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Disclosure on the Internet accompanying
the Notice of Convocation of the 162nd Ordinary General Meeting of Shareholders

Company's Systems and Policies

Consolidated Statement of Changes in Net Assets
Notes to Consolidated Financial Statements
Non-consolidated Statement of Changes in Net Assets
Notes to Non-consolidated Financial Statements

(from April 1, 2020 to March 31, 2021)

Denka Co., Ltd.
(Securities Code: 4061)

The content of this document is posted on the website of Denka Co., Ltd. ("the Company") (https://www.denka.co.jp/eng/), pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Company’s Systems and Policies

(1) Systems to Ensure the Appropriateness of Operations

The Company is enacting the (Denka Mission) which represents our uppermost mission statement, and action guidelines (Denka Principles) which make the corporate philosophy “The Denka Value.” Under this corporate philosophy, the Company has determined the following by the resolution of the Board of Directors as a system to ensure the appropriate execution of duties.

1) Systems to ensure that Directors’ and employees’ execution of duties complies with laws and regulations and the Articles of Incorporation

The Board of Directors of the Company performs important decision-making concerning business execution in accordance with laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations and oversees Directors’ and Executive Officers’ execution of duties.

Executive Directors and Executive Officers execute their duties under supervision by the President and oversee employees’ execution of duties at divisions for which they are responsible.

The Audit & Supervisory Committee performs investigations of matters including the development and implementation status of internal control systems by attending corporate and other important meetings, receiving briefings from Directors, reviewing important documents, and other means, and audits the execution of duties by Directors from an independent standpoint.

The Company establishes the Denka Group Ethics Policy as a set of action guidelines for all the officers and employees of the Company and its subsidiaries concerning compliance, and corporate rules and regulations are established to ensure compliance with specific laws and regulations and the Articles of Incorporation.

In accordance with the provisions of the Denka Group Ethics Policy, the Company maintains a resolute attitude against antisocial forces and does not provide any payoff. Based on this policy, the Company establishes an internal system.

Regarding internal audits, the Company establishes the Internal Control Department as a dedicated department that conducts comprehensive internal auditing. In addition, regarding specialized or specific fields, business units and various committees provide education on compliance with rules and regulations and audit compliance statuses according to functions and report to the responsible officers, as necessary.

The Internal Control Department also performs assessment of statuses of design and operation of internal controls for the purpose of preparing a “report of internal control over financial reporting” specified by the Financial Instruments and Exchange Act and reports the result to the responsible officer.

The Company establishes the Compliance Hotline System to supplement internal audits by the departments described above to swiftly identify and address any violations.

2) Systems for storage and management of information related to Directors’ execution of duties

The Company records information related to Directors’ execution of duties in accordance with the Board of Directors Regulations, job descriptions, and other internal rules and regulations, and stores and manages such information based on the document retention regulations.

3) Rules and other systems for management of risk of loss

The Company formulates the Risk Management Guidelines to provide policies for responding to incidents that may greatly affect corporate activities.

Regarding such items as the environment, health and safety, and quality control, cross-organizational committees are established to comprehensively manage risks. Regarding items unique to departments, the relevant departments are responsible for managing associated risks.

4) Systems to ensure that Directors’ execution of duties is efficient

The Company adopts the executive officer system to optimize the management decision-making function of the Board of Directors and to strengthen each function of business execution and oversight by separating them.

Apart from the Board of Directors as the decision-making body, the Company establishes the Management Committee consisting of Directors (including Directors who are Audit & Supervisory Committee Members) and some Executive Officers. Depending on the agenda, relevant executive officers also participate in the meeting of the Management Committee to streamline and accelerate deliberation on important managerial matters.

For such important matters as budget formulation and capital investment, the Company sets up deliberative councils or special committees by function.

The job descriptions specify basic duties and decision-making authority of Directors, Executive Officers, and employees to enhance efficiency of execution of duties.

5) Systems to ensure the appropriateness of operations of the Group

Regarding management of subsidiaries, the Company specifies organizations responsible for each subsidiary. These supervisory organizations take responsibility for supervising. In addition, they provide guidance, administration, and oversight in accordance with the situation of each subsidiary.

Regarding ordinary operations of subsidiaries, the Company respects the autonomy and independence of each affiliated company. Regarding compliance with laws and regulations and social norms, the Company applies the Denka Group Ethics Policy and other relevant rules and regulations to affiliated companies and provides education and oversight.

i) Systems for reporting of matters relating to execution of duties by subsidiaries' directors etc. to the parent company

The Company dispatches directors, etc. to subsidiaries from the organization that is responsible for the subsidiaries and information about important matters for the subsidiaries is exchanged and discussed at meetings of the Company's Board of Directors, etc.

Regarding execution of duties, taking into account the degree of impact on the Group as a whole, subsidiaries report matters of greater importance to the parent company, that is the Company, via their supervisory organizations, in accordance with the Job Descriptions for Management of Affiliated Companies.

ii) Subsidiaries' rules and other systems for management of risk of loss

The Company responds to incidents that may greatly affect subsidiaries' corporate activities in accordance with the Risk Management Guidelines.

Regarding such items as the environment, health and safety, and quality control at a subsidiary, directors, etc. dispatched to the subsidiary from the supervisory organization responsible for the subsidiary provide advice and guidance through discussion with specific organizations responsible for each such item.

iii) Systems to ensure that execution of duties by subsidiaries' directors, etc. is efficient

The Company dispatches directors, etc. to subsidiaries from the supervisory organizations responsible for the subsidiaries to facilitate information sharing between the Company and subsidiaries and to execute business systematically and efficiently by the Group as a whole.

