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

**NOTICE OF CONVOCATION OF  
THE 158TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

Date and Time: Thursday, June 22, 2017 at 10:00 a.m.

Place: Nihonbashi Mitsui Hall, COREDO Muromachi 1 (reception desk on the 4th floor)  
2-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo

Proposals to be resolved:

- Proposal No. 1: Appropriation of Surplus
- Proposal No. 2: Consolidation of Shares
- Proposal No. 3: Election of Eight (8) Directors
- Proposal No. 4: Election of One (1) Substitute Audit & Supervisory Board Member
- Proposal No. 5: Determination of amount and details of stock compensation, etc., for Directors
- Proposal No. 6: Revision of the Amount of Remuneration to Directors

Please exercise your voting rights in writing or via the Internet by  
5:00 p.m. on Wednesday, June 21, 2017.

## **Message from the Management To Our Shareholders**

**Based on the new management model, we are compiling the successor to the Denka100 management plan for the next stage, moving toward realization of “The Denka Value” corporate philosophy.**

Enclosed please find the Notice of Convocation of the 158th Ordinary General Meeting of Shareholders.

We would like to take this opportunity to express our gratitude to you for your continued support of Denka and make some observations concerning the Company’s results and current initiatives.

During the fiscal year ended March 31, 2017 (fiscal 2016), the Japanese economy showed moderate recovery, with signs of a rebound in personal spending and capital investment as exports and production both picked up. Likewise, the global economy continued to show moderate recovery momentum overall, despite deceleration in the Chinese economy in the first half and signs of weakness in some emerging countries. In the chemical sector, corporate earnings generally held up despite the effect of the high yen and raw material prices beginning to rise again in the second half.

In these economic circumstances, the Denka Group strove to expand its businesses and secure profitability by working to increase sales in Japan and overseas and cutting costs. As a result, consolidated net sales for fiscal 2016 increased in volume terms, but fell in value terms year on year due to a net reduction amid the high yen and revisions of selling prices for petrochemical products in response to falling raw material prices in the first half. While the Company posted its highest-ever earnings in the previous fiscal year, performance in the year under review fell back due to the high yen, biennial maintenance of styrene monomer facilities, and increases in costs for the acceleration of overseas development and research and development. This brought down operating income, ordinary income, and net profit attributable to owners of the parent.

On the occasion of the year 2015, the 100th anniversary of our founding, we changed our name to Denka Co., Ltd. In 2016, we compiled “The Denka Value” corporate philosophy, and set for ourselves the Denka Mission of “taking on the challenge of expanding the possibilities of chemistry to create new value and contribute to sound social development.” This has enabled us to set a clear course for the next 100 years and build up a solid track record from implementation of policies in the Denka100 management plan to date, including optimization of production systems, an overall scrutiny of costs, a shift to growth fields in the business portfolio, improvement of working conditions and promotion of diversity.

As part of the Denka100 plan initiatives, we made changes two years ago to strengthen the corporate governance model, with measures including a shift to a system of 3 Outside Directors and a reduction in the number of directors, by 2, in moves to further raise standards of management transparency and soundness.

However, in light of recent business conditions and changes in the global situation, an urgent need has arisen to create a resilient corporate structure enabling the Company to achieve sustainable growth without being influenced by changes in the external environment.

Against this background, in April 2017, we decided to switch to a chairman and president-based business execution system, to enable us to appropriately and rapidly address the expansion and globalization of business domains and to develop our corporate governance mechanisms. The current fiscal year is the final fiscal year of the current management plan Denka100. We are currently formulating “Denka Value-up” a new management plan that will follow the ongoing Denka100 management plan. Fundamental concepts of the “Denka Value-up” plan have been approved by the Board of Directors and publicized externally. For details, please see pages 31 to 33 of the Notice of Convocation (Issues to be addressed).

We plan to officially launch the “Denka Value-up” plan, in autumn, including a recap of Denka100.

