

Message from the President



Koichiro Shimada
President

Striving for No. 1 globally in niche markets, we are utilizing a fusion of technologies as a tool for rapid implementation of our business strategies.

Decreased income and profits in consolidated results for the year ended May 31, 2008

In the fiscal year ended May 31, 2008, net sales for the Nippon Kayaku Group were 144.901 billion yen, a decrease of 3.222 billion yen from the previous fiscal year. This decrease occurred despite sales growth in the pharmaceuticals business and safety systems business, resulting from factors including a drop in income following the integration of our explosives business in Kayaku Japan Co., Ltd., a company that is accounted for by the equity method, and also sluggish demand for optical functional films in the electronic materials business. Significantly affected by the high price of oil and soaring prices for raw materials, as well as the high value of the yen, operating income was 12.451 billion yen, a drop of 1.084 billion yen from the previous fiscal year. Net income was 6.630 billion yen, an increase of 190 million yen over the previous fiscal year that was the result of income from sales of real estate and other sources.

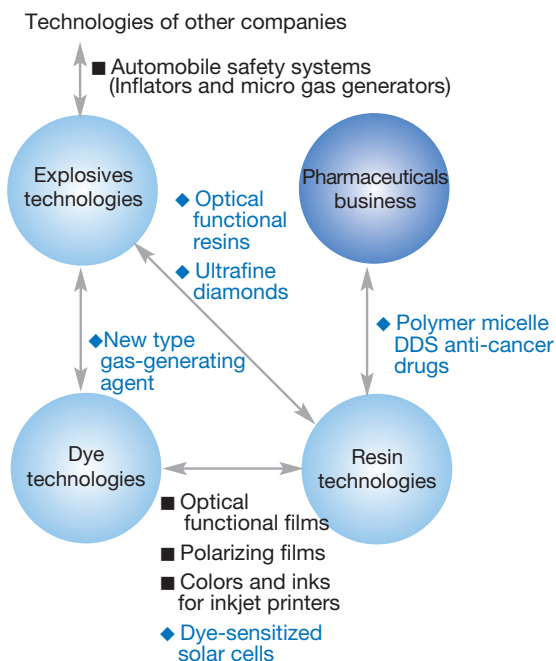
The Nippon Kayaku Group has worked to clarify its portfolio and strengthen its overseas operations in order to increase the value of the company and achieve sustainable growth. In the fine chemicals business, which we have positioned as a business for delivering stable profits, on June 1, 2008 we abolished the Fine Chemicals Group, transferred the Color Chemicals Division to the Functional Chemicals Group, and made the Agrochemicals Division an independent business organization. In the color chemicals business, although the domestic market is shrinking, market growth is expected in China and Southeast Asia in the mid- and long-term. As a result, we intend to carry out coordination of new product development and a fusion of technologies centered on dye technologies under the direction of the Functional Chemicals Group. At the same time, we will transfer the core functions of the Color Chemicals Division to China, and accelerate the pace of production and sales in China and the rest of Asia. In the agrochemicals business, we will spare no effort in measures aimed at generating a profit, and will proceed with strategic collaborations that include introduction of products.

We are accelerating the pace of our technology fusion, and working to achieve growth that is in tune with the needs of the times.

The Nippon Kayaku Group fuses together cultivated technologies and has inherited business DNA that enable us to change with the demands of the times. In recent years we have efficiently expanded our business in three growth fields: information/communications (functional chemicals business), health care (pharmaceuticals business), and safety systems (safety systems business). We are also directing our efforts toward the development of new products in the energy-saving field which meet the needs of our times — products such as LED-related materials and dye-sensitized solar cells.

Nippon Kayaku Core Technologies and Technology Fusion

- Commercialized fusion of technologies
- ◆ A fusion of technologies leading to the creation of commercial products



In order to contribute to society by creating new products and new business that fulfill the needs of our times, the Nippon Kayaku Group has added the technologies of other companies to our own core technologies of explosives technologies, dye technologies, resin technologies, and pharmaceutical technologies to create a fusion of technologies. From our automobile safety systems to our optical functional films, polarizing films, colors for inkjet printers, and other products, many of the product lines which have grown to become the strongest products of our Group were born from such a fusion of technologies. In addition, we have developed new technologies such as dye-sensitized solar cells, which are considered a promising means for preventing global warming, and also ultrafine diamonds, polymer micelle drug delivery system (DDS) anti-cancer drugs, and a new type of gas-generating agent for automobile safety systems. We are currently proceeding with efforts aimed at commercializing these technologies. Our dye-sensitized solar cells generate electricity using a dye that reacts to light, and can produce 1.5 times the voltage of the silicon solar cells that are currently the mainstream. Our ultrafine diamonds are also being developed for optical material and coating applications.

The Nippon Kayaku polymer micelle anti-cancer drugs are capable of delivering anti-cancer drugs efficiently to cancerous areas of the body. Phase II trials are now under way in Japan, and expectations for the results are high.

The Nippon Kayaku Group maintains a strong presence in the fine chemicals field and targets many business areas where we have applied our fine chemicals technologies, and are aiming to use a fusion of technologies to achieve growth in fields of high added value. In order to accelerate this progress, we opened our Integrated Research Laboratories at a site adjacent to the Pharmaceutical Research Laboratories. We believe that by locating our research facilities for the two growth fields of pharmaceuticals and functional chemicals next to one another, the fusion of technologies will proceed at a pace that exceeds our expectations.

We have created a mid- and long-range growth scenario that assumes continued rising oil prices.

In the fine chemicals field where the Nippon Kayaku Group is active, many years are required in order to create a successful new business or product. To achieve continual growth, a mid- and long-range growth scenario is essential. During the period from the year ended



May 31, 2005 through the year ended May 31, 2007, we set new records for high profits by reforming our portfolio and by selecting and concentrating our business areas, and we view the year ended May 31, 2008 as a brief plateau. We regard the soaring price of oil, which had a large effect on our business performance this year, not as a transitory phenomenon but rather as a price revolution. Based on this recognition, we will review our business management from the perspectives of both sales policies and R&D, incorporating consideration for the anticipated accompanying rise in prices of raw materials. In addition, beginning from the fiscal year that ends March 31, 2009, we will concentrate on high added-value products and businesses, expand our overseas operations, further strengthen our core business and capitalize on their strengths, and conduct active investment for greater growth. In particular, we will invest in pharmaceutical development, centered on the development of polymer micelle DDS anti-cancer drugs, and utilize the project system to carry out organizational reforms, aiming to achieve an ROE of 10% in the year ending May 31, 2012.

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

There is concern that the Japanese economy will enter a recessionary phase in the future due to factors such as the slowdown of the U.S. economy, the continued high price of oil, and sluggish personal spending. Under these harsh conditions, we understand that a key element for achieving our mid- and long-term growth scenario is fulfilling the obligations of our company to society. We will strengthen our corporate governance and internal administration system, focus on safe operations and concern for the environment in all business areas, and work to share the “KAYAKU Spirit” which expresses our corporate philosophy among all Group members. Through Good Products, Uninterrupted Progress, and Conscientious Cooperation, we will contribute to society through fine chemical technologies with the new added value required by 21st century society.

October 1, 2008

Koichiro Shimada
President