Depending on the degree of importance of subsidiaries, the Company has subsidiaries introduce the shared accounting system and provides resources of administrative organizations to enhance efficiency of execution of duties of subsidiaries.

iv) Systems to ensure that execution of duties by subsidiaries' directors, etc. and employees complies with laws and regulations and the Articles of Incorporation

The Company establishes the Denka Group Ethics Policy applicable to the Group, including to subsidiaries, and encourages all the officers and employees of subsidiaries to ensure compliance with laws and regulations. At the same time, the Company manages subsidiaries in accordance with the Job Descriptions for Management of Affiliated Companies.

The Company's Internal Control Department is principally responsible for internal audits of subsidiaries and conducts internal auditing, in a timely manner, receiving support of the Company's Legal Department, as necessary.

The Company establishes a whistleblower system for early detection and correction of non-compliant conduct at subsidiaries.

6) Systems concerning employees who provide assistance to the Audit & Supervisory Committee, matters concerning securing effectiveness of instructions to the employees and matters concerning independence of such staff from Directors (excluding Directors who are Audit & Supervisory Committee Members)

The Company sets up the Audit Committee Office as an organization that provides assistance to the Audit & Supervisory Committee and assigns at least one exclusively assigned employee to the Audit Committee Office based on consultation with the Audit & Supervisory Committee in advance. The

Audit Committee Office serves as the secretariat for the Audit & Supervisory Committee and is directly commanded by the Audit & Supervisory Committee.

The Audit & Supervisory Committee are consulted in advance about performance evaluation of employees who belong to the Audit Committee Office and determination of any other personnel matters.

7) Systems concerning reporting to the Audit & Supervisory Committee by the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members of the Company) and employees and by those of subsidiaries, other systems concerning reporting to the Audit & Supervisory Committee, and systems to ensure that they do not receive unfavorable treatment because of their reporting to the Audit & Supervisory Committee

Directors (excluding Directors who are Audit & Supervisory Committee Members of the Company), Executive Officers, and employees of the Company and those of subsidiaries report on their duties, by organization or by subsidiary, periodically or as necessary, in accordance with the instructions and/or requests of the Audit & Supervisory Committee. In addition, if they discover matters that will or may cause significant harm to the Group, they will immediately report them to the Audit & Supervisory Committee either directly or indirectly via the appropriate lines of command or Compliance Hotline System.

The Internal Control Department reports the results of internal audits of the Company and subsidiaries periodically to the Audit & Supervisory Committee.

The Company establishes a whistleblower system as a system available for all the officers and employees of the Company and subsidiaries for reporting non-compliant conduct, designating the Audit Committee Office as one of the contacts of the whistleblower system. If the Audit Committee Office, etc. receives a report, the content of the report is reported to the Audit & Supervisory Committee.

It is specified in the Denka Group Ethics Policy that no person who reports on non-compliant conduct using the whistleblower system, etc. receives unfavorable treatment because of his/her reporting.

8) Policy for treatment of expenses, etc. incurred by Audit & Supervisory Committee Members' execution of duties and other systems to ensure that the Audit & Supervisory Committee effectively perform auditing

Directors secure the necessary budget in order not to impede execution of duties by Audit & Supervisory Committee Members. At the same time, when an Audit & Supervisory Committee Member makes a claim in accordance with Article 399-2, Paragraph 4 of the Companies Act, the expenses and liabilities relevant to the claim will be paid without delay, unless it is deemed that they are unnecessary for execution of duties of the said Audit & Supervisory Committee Member.

The Internal Control Department and other internal auditing organizations collaborate with the Audit & Supervisory Committee and coordinate with its auditing so that both internal auditing organizations and the Audit & Supervisory Committee can perform their duties efficiently.

(2) Operational Status of Systems to Ensure the Appropriateness of Operations

1) Compliance structure

Based on the Denka Group Ethics Policy, which defines the fundamentals of compliance, and the Whistleblowing Policy, the Company continued to implement awareness activities, including training, during the fiscal year under review.

2) Business execution of Directors

The Board of Directors of the Company is composed of twelve members, including five Outside Directors, and meetings of the Board of Directors were held 13 times during the fiscal year under review. Based on laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations, decision-making was conducted regarding important business execution, reports were received from Directors and Executive Officers regarding required business execution conditions, and appropriate supervision was provided.

Additionally, with the intent of deliberation and consideration for important management issues, the Management Committee, composed of Directors (including Directors who are Audit & Supervisory Committee Members), and a portion of Executive Officers, was held once a month, with the intent of increasing efficiency of consideration of important management issues and accelerating decision-making.

3) Business execution of the Audit & Supervisory Committee

The Audit & Supervisory Committee of the Company is composed of five members, including three Outside Directors, and meetings of the Audit & Supervisory Committee were held 15 times during the fiscal year under review. Additionally, the Audit & Supervisory Committee worked closely with the Internal Control Department and other departments to perform efficient and effective audits of the Company's divisions and departments, business sites, and subsidiaries, in addition to receiving briefings on the status of business execution, etc. at periodic divisional report meetings. They held necessary discussions concerning these and other activities at meetings of the Audit & Supervisory Committee.

Furthermore, to assist the duties of the Audit & Supervisory Committee, the Audit Committee Office was established and exclusive employees were assigned.

