further expansion of our growth businesses.

October 1, 2006


Koichiro Shimada
President