Disclosure on the Internet accompanying
the Notice of Convocation of the 155th Ordinary General Meeting of Shareholders

Notes to Consolidated Financial Statements
Notes to Non-consolidated Financial Statements

(from April 1, 2013 to March 31, 2014)

DENKI KAGAKU KOGYO KABUSHIKI KAISHA
(Securities Code: 4061)

The content of this document is posted on the website of DENKI KAGAKU KOGYO KABUSHIKI KAISHA ("the Company") (http://www.denka.co.jp/eng/), pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Notes to Consolidated Financial Statements

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

(1) Scope of consolidation

1) Consolidated subsidiaries

Number of consolidated subsidiaries: 29

Names of principal consolidated subsidiaries:

Denka Singapore Pte., Ltd.
Denka Advantech Pte., Ltd.
DENKA SEIKEN Co., Ltd.
DENKA Polymer Co., Ltd.
Hinode Kagaku Kogyo
Akros Trading Co., Ltd.
YK Inoas Co., Ltd.

Chiba Styrene Monomer Limited Company is excluded from the scope of consolidation because its liquidation was completed on March 11, 2014.

2) Principal non-consolidated subsidiaries

Names of principal non-consolidated subsidiaries:

KAMBARA NAMAKON 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 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: 15

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 consolidated financial statements is immaterial.

(3) Accounting periods of consolidated subsidiaries

Among the consolidated subsidiaries, Denka Singapore Pte., Ltd. and 13 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 standards

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 (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. Finance leases commencing on or before March 31, 2008 that do not transfer the ownership of the lease assets to the lessee are accounted for in the same manner as ordinary rental transactions.

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.

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

• Method of hedge accounting

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

• Accounting standards for net defined benefit liability

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.

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.

(5) Amortization of goodwill

Goodwill is amortized by the straight-line method over five years.

(6) Change in accounting policies

Effective from the fiscal year ended March 31, 2014, the Company applies the "Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (excluding the provisions in Clause 35 of the Accounting Standard for Retirement Benefits and in Clause 67 of the Guidance on Accounting Standard for Retirement Benefits).

Accordingly, the Company adopted the method of deducting the amount of pension assets from the retirement benefit obligation and recording the difference as net defined benefit liability or net defined benefit asset. As a result, the Company recorded unrecognized actuarial gains and losses and unrecognized prior service cost in net defined benefit liability.

For application of the standard, the Company followed the transitional treatment specified in Clause 37 of the Accounting Standard for Retirement Benefits and recorded the effect of the change as remeasurement of defined benefit plans in accumulated other comprehensive income for the fiscal year ended March 31, 2014.

As a result, 8,531 million yen was recorded in net defined benefit liability and accumulated other comprehensive income decreased by 1,422 million yen.

2. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral

Land:	89 million yen
Investment securities:	669 million yen
Total:	758 million yen
Liabilities corresponding to pledged assets	
Notes and accounts payable-trade and other liabilities:	566 million yen

(2) Accumulated depreciation of property, plant and equipment: 353,004 million yen

(3) Guarantee obligations etc.: 716 million yen

3. 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	481,883,837	—	—	481,883,837
Total	481,883,837	—	—	481,883,837
Treasury stock				
Common stock	7,067,507	8,899,945	3,187	15,964,265
Total	7,067,507	8,899,945	3,187	15,964,265

Note: The increase in the number of shares of common stock of treasury stock was due to the purchase of 8,851,000 shares of treasury stock and the purchase of shares constituting less than one unit in accordance with the provisions of Article 165, Paragraph 2 of the Companies Act and of the Articles of Incorporation. The decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one trading 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 21, 2013	Common stock	2,374	5.00	March 31, 2013	June 24, 2013
Meeting of the Board of Directors held on November 8, 2013	Common stock	2,329	5.00	September 30, 2013	December 3, 2013

2) Dividends whose record date falls during fiscal 2013 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 20, 2014	Common stock	2,329	Retained earnings	5.00	March 31, 2014	June 23, 2014

4. 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, 2014 (consolidated balance sheet date of fiscal 2013) are as follows.

(Millions of yen)

	Carrying amount (*)	Market value (*)	Difference
(1) Cash and deposits	8,427	8,427	—
(2) Notes and accounts receivable-trade	83,701	83,701	—
(3) Investment securities Available-for-sale securities	23,591	23,591	—
(4) Notes and accounts payable-trade	(54,238)	(54,238)	—
(5) Short-term loans payable	(45,501)	(45,501)	—
(6) Commercial paper	(10,000)	(10,000)	—
(7) Long-term loans payable	(35,168)	(35,442)	274
(8) Bonds payable	(30,000)	(30,170)	170
(9) Derivatives	—	—	—

(*) Figures in parentheses are recorded as liabilities on the consolidated balance sheets.
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, (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 (9) 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 22,970 million yen on the consolidated balance sheet) are not included in “(3) Investment securities, Available-for-sale 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.

5. 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.

6. Notes to Per Share Information

(1) Net assets per share: 402.77 yen

(2) Net income per share: 29.03 yen

7. Other Notes

Not applicable

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

Notes to Non-consolidated Financial Statements

1. 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).

Long-term prepaid expenses

Amortized in equal amounts

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.