4) Risk management structure

To respond appropriately to events that may greatly affect the corporate activities of the Company, the Risk Management Guidelines were defined, containing categories of specific types of risk that may occur, and a controlling division and emergency contact structure are maintained. Meetings of the Risk Management Committee as defined by the above guidelines and various other meetings related to risks are held periodically and as required, and report to the Board of Directors.

5) Implementation of internal audits

Based on the internal auditing plan, the internal auditing organizations of the Company implement internal audits of the Company and Group companies, and while reporting the results to the Board of Directors and the Audit & Supervisory Committee, cooperate closely with the Audit & Supervisory Committee, working together to conduct operations that are mutually efficient.

(3) Basic Policies regarding the Control of the Company

The following matters were decided at a meeting of the Board of Directors of the Company

Under the Company's corporate philosophy, the Denka Value, the Company strives to strengthen its business foundation by improving its earning power and expanding the scope of operations, while making every effort to continue being a company that can win the trust and sympathy of society, and in so doing working to improve the Company's corporate value and the common interests of the shareholders from a medium- to long-term perspective.

Also, under this basic policy, the management plan "Denka Value up" (five years from fiscal 2018), has been formulated, to strive for the realization of continuous and sound growth.

The Company has not established so-called takeover defense countermeasures, but for certain large scale purchases that may damage corporate value and large scale purchases where sufficient information or time may not be provided to shareholders in order to consider whether it should accept or reject such a purchase attempt, within the scope permitted by laws and regulations, regulations of financial instruments exchanges etc., appropriate interactions are taken in order to prevent damage to the Company's corporate value and the common interests of its shareholders.

Consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the fiscal year	**36,998**	**49,365**	**156,857**	**(7,593)**	**235,628**
Changes of items during the fiscal year					
Dividends from surplus			(10,785)		(10,785)
Profit attributable to owners of parent			22,785		22,785
Change in ownership interest of parent due to transactions with non-controlling interests		31			31
Purchase of treasury stock				(84)	(84)
Disposal of treasury stock		(0)		0	0
Reversal of revaluation reserve for land			20		20
Net changes of items other than shareholders' equity					–
Total changes of items during the fiscal year	**–**	**31**	**12,020**	**(83)**	**11,968**
Balance at end of the fiscal year	**36,998**	**49,397**	**168,878**	**(7,677)**	**247,596**

(Millions of yen)

	Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total valuation and translation adjustments		
Balance at beginning of the fiscal year	**10,691**	**(551)**	**10,259**	**(876)**	**(4,429)**	**15,092**	**3,294**	**254,014**
Changes of items during the fiscal year								
Dividends from surplus						–		(10,785)
Profit attributable to owners of parent						–		22,785
Change in ownership interest of parent due to transactions with non-controlling interests						–		31
Purchase of treasury stock						–		(84)
Disposal of treasury stock						–		0
Reversal of revaluation reserve for land						–		20
Net changes of items other than shareholders' equity	5,452	109	(14)	(2,127)	1,339	4,759	(705)	4,053
Total changes of items during the fiscal year	**5,452**	**109**	**(14)**	**(2,127)**	**1,339**	**4,759**	**(705)**	**16,022**
Balance at end of the fiscal year	**16,143**	**(442)**	**10,245**	**(3,004)**	**(3,090)**	**19,852**	**2,588**	**270,036**

(Note) Amounts are rounded down to the nearest million yen.

Notes to Consolidated Financial Statements

(Significant Matters, etc. Providing the Basis for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Consolidated subsidiaries

Number of consolidated subsidiaries: 47

Names of principal consolidated subsidiaries:

Denka Singapore Pte., Ltd.

Denka Advantech Pte., Ltd.

Denka Performance Elastomer LLC

DENKA Polymer Co., Ltd.

Hinode Kagaku Kogyo

Akros Trading Co., Ltd.

DENKA SEIKEN Co., Ltd., which was a consolidated subsidiary until the previous fiscal year, has been excluded from the scope of consolidation as it was dissolved through an absorption-type merger with the Company as the surviving company as of April 1, 2020.

YK Inoas Co., Ltd., which was a consolidated subsidiary until the previous fiscal year, has been excluded from the scope of consolidation as it was dissolved through an absorption-type merger with Akros Trading Co., Ltd. as the surviving company as of April 1, 2020.

(2) Principal non-consolidated subsidiaries

Names of principal non-consolidated subsidiaries:

KAMBARA NAMAKON K.K.

SANSHIN BUSSAN K.K.

DS POVAL K.K.

Reason for exclusion from the scope of consolidation:

The non-consolidated subsidiaries are excluded from the scope of consolidation because they are both small in scale and the aggregate amounts of their total assets, net sales, net income or loss (amount prorated to the ownership), and retained earnings (amount prorated to the ownership), etc. have no material impact on the consolidated financial statements.

2. Application of the equity method

(1) Non-consolidated subsidiaries and affiliates to which the equity method is applied

Number of non-consolidated subsidiaries and affiliates to which the equity method is applied: 14

Names of principal non-consolidated subsidiaries to which the equity method is applied:

KAMBARA NAMAKON K.K.

SANSHIN BUSSAN K.K.

Names of principal affiliates to which the equity method is applied:

TOYO STYRENE Co., Ltd.

JUZEN Chemical Corporation

Denak Co., Ltd.,

Kurobegawa Electric Power Company

(2) Non-consolidated subsidiaries and affiliates to which the equity method is not applied

Name of the principal non-consolidated subsidiary to which the equity method is not applied:

DS POVAL K.K.

