

Striving for No. 1 globally in niche markets We are promoting a fusion of technologies, and improving the speed at which we bring products to the market.

Increased income and profits in consolidated results for the year ended May 31, 2007

In the fiscal year ended May 31, 2007, net sales for the Nippon Kayaku Group were 148.124 billion yen, an increase of 8.097 billion yen from the previous fiscal year. Operating income was 13.536 billion yen, an increase of 316 million yen from the previous fiscal year. Net income decreased to 6.61 billion yen, a drop of 3.03 billion yen compared to the previous fiscal year that included the sale of land at a former company housing site.

During the period, several important moves were made involving business transfers and integrations. One involved a polymer coagulant business transfer, which completed the liquidation of subsidiary company Kayafloc Co., Ltd., in November 2006. We also agreed to the integration of our commercial explosives business with Asahi Kasei Chemicals Corporation, and promoted the creation of a stable, high-quality product supply system.

From the top down, we are promoting the introduction of new products to the market through a fusion of technologies.

As an integrated company, Nippon Kayaku fuses together cultivated technologies and has inherited genes that enable us to change with the demands of the times. In recent years we have established a strong position in three growth fields: information/communications, health care, and safety systems; and are promoting a fusion of technologies from each field, as well as efficient business expansion.

It is said that great innovations come not from a single technical field alone but from a mix of multiple technologies, including fields that seem to have no relationship to each other. This was why we opened the “Integrated Research Laboratories” in April of last year. These research facilities for the dual growth fields of pharmaceuticals and functional chemicals physically adjoin each other, enabling interaction to proceed naturally and efficiently. Technological fusion that had once seemed inconceivable has now actually begun.

Moreover, at the end of the year before last, we renovated our R&D system and launched the “Research and Development Management Committee.” As the company’s president, I serve as committee chairman. The committee, whose members include the directors of each research facility, aims to speed up companywide marketing of new products in the three growth fields we target, utilizing an effective top-down approach.

From the successful fusion of our technology platforms, rewarding new technologies such as ultrafine diamonds, dye-sensitized solar cells, and polymer micelle DDS (Drug Delivery System) drug formulations have already come into existence. Ultrafine diamonds have been developed for optical materials and coating applications. Dye-sensitized solar cells, which generate electricity using dyes that react to light, can obtain voltages 1.5 times greater than silicon-based cells, the mainstream type today. And polymer micelle DDS can efficiently deliver cancer-fighting drugs directly to cancerous areas of the body.

One year since the introduction of the project system, we are transforming into a strong company.

In order to quickly grasp the changes of the times and prevail in global competition, we introduced a project system last year. Under this new system, each project is headed by a strong leader, with project members consisting of personnel from related departments who establish achievement targets and time periods, and work together to resolve key issues. As company president, I, along with the director of the Research and Development Group, periodically confirm the status of progress while pushing the project forward.

Starting with R&D projects that are aimed at quickly bringing new products to market, we are presently promoting approximately 150 projects dealing with such issues as business and sales strategies, production improvement, and cost reductions. In the future we will be classifying the projects and providing expanded follow-up, and will create an organizational structure that enables even speedier responsive action.

As we fulfill the corporate social responsibilities, we are striving to be No. 1 in global niche markets.

While we expect that the Japanese economy will continue its present 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. In the midst of such difficult circumstances, the Nippon Kayaku Group will fulfill its social responsibilities, work toward fusing technologies and strengthening its structure, and further expand its growth-field businesses as it strives to be No. 1 in global niche markets.

October 1, 2007

Koichiro Shimada

Koichiro Shimada
President

