

Message from the President



Koichiro Shimada
President

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

Business results during the fiscal year ended May 31, 2009 were divided into two extremes by business area.

A defining characteristic of Nippon Kayaku business is its core of fine chemicals technology and diverse operations in a broad range of areas, with “information/communications and energy conservation,” “health care,” and “safety systems” positioned as growth fields. The business results for the fiscal year ended May 31, 2009 regrettably showed a decrease in both income and profit owing to the effects of the global economic crisis. Sales were 134.353 billion yen (down 7.3% from the previous fiscal year); operating income was 9.367 billion yen (down 24.8%); and net income for the year was 3.718 billion yen (down 43.9%). This year is notable because the business results in each business area were divided into two extremes. The pharmaceuticals business, specializing in anti-cancer drugs, and agrochemicals business, which manufactures and sells agrochemicals and other products, both saw an increase in income and profits compared with the previous fiscal year. However income and profits declined in the fine chemicals business and safety systems business, which provide products to industrial areas that were largely affected by the global recession such as semiconductors, digital home electronics, and automobiles.

We are aware that the economic recovery will bring with it large changes in the business environment.

Although the slumping global economy is now on a path to recovery, we consider this to be a recovery from an “abnormal recession” to an “ordinary recession,” and recent forecasts suggest we will have to wait until next fiscal year or later for a full-scale economic recovery. This recession clearly will not be a short-term phenomenon. This is because, with the changes in the global economic structure that have taken place since the end of World War II, the U.S.-style economic system has stalled. What is more important than the timing of the actual recovery is the fact that the business environment will have to undergo large changes after the recovery takes place.

The first of these changes will be our transition from a society based on the consumption of massive amounts of energy to an energy-conserving, resource-conserving, environmentally friendly society. A movement toward this transition had already begun, however it was dramatically accelerated by the onset of this global recession. The second of these changes is the creation of a low-cost society. It is the emergent nations that will be at the core of future economic growth, and this growth will be centered on low-cost products that meet the needs of these developing nations. As a result, there will be a shift from extremely tech-heavy products to products where the focus is on good cost-performance. We have already started to take action aimed at adapting to these changes.

In the fiscal year ending May 31, 2010, we will accelerate our technical development in the environmental and energy conservation fields.

Previously, Nippon Kayaku formulated mid-range plans on a rolling basis. However during the three years from FY 2011 to FY 2013, we will be engaged in a mid-range plan with fixed numerical targets. In this way, we will make sure that responsibilities are clearly identified as we work to achieve the plan targets. The primary target of the mid-range plan is to achieve an ROE of 10% in FY 2013. We believe that this ROE of 10% is a suitable starting target for a global corporation that is growing continually. For FY 2010 we have assembled a single-year budget, and during this year we will formulate the mid-range plan while paying close attention to economic conditions and market trends.

For the fields of information/communications and energy conservation, we will shift the focus to environmental and energy conservation areas and accelerate our efforts. As a high-end epoxy resin for semiconductor encapsulation, our environmentally friendly NC-3000 has established a position as the *de facto* standard in the market. This fiscal year we are also planning to begin marketing the alicyclic epoxy resins that were created from a fusion of our resin technologies and catalyst technologies as a product for encapsulation of LEDs, which are expected to become a next-generation energy-saving light source. In addition, we are planning this year to begin sample work on prototypes of the dye-sensitized solar cells that were created from a fusion of our dye technologies and resin technologies.

In the health care field, we will continue actively investing in order to accelerate the development of our polymer micelle anti-cancer drugs, which are a drug delivery system (DDS) that makes extensive use of nanotechnology. NK012 (a pharmaceutical containing camptothecin analogue), which is being developed in Japan and the U.S., has advanced to Phase II clinical trials for treatment of breast cancer and lung cancer in the U.S. In Japan, Phase II trials of this drug for treatment of colorectal cancer have been started, and we will actively proceed with case entries. For NK105 (a pharmaceutical containing paclitaxel), we are preparing in order to quickly complete Phase II trials and move on to the next stage. We are also actively marketing generic anti-cancer drugs and planning to further expand our anti-cancer drug lineup in order to grow as a “one-stop service” in areas related to anti-cancer drugs.

In the safety systems field, we will work to expand our business through global marketing of new airbag inflators and micro gas generators for seatbelt pretensioners. We will also discontinue underperforming and uncompetitive products, while at the same time making major cuts to our fixed costs.

We will make our way through this crisis by aiming to be the only company operating in our specialized niche markets.

In 2016, Nippon Kayaku will mark the 100th Anniversary of its founding. We will continue to keep our “DNA for change” while creating technical innovations that will enable us to adapt to changes in society and the markets, and to provide the best products that meet the needs of the times. The present time will be recorded in the history books as a time of global economic crisis. We will survive this crisis by utilizing this DNA for change and creating new value through a fusion of our broad-ranging technologies within and beyond the company, and through the use of creative leading technologies. We are aiming to be the sole company in niche markets by operating a global business and providing the best products. This concept infuses our new corporate slogan, “Global *sukima* ideas.”

We are fulfilling our responsibility to society by providing the best products.

“Best products” means not only products that are the best for the customers, but also means products that are the best for society, the environment, and the employees who operate our business. We are careful to listen to comments from customers, local communities, employees, and our shareholders and investors so that we can gain a new perspective and ideas, and can provide the best products and improve our corporate value.

Based on our CSR philosophy of “continuing to provide the best products to society through the combined force of technological innovations and our consciences,” the Nippon Kayaku Group will join together in order to contribute to the development of our society. We understand that “safe operations,” “environmental activities,” and “compliance” are key concepts, and we will fulfill the responsibilities that society demands of us. I would like to ask for your continued and greatly appreciated support in the future.

October 1, 2009



Koichiro Shimada
President