Name of the principal affiliate to which the equity method is not applied:

Shogawa Nama Concrete Kogyo K.K.

Reason for not applying the equity method:

The non-consolidated subsidiary and affiliate not subject to the equity method are excluded from application of the equity method because their individual impacts on consolidated net income or loss, retained earnings, etc., are negligible, and their overall impact on the consolidated financial statements is immaterial.

3. Accounting periods of consolidated subsidiaries

Among the consolidated subsidiaries, Denka Singapore Pte., Ltd. and 33 other subsidiaries have a year-end balance sheet date of December 31.

Necessary adjustments are made in preparing the consolidated financial statements to reflect any significant transactions that took place between that date and the consolidated balance sheet date.

4. Accounting policies

(1) Standards and methods for valuation of principal assets

Securities

Available-for-sale securities

Securities with market value

Stated principally at market value based on the average quoted market price for a period of one month before the balance sheet date

(Valuation difference is reported as a separate component of net assets. The cost of sales is calculated principally using the moving-average method.)

Securities without market value

Stated principally at cost using the moving-average method

Derivatives

Stated at market value

Inventories

Stated principally at cost using the weighted-average method

(Balance sheet amounts are calculated by writing down their net realizable value when there is evidence of deterioration in value.)

(2) Depreciation method for principal depreciable assets

Property, plant and equipment

Principally, the straight-line method is applied.

Intangible assets

Principally, the straight-line method is applied. (However, software for internal use is amortized by the straight-line method over the estimated internal useful life (principally five years).)

Lease assets

For finance leases that do not transfer the ownership of the lease assets to the lessee, the straight-line method with no residual value is applied, regarding the lease term as the useful life. Furthermore, for consolidated subsidiaries overseas preparing their financial statements in accordance with International Financial Reporting Standards, International Financial Reporting Standard 16 *Leases* (“IFRS 16”) is applied. Under IFRS 16, lessees record all leases as assets and liabilities on the balance sheet, in principle, and the straight-line method is used as the depreciation method for right-of-use assets recorded as assets.

(3) Standards of accounting for principal allowances and provisions

- Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover possible losses on receivables. The Company records an estimated irrecoverable amount based on the historical write-off rate for ordinary receivables and based on assessment of recoverability of individual receivables for specific doubtful accounts.

• Provision for bonuses

The Company provides reserve for payment of bonuses to employees based on the amount of estimated employees' bonuses.

• Provision for stock benefits

In order to provide benefit from the Company's shares, the amount of projected equity benefit at the end of the consolidated fiscal year is recorded, based on officer stock delivery regulations for Directors (excluding Directors who are Audit & Supervisory Committee Members and Outside Directors).

(4) Other significant matters providing the basis for preparation of consolidated financial statements

• Method of amortization of goodwill and amortization period

Goodwill is amortized within twenty years over a reasonable period, and amortized using the straight-line method.

• Method of hedge accounting

The Company adopts the deferral method of hedge accounting. Interest rate swaps that satisfy the criteria for application of the special method are accounted for by the special method provided by the accounting standards. Forward exchange contracts that satisfy the criteria for application of the appropriation method are accounted for by the appropriation method.

• Method of accounting for retirement benefits

In order to prepare for payment of employees' retirement benefits, based on the projected amounts at the fiscal year-end, the amount of retirement benefit obligation from which the amount of plan assets is deducted is recorded as net defined liability.

In calculating retirement benefit obligations, the benefit formula basis is adopted for attributing expected benefits to periods.

Prior service cost is principally recorded by the straight-line method over certain periods (principally 10 years) within the average remaining service period of employees expected to receive benefits.

Actuarial gains and losses are principally recorded by the straight-line method over certain periods (principally 10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

Unrecognized actuarial gains and losses and unrecognized prior service cost are recorded, after adjustment for tax effects, as remeasurements of defined benefit plans in accumulated other comprehensive income in the net assets section.

• Consumption taxes

Consumption taxes are recorded using the tax-excluded method.

(Notes to Changes in Presentation Method)

The Company has applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the fiscal year under review and disclosed (Notes to Accounting Estimates).

(Notes to Accounting Estimates)

Valuation of goodwill

(1) Stated amount on the consolidated financial statements for the fiscal year under review

Goodwill 7,203 million yen

(2) Other information to help understanding the details of estimates

1) Calculation method

When there is an indication of impairment in any of the asset groups including goodwill, the Group estimates the undiscounted future cash flows to be generated from such asset group. If the carrying amount of the asset group exceeds the total amount of undiscounted future cash flows, an impairment loss will be recognized, the carrying amount being written down to the recoverable amount.

Additionally, when the annual impairment test is needed, the Group measures the fair value of each asset group including goodwill. If the carrying amount of the asset group exceeds its fair value, the carrying amount will be written down to the fair value.

Goodwill of the Group is principally related to Life Innovation and Elastomers & Performance Plastics.

In the fiscal year under review, for goodwill related to Life Innovation, no impairment loss has been recognized as the total amount of undiscounted future cash flows to be generated from the asset group including the goodwill exceeded the carrying amount of the asset group.

Additionally, for goodwill related to Elastomers & Performance Plastics, no impairment loss has been recognized as the fair value of the asset group including the goodwill exceeded the carrying amount of the asset group.

2) Principal assumptions

Undiscounted future cash flows to be generated from the asset group including goodwill related to Life Innovation are calculated on the basis of the business plans that are prepared, reflecting past experiences and external and internal information, and approved by the Board of Directors. Principal assumptions are the time of completion of developing new products, etc. and the sales forecasts after their launch.