Finance leases commencing on or before March 31, 2008 that do not transfer the ownership of the lease assets to the lessee are accounted for in the same manner as ordinary rental transactions.

(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.

Prior service cost is 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.

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) Consumption taxes

Consumption taxes are recorded using the tax-excluded method.

2. Notes to the Non-consolidated Balance Sheet

(1) Assets pledged as collateral: None

(2) Accumulated depreciation of property, plant and equipment: 302,865 million yen

(3) Guarantee obligations: 15,577 million yen

(4) Monetary receivables and monetary obligations to subsidiaries and affiliates

Short-term monetary receivables: 32,285 million yen

Long-term monetary receivables: 755 million yen

Short-term monetary obligations: 22,372 million yen

3. Notes to the Non-consolidated Statement of Income

Amount of transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates: 83,692 million yen

Purchase from subsidiaries and affiliates: 31,203 million yen

Transactions with subsidiaries and affiliates other than business transactions

5,817 million yen

4. 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	7,042,507	8,899,945	3,187	15,939,265

Note: The increase in the number of shares of common stock of treasury stock was due to the purchase of 8,851,000 shares of treasury stock and the purchase of shares constituting less than one unit in accordance with the provisions of Article 165, Paragraph 2 of the Companies Act and of the Articles of Incorporation. The decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one trading unit.

5. Notes to Deferred Tax Accounting

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

(Millions of yen)

	As of March 31, 2014
Deferred tax assets	
Allowance for doubtful accounts	22
Provision for retirement benefits	1,680
Provision for bonuses	468
Loss on liquidation of business	100
Loss on valuation of investment securities	378
Loss on valuation of golf club membership	458
Impairment loss	971
Enterprise tax payable	189
Other	545
Subtotal of deferred tax assets	4,811
Valuation allowance	(2,007)
Total deferred tax assets	2,804
Deferred tax liabilities	
Valuation difference on available-for-sale securities	4,143
Reserve for advanced depreciation of non-current assets	1,949
Total deferred tax liabilities	6,092
Net deferred tax assets (liabilities)	(3,288)

6. Noncurrent Assets Leased

Finance lease transactions other than those of which ownership of the lease assets are transferred to the lessee

(1) Pro forma amounts of acquisition costs, accumulated depreciation, accumulated impairment loss, and year-end balance of leased items

(Millions of yen)

	Acquisition costs	Accumulated depreciation	Balance at the end of the year
Machinery and equipment	273	270	3
Total	273	270	3

(2) Future minimum lease payments at fiscal year-end

Future minimum lease payments at fiscal year-end

Within one year:	3 million yen
Over one year:	— million yen
Total	3 million yen

Note: Future lease payments include the interest component because the amount of future lease payments as a proportion of the year-end balance of property, plant and equipment is not significant.

(3) Lease expenses, reversal of accumulated impairment loss on leased assets, depreciation, and impairment loss

Lease expenses:	33 million yen
Depreciation:	33 million yen

(4) Method for calculation of depreciation

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

(Impairment loss)

No impairment losses were recognized for leased assets.

7. Notes concerning Related Party Transactions

Subsidiaries

Type	Company name	Location	Capital or equity	Business	Ownership of voting rights	Relationship: Concurrent positions, etc. of directors	Relationship: Business relationship	Transactions	Transaction amount (Millions of yen)	Account	Balance at the end of the year (Millions of yen)
Subsidiary	Akros Trading Co., Ltd.	Minato-ku, Tokyo	1,200 million yen	Sales of inorganic/ organic industrial products, industrial resins, etc.	68.5% directly owned by the Company	2 directors on loan	The Company sells synthetic rubber products etc. to it.	Sales of the Company's products	26,181	Accounts receivable-trade Notes receivable-trade	8,112 360
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 on loan	The Company's regional headquarters/ holding company	Loan guarantee	10,095	-	-
Subsidiary	Denka Singapore Pte., Ltd.	Singapore	69.41 million US dollars	Manufacturing and sales of acetylene black and polystyrene resin	100% indirectly owned by the Company	1 director with a concurrent position at the Company 1 director on loan	Technology licensing by the Company	Loan guarantee	2.995	-	-
Subsidiary	YK Inoas Co., Ltd.	Bunkyo-ku, Tokyo	100 million yen	Sales of raw materials for industrial applications, civil engineering and construction materials, and interior materials	100% directly owned by the Company	5 directors on loan	The Company sells synthetic resin products, civil engineering and construction materials, etc. to it.	Sales of the Company's products	13,317	Accounts receivable-trade	4,278
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	1 director on loan	The Company supplies its products as raw materials and purchases certain finished products from it.	Sales of the Company's products and purchase of raw materials from the Company	19,590 8,817	Accounts receivable-trade Accounts payable Deposits received	7,386 2,861 5,000

Notes: 1.Transaction amounts do not include consumption taxes, etc. Balance at the end of the year include 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. The Company provides loan guarantee to Denka Chemicals Holdings Asia Pacific Pte., Ltd. for its bank borrowings.

4. The Company provides loan guarantee to Denka Singapore Pte., Ltd. for part of its purchase liabilities.

8. Notes to Per Share Information

(1) Net assets per share: 317.25 yen

(2) Net income per share: 21.97 yen

9. Other Notes

Not applicable

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