The Denka Group will continue to take measures to realize the corporate philosophy “The Denka Value” in a spirit of unity. In these endeavors, we request your understanding and look forward to your continued support.

Shinsuke Yoshitaka  
Representative Director, Chairman, Board of Directors  
Manabu Yamamoto  
Representative Director, President

**To Our Shareholders:**

Manabu Yamamoto  
President  
Denka Co., Ltd.  
1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo

**NOTICE OF CONVOCATION OF  
THE 158TH ORDINARY GENERAL MEETING OF SHAREHOLDERS**

You are cordially invited to attend the 158th Ordinary General Meeting of Shareholders of Denka Co., Ltd. (the "Company") to be held as described below.

If you are unable to attend the meeting in person, you may exercise your voting rights in writing by submitting the Voting Rights Exercise Form by mail or via the Internet etc. as described in the "Guide for Exercise of Voting Rights" (Page 5). Please review the attached Reference Documents for the General Meeting of Shareholders and exercise your voting rights by 5:00 p.m. on Wednesday, June 21, 2017.

- 1. Date and Time:** Thursday, June 22, 2017 at 10:00 a.m.
- 2. Place:** **Nihonbashi Mitsui Hall, COREDO Muromachi 1**  
**(reception desk on the 4th floor)**  
2-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo
- 3. Meeting Agenda:**  
**Matters to be reported:**
  1. The Business Report, Consolidated Financial Statements for the Company's 158th Term (from April 1, 2016 to March 31, 2017) and results of audits by the Accounting Auditor and the Audit & Supervisory Board of the Consolidated Financial Statements
  2. Non-consolidated Financial Statements for the Company's 158th Term (from April 1, 2016 to March 31, 2017)

**Proposals to be resolved:**

- Proposal No. 1:** Appropriation of Surplus
- Proposal No. 2:** Consolidation of Shares
- Proposal No. 3:** Election of Eight (8) Directors
- Proposal No. 4:** Election of One (1) Substitute Audit & Supervisory Board Member
- Proposal No. 5:** Determination of amount and details of stock compensation, etc., for Directors
- Proposal No. 6:** Revision of the Amount of Remuneration to Directors

◎ The following are posted on the Company's website at <http://www.denka.co.jp/> in accordance with law and Article 16 of the Company's Articles of Incorporation and thus are not included in the documents attached to this notice of convocation.

- Company's Systems and Policies (Systems to Ensure the Appropriateness of Operations, Operational Status of Systems to Ensure the Appropriateness of Operations, and Basic Policies regarding the Control of the Company) in the Business Report

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

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

The Business Report, consolidated financial statements and the non-consolidated financial statements audited by the Audit & Supervisory Board Members and the Accounting Auditor include the above documents posted on the Company's website.

◎ If any revisions are made to the Business Report, Consolidated Financial Statements, Non-consolidated Financial Statements, or Reference Documents for the General Meeting of Shareholders, they will be posted on the Company's website at <http://www.denka.co.jp/>.

## <Guide for Exercise of Voting Rights>

The following three methods are available for exercising voting rights pertaining to the Company's General Meeting of Shareholders.

### **(1) Exercise of Voting Rights by Attending the Meeting**

Please bring the enclosed Voting Rights Exercise Form with you to the meeting and submit it to the receptionist at the meeting venue.

- \* In the case of exercising voting rights by attending the meeting as a proxy, please submit a document evidencing the authority of proxy to the receptionist at the meeting venue together with the Voting Rights Exercise Form. Please note that such proxy must be one shareholder of the Company with voting rights in accordance with Article 18 of the Company's Articles of Incorporation.

### **(2) Exercise of Voting Rights in Writing by Mail (Voting Rights Exercise Form)**

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form and send the completed form to us so that it is received by 5:00 p.m. on Wednesday, June 21, 2017.