The fair value of the asset group including goodwill related to Elastomers & Performance Plastics is assessed by outside experts based on the business plans that are prepared, reflecting past experiences and external and internal information, and approved by the Board of Directors. Principal assumptions are the sales forecasts and the discount rates.

3) Impacts on the consolidated financial statements for the next fiscal year

All the principal assumptions included in the business plans are based on information available to the Group as of the balance sheet date and certain premises deemed to be reasonable. When drastic changes in business environment occur or due to other factors, impairment loss may be recognized in the next fiscal year.

(Notes to the Consolidated Balance Sheet)

1. Assets pledged as collateral

Investment securities:	270 million yen
Liabilities corresponding to pledged assets	
Notes and accounts payable-trade and other liabilities:	163 million yen

2. Accumulated depreciation of property, plant and equipment: 454,822 million yen

3. Guarantee obligations, etc.

Guarantee for loans from financial institutions: 5,566 million yen

(Notes to the Consolidated Statement of Changes in Net Assets)

1. Type and total number of shares issued and type and number of shares of treasury stock

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Shares issued				
Common stock	88,555,840	—	—	88,555,840
Total	88,555,840	—	—	88,555,840
Treasury stock				
Common stock	2,307,067	28,659	275	2,335,451
Total	2,307,067	28,659	275	2,335,451

Notes: 1. The 28,659 increase in the number of shares of common stock of treasury stock was due to the increase by purchase of 2,959 shares constituting less than one unit and the purchase of 25,700 shares of the Company under the employee stock ownership plan.

2. The 275 decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one unit.

2. Dividends

(1) Payment of dividends

• Dividends for common stock

Resolution	Types of shares	Dividends paid (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2020	Common stock	5,608	65.00	March 31, 2020	June 22, 2020
Meeting of the Board of Directors held on November 9, 2020	Common stock	5,176	60.00	September 30, 2020	December 2, 2020

(2) Dividends whose record date falls during fiscal 2020 but whose effective date is in the next fiscal year

• Dividends for common stock

The following resolutions are expected to be made.

Resolution	Types of shares	Dividends paid (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 22, 2021	Common stock	5,608	Retained earnings	65.00	March 31, 2021	June 23, 2021

(Financial Instruments)

1. Financial instruments

The Group is not engaged in fund investment. The Group’s policy is to procure funds through bank borrowings and issuance of bonds and/or commercial paper in combination, as necessary.

Notes and accounts receivable-trade are exposed to customer credit risk. For such risk, management of due dates is implemented in accordance with the credit management rules. Investment securities mainly consist of stocks, and the market values of listed stocks are determined on a quarterly basis.

Loans payable, bonds payable, and commercial paper are used for working capital (mainly short term) and for capital investment. Certain long-term loans payable are exposed to the risk of interest rate fluctuations. For such risk, interest rate swaps are employed to fix the amount of interest expenses. Certain business transactions denominated in foreign currencies are exposed to the risk of foreign exchange fluctuations, and for such risk, forward exchange contracts are employed.

Derivative transactions are entered into only in the scope of practical purposes in accordance with the internal control rules and not for speculative purposes.

2. Fair values of financial instruments

Carrying amounts and market values of the financial instruments and the differences between carrying amounts and market values as of March 31, 2021 (consolidated balance sheet date of fiscal 2020) are as follows.

(Millions of yen)

	Carrying amount (*)	Market value (*)	Difference
(1) Cash and deposits	25,910	25,910	−
(2) Notes and accounts receivable-trade	92,816	92,816	−
(3) Investment securities			
Available-for-sale securities	33,474	33,474	−
Stocks of subsidiaries and affiliates	2,885	2,990	104
Total assets	155,087	155,192	104
(4) Notes and accounts payable-trade	40,188	40,188	−
(5) Short-term loans payable	41,867	41,867	−
(6) Commercial paper	8,000	8,000	−
(7) Long-term loans payable (*1)	51,323	51,640	316
(8) Bonds payable	37,000	36,892	(107)
Total liabilities	178,379	178,589	209
(9) Derivatives (*2)	−	−	−

(*1) Long-term loans payable includes loans to be repaid within one year.

(*2) The amount represents a net amount of credits and debts arising from derivative transactions and the figures in parentheses are recorded as liabilities on the consolidated balance sheet.

Note 1: Method for calculating fair values of financial instruments and matters concerning investment securities and derivatives

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Because of the short maturities of these instruments, their market values are approximately the same as the book values, therefore, the book values are stated as the market value.

(3) Investment securities

The market value is estimated based on quoted market prices.

(4) Notes and accounts payable-trade, (5) Short-term loans payable and (6) Commercial paper

Because of the short maturities of these instruments, their market values are approximately the same as the book values, therefore, the book values are stated as the market value.

(7) Long-term loans payable

The market value is the present value calculated by discounting the total amount of principal and interest by the interest rate to be applied to new borrowings for the same amount of principal. Long-term loans payable with variable interest rates are qualified for the special method applied for interest rate swaps (Refer to “Derivatives” below.), and the market value of such long-term loans payable is calculated by discounting the total amount of principal and interest, which are accounted for together with associated interest rate swaps, by the reasonably estimated rate to be applied to similar borrowings.

(8) Bonds payable

The market value is estimated based on quoted market prices.

(9) Derivatives

The market value is calculated based on the prices provided by the financial institutions. However, interest rate swaps that qualify for the special method are accounted for as part of hedged long-term payables, and therefore, the market value of such interest rate swaps is included in the market value of the corresponding long-term payables (Refer to (7) above.). Forward exchange contracts that qualify for the appropriation method are accounted for as part of hedged accounts receivable and accounts payable, excluding those associated with forecasted transactions, and therefore, the market value of such forward exchange contracts is included in the market value of the corresponding accounts receivable and accounts payable (Refer to (2) and (4) above.)

Note 2: Unlisted stocks (amounting to 23,209 million yen on the consolidated balance sheet) are not included in "(3) Investment securities" because it is extremely difficult to identify their market values as no quoted market price is available and it is impossible to estimate their future cash flows.

(Real Estate for Rent)

Disclosure is omitted because the Group does not own real estate for the purpose of gaining rental revenues or capital gains and the total amount of real estate for rent is immaterial.

(Notes to Per Share Information)

1. Net assets per share: 3,101.92 yen
2. Profit attributable to owners of parent per share: 264.24 yen

Note: In the calculation of consolidated net assets per share, shares of the Company owned by the employee stock ownership plan are included in the deduction of treasury stock from the total number of shares issued at the end of the fiscal year.

In addition, in the calculation of profit attributable to owners of parent per share, those shares are included in the deduction of treasury stock for calculating the average number of shares in the period.

(Other Notes)

1. Accounting estimates with the spread of the COVID-19 coronavirus infections

It is difficult to accurately predict when the impact of the spread of the COVID-19 coronavirus infections will be contained, etc. However, the Group has made accounting estimates based on the assumption that the situation will be gradually normalized although there will remain the impact in the next fiscal year, reflecting such estimates in the valuation of noncurrent assets, the recoverability of deferred tax assets, etc.

2. Other

Figures shown in millions of yen have been rounded down to the nearest million.

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
					Other retained earnings				
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Reserve for advanced deprecia-tion of noncur-rent assets	Retained earnings brought forward	Total retained earnings	Treasury stock	Total share-holders' equity
Balance at beginning of the fiscal year	**36,998**	**49,284**	**0**	**49,284**	**3,786**	**73,250**	**77,036**	**(7,593)**	**155,726**
Changes of items during the fiscal year									
Reversal of reserve for advanced depreciation of noncurrent assets				–	(18)	18	–		–
Dividends from surplus				–		(10,785)	(10,785)		(10,785)
Net income				–		53,002	53,002		53,002
Purchase of treasury stock				–			–	(84)	(84)
Disposal of treasury stock			(0)	(0)			–	0	0
Reversal of revaluation reserve for land				–		20	20		20
Net changes of items other than shareholders' equity				–			–		–
Total changes of items during the fiscal year	–	–	**(0)**	**(0)**	**(18)**	**42,256**	**42,238**	**(83)**	**42,154**
Balance at end of the fiscal year	**36,998**	**49,284**	**0**	**49,284**	**3,767**	**115,506**	**119,274**	**(7,677)**	**197,880**

(Millions of yen)

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of the fiscal year	**9,389**	**10,259**	**19,649**	**175,376**
Changes of items during the fiscal year				
Reversal of reserve for advanced depreciation of noncurrent assets			–	–
Dividends from surplus			–	(10,785)
Net income			–	53,002
Purchase of treasury stock			–	(84)
Disposal of treasury stock			–	0
Reversal of revaluation reserve for land			–	20
Net changes of items other than shareholders' equity	5,095	(14)	5,080	5,080
Total changes of items during the fiscal year	**5,095**	**(14)**	**5,080**	**47,234**
Balance at end of the fiscal year	**14,485**	**10,245**	**24,730**	**222,610**

(Note) Amounts are rounded down to the nearest million yen.

Notes to Non-consolidated Financial Statements

(Matters Related to Significant Accounting Policies)

1. Standards and methods for valuation of assets

(1) Securities

Stocks of subsidiaries and affiliates

Stated at cost using the moving-average method

Available-for-sale securities

Securities with market value

Stated at market value based on the average quoted market price for a period of one month before the balance sheet date

(Valuation difference is reported as a separate component of net assets. The cost of sales is calculated using the moving-average method.)

Securities without market value

Stated at cost using the moving-average method

(2) Inventories

Stated at cost using the weighted-average method

(Balance sheet amounts are calculated by writing down their net realizable value when there is evidence of deterioration in value.)

2. Depreciation method for noncurrent assets

Property, plant and equipment

The straight-line method is applied.

Intangible assets

The straight-line method is applied. However, software for internal use is amortized by the straight-line method over the estimated internal useful life (five years).

Lease assets

Finance leases that do not transfer the ownership of the lease assets to the lessee

The straight-line method with no residual value is applied, regarding the lease term as the useful life.

3. Standards of accounting for allowances and provisions

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover possible losses on notes and accounts receivable. The Company records an estimated irrecoverable amount based on the historical write-off rate for ordinary receivables and based on assessment of recoverability of individual receivables for specific doubtful accounts.

(2) Provision for bonuses

The Company provides reserve for payment of bonuses to employees based on the amount of estimated employees' bonuses at the fiscal year-end.

(3) Provision for retirement benefits

The Company provides reserve for employees' retirement benefits based on the projected benefit obligation and plan assets at fair value at the fiscal year-end. Furthermore, if plan assets to be recognized at the end of the fiscal year under review exceed the amount of retirement benefit obligations minus unrecognized actuarial gains and losses, etc., the excess is recorded as prepaid pension cost under investments and other assets.

In calculating retirement benefit obligations, the benefit formula basis is adopted for attributing expected benefits to periods.

Prior service cost is recorded by the straight-line method over certain periods (10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

Actuarial gains and losses are recorded by the straight-line method over certain periods (principally 10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

(4) Provision for stock benefits

In order to provide benefit from the Company's shares, the amount of projected equity benefit at the end of the fiscal year is recorded, based on officer stock delivery regulations for Directors (excluding Directors who are Audit & Supervisory Committee Members and Outside Directors).

4. Consumption taxes

Consumption taxes are recorded using the tax-excluded method.

(Notes to Changes in Presentation Method)

The Company has applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the fiscal year under review and disclosed (Notes to Accounting Estimates).

(Notes to Accounting Estimates)

Valuation of stocks of subsidiaries and affiliates

(1) Stated amount on the non-consolidated financial statements for the fiscal year under review

Stocks of subsidiaries and affiliates 38,254 million yen

(2) Other information to help understanding the details of estimates

1) Calculation method

Stocks of subsidiaries and affiliates are stated at the acquisition cost on the balance sheet. In case of a significant decline in the real value of any of those stocks, the carrying amount of the stock is written down by the equivalent amount.

For some of the stocks of subsidiaries and affiliates, which were acquired with an expectation of the excess earning power, etc., no impairment loss has been recognized in the fiscal year under review as the real value including the excess earning power, etc. exceeded the acquisition cost.

2) Principal assumptions

Some of the stocks of subsidiaries and affiliates, which were acquired with an expectation of the excess earning power, etc. are valued based on the business plans that are prepared, reflecting past experiences and external and internal information, and approved by the Board of Directors. Principal assumptions are the time of completion of developing new products, etc. and the sales forecasts after their launch.

3) Impacts on the non-consolidated financial statements for the next fiscal year

All the principal assumptions included in the business plans are based on information available to the Company as of the balance sheet date and certain premises deemed to be reasonable. When drastic changes in business environment occur or due to other factors, the recognition of impairment loss may be necessary in the next fiscal year.

(Notes to the Non-consolidated Balance Sheet)

1. Assets pledged as collateral: None

2. Accumulated depreciation of property, plant and equipment: 396,051 million yen

3. Guarantee obligations

Guarantee for loans from financial institutions:	7,954 million yen

4. Monetary receivables from and monetary obligations to subsidiaries and affiliates

Short-term monetary receivables:	28,420 million yen
Short-term monetary obligations:	25,187 million yen
Long-term monetary receivables:	4,716 million yen

(Notes to the Non-consolidated Statement of Income)

Amount of transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates:	70,604 million yen
Purchase from subsidiaries and affiliates:	31,653 million yen
Transactions with subsidiaries and affiliates other than business transactions:	3,767 million yen

(Notes to the Non-consolidated Statement of Changes in Net Assets)

Type and number of shares of treasury stock

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Common stock	2,307,067	28,659	275	2,335,451

Notes: 1. The 28,659 increase in the number of shares of common stock of treasury stock was due to the increase by purchase of 2,959 shares constituting less than one unit and the purchase of 25,700 shares of the Company under the employee stock ownership plan.

2. The 275 decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one unit.

(Notes to Deferred Tax Accounting)

Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2021
Deferred tax assets	
Provision for bonuses	665
Loss on liquidation of business	471
Loss on valuation of investment securities	428
Loss on valuation of golf club membership	392
Impairment loss	849
Enterprise tax payable	364
Other	1,733
Subtotal of deferred tax assets	4,902
Valuation allowance	(1,976)
Total deferred tax assets	2,926
Deferred tax liabilities	
Prepaid pension cost	210
Valuation difference on available-for-sale securities	6,114
Reserve for advanced depreciation of non-current assets	1,650
Total deferred tax liabilities	7,974
Net deferred tax assets (liabilities)	(5,048)

(Notes concerning Related Party Transactions)

Subsidiaries

Type	Company name	Location	Capital or equity	Business	Ownership of voting rights	Relationship		Transactions	Transaction amount (Millions of yen)	Account	Balance at the end of the year (Millions of yen)
						Concurrent positions, etc. of directors	Business relationship				
Subsidiary	Akros Trading Co., Ltd.	Minato-ku, Tokyo	1,200 million yen	Sales of pulp, paper, organic/inorganic industrial products, etc.	76.8% directly owned by the Company	1 director with a concurrent position at the Company	The Company sells synthetic rubber products, synthetic resin products, civil engineering and construction materials, etc. to it.	Sales of the Company's products	37,205	Accounts receivable-trade	13,116
Subsidiary	Denka Chemicals Holdings Asia Pacific Pte., Ltd.	Singapore	68.70 million US dollars	Regional headquarters for Southeast and South Asia	100% directly owned by the Company	1 director with a concurrent position at the Company	Regional headquarters of the Company	Holding of funds Payment of interest	13,534 97	Deposits received	12,466
Subsidiary	Denka USA LLC.	Delaware, United States	43.40 million US$	Investment and lending to U.S. subsidiaries	100% directly owned by the Company	-	The Company lends funds	Receiving of interest	139	Long-term loans receivable	4,572
Affiliate	TOYO STYRENE Co., Ltd	Minato-ku, Tokyo	5,000 million yen	Manufacturing, processing, and sales of polystyrene resin	50% directly owned by the Company	-	The Company supplies its products as raw materials and purchases certain finished products from it.	Sales of the Company's products Purchase of raw materials from the Company	8,379 4,500	Accounts receivable-trade Accounts payable	3,623 1,754

Notes:
1. Transaction amounts do not include consumption taxes, etc. Balance at the end of the year includes consumption taxes, etc.
2. Sales of the Company's products, etc. and purchase of raw materials, etc. are determined in the same manner as for terms of transactions with unrelated parties.
3. Terms for the lending of funds to subsidiaries and the holding of funds from subsidiaries are determined taking market interest rates into account.
4. The average balance during the period is shown for deposits received.
5. YK Inoas Co., Ltd., which had been a consolidated subsidiary of the Company, was dissolved through an absorption-type merger with Akros Trading Co., Ltd. as the surviving company as of April 1, 2020.

(Notes to Per Share Information)

1. Net assets per share: 2,581.88 yen
2. Net income per share: 614.66 yen

Note: In the calculation of net assets per share, shares of the Company owned by the employee stock ownership plan are included in the deduction of treasury stock from the total number of shares issued at the end of the fiscal year.

In addition, in the calculation of net income per share, those shares are included in the deduction of treasury stock for calculating the average number of shares in the period.

(Notes to Significant Subsequent Events)

Company split

Effective April 1, 2021, the Company conducted a company split (simplified absorption-type split), in which Nakagawa Techno Industrial Co., Ltd., a wholly owned subsidiary of the Company, succeeded the housing equipment-related business of the Company.

(1) Overview of the transaction

1) Details of the business succeeded

Housing equipment-related business of the Company, including plastic rain gutters

2) Date of the company split

April 1, 2021

3) Legal format of the company split

Absorption-type split (simplified absorption-type split) with the Company as the splitting company and Nakagawa Techno Industrial Co., Ltd. as the succeeding company

4) Name of company after the company split

As of April 1, 2021, Nakagawa Techno Industrial Co., Ltd. changed its trade name to Denka Astec Co., Ltd. as a result of succeeding the housing equipment business of the Company.

5) Other matters related to the overview of the transaction

In the “Denka Value-Up” management plan, which was started in April 2018, specialization of core businesses has been set as one of the growth strategies, and we have been advancing the expansion of the ratio of the specialty grade that is less susceptible to the external environment, as well as a shift to the solution business.

In this company split as part of our initiatives to achieve such specialization, we merge the housing equipment-related business of the Company, including plastic rain gutters, with Nakagawa Techno Industrial Co., Ltd., a wholly owned subsidiary that manufactures and sells metal rain gutters.

a. Objective of the company split

- Reinforce marketing capabilities through fusion of human resources in the housing equipment-related business
- Launch new businesses and develop new products by utilizing various materials in the housing equipment-related market

b. Details of allocation related to the company split

As this company split is conducted between a parent company and its wholly owned subsidiary, there will be neither the share allocation nor the delivery of other consideration in this company split.

(2) Overview of accounting treatment

The Company intends to treat the transaction as a transaction between entities under common control, pursuant to “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

(Other Notes)

1. Notes to business combination

Absorption-type merger with consolidated subsidiary

Pursuant to a resolution passed by the Board of Directors at a meeting held on October 15, 2019, the Company conducted an absorption-type merger with DENKA SEIKEN Co., Ltd., a consolidated subsidiary, on April 1, 2020.

(1) Overview of the transaction

1) Name of company in combination and details of business

Name of company in combination:	DENKA SEIKEN Co., Ltd.
Details of business:	Manufacture and sale of various types of vaccine, diagnostic reagents, etc.

2) Date of business combination

April 1, 2020

3) Legal format of business combination

Absorption-type merger with the Company as the surviving company and DENKA SEIKEN Co., Ltd. as the dissolving company

4) Name of company after combination

Denka Co., Ltd.

5) Other matters related to the overview of the transaction

In the healthcare business, the Denka Group engages in the vaccine and diagnostic reagent business, etc. through DENKA SEIKEN, while the Company develops norovirus vaccines using proprietary plant-based gene modification technologies held by the macromolecular sodium hyaluronate preparation business and IconGenetics GmbH, a Germany-based subsidiary, and operates other development businesses including cancer gene alteration analysis and remedy information services.

In the "Denka Value-Up" plan, healthcare has been designated as a priority area. To further strengthen and expand this business, we have integrated the healthcare operations of the two companies, which were separate under our previous organization, via merger.

(Objective of the merger)

a. Accelerate the expansion of our specialty businesses, a "Denka Value-Up" growth strategy

By integrating the comprehensive strengths of the Denka Group, we will accelerate the expansion and development of our specialty businesses.

b. Strengthen governance

We will further strengthen governance through integration of our healthcare businesses, to respond appropriately to risks specific to this business.

c. Accelerate decision-making

Based on the Denka Group corporate philosophy and business strategy, we will speed up decision-making for large-scale investments in the healthcare sector, which is expected to grow in future.

d. Synergies in HR and organizational structures

Through the integration, we plan to further step up personnel exchanges and strengthen our organizational structure.

(2) Overview of accounting treatment

The Company has treated the transaction as a transaction between entities under common control, pursuant to “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

2. Accounting estimates with the spread of the COVID-19 coronavirus infections

It is difficult to accurately predict when the impact of the spread of the COVID-19 coronavirus infections will be contained, etc. However, the Company has made accounting estimates based on the assumption that the situation will be gradually normalized although there will remain the impact in the next fiscal year, reflecting such estimates in the valuation of noncurrent assets, etc.

3. Other

Figures shown in millions of yen have been rounded down to the nearest million.