### **(3) Exercise of Voting Rights via the Internet etc.**

Please access the website for exercising voting rights designated by the Company (<http://www.web54.net>), use the "Voting Rights Exercise Code" and the "Password" indicated on the enclosed Voting Rights Exercise Form, and follow the on-screen guidance. Please vote for or against the proposals by 5:00 p.m. on Wednesday, June 21, 2017.

(Inquiry about Exercise of Voting Rights via the Internet etc.)  
Sumitomo Mitsui Trust Bank Stock Transfer Web Support Dial  
Tel: 0120-652-031  
(office hours: 9:00 a.m. - 9:00 p.m.)

#### \*Handling of duplicated exercise of voting rights

If you exercise your voting rights both by Method (2) Exercise of Voting Rights in Writing by Mail (Voting Rights Exercise Form) and by Method (3) Exercise of Voting Rights via the Internet etc., the exercise of voting rights by Method (3) Exercise of Voting Rights via the Internet etc. shall prevail regardless of the time of arrival of the votes.

In addition, if you exercise your voting rights multiple times via the Internet, etc., the vote made last shall prevail.

# Reference Documents for the General Meeting of Shareholders

## Proposal No. 1: Appropriation of Surplus

It is proposed that the surplus be appropriated as follows:

### Matters concerning year-end dividends

The Company is implementing many concrete measures for the future in accordance with the new growth strategies of the Denka100 management plan and is resolved to achieve solid performance at an early stage.

Reflecting our determination to return the profits yielded by these initiatives to shareholders, we formulated the Policy on Shareholder Returns in November 2014. At the same time, with the aim of achieving further growth, we set aside a budget for strategic investment, including M&A.

#### 1. Policy on shareholder returns

Target total payout ratio\*: 50%

\* Total payout ratio = (Dividends paid + treasury stock purchased) / consolidated net income

#### 2. Methods for returning profits to shareholders

- (1) Dividends: Maintain steady payment of cash dividends, with minimum payout ratio set at 30%
- (2) Purchase of treasury stock: Flexibly purchase treasury stock in view of the stock price trend and the market environment

#### 3. Budget for forward-looking strategic investments

After returning profits to shareholders, the Company will appropriate funds from retained earnings as well as cash inflows to finance such investments. The total amount budgeted for is approximately ¥50.0 billion (for the four years from 2014 to 2017).

#### 4. Term

Four years to the end of fiscal 2017, the target year of the Denka100 management plan

With respect to the year-end dividend for the 158th term, in accordance with the policy stated above, the Company proposes the following.

#### (1) Type of dividend property

Cash

#### (2) Allocation of dividend property and total amount thereof

¥7 per share of common stock of the Company

Total amount of dividends: ¥3,097,363,563

#### (3) Effective date of dividends from surplus

June 23, 2017

The amount of dividends for the full year will be ¥14 per share, including the interim dividend of ¥7 per share paid in December 2016.

## Proposal No. 2: Consolidation of Shares

### 1. Reason for consolidation of shares

Following publication of the Action Plan for Consolidating Trading Units, Japan's stock exchanges are working toward harmonization of the minimum trading unit for common stock (fractional share unit) listed on Japanese securities exchanges at 100 shares.

Listed as it is on the Tokyo Stock Exchange, the Company respects the aims of this policy, and has decided to reduce the trading unit of Denka stock to 100 shares, from 1,000 shares, and to carry out a consolidation of shares to adjust the basic investment unit to a suitable level.

### 2. Consolidation ratio

The ratio of consolidation of common stock of the Company shall be 1 share for every 5 shares.

As a result of this consolidation of shares, fractional shares shall be collectively disposed of based on the Companies Act of Japan, with the proceeds distributed to shareholders who hold fractional shares in proportion to the number of such shares held.

### 3. Effective date of share consolidation

October 1, 2017

### 4. Number of authorized shares as of effective date of share consolidation

290 million shares

### [Reference]

Subject to the approval of this proposal as originally proposed, the Articles of Incorporation of the Company will be partially amended as follows on October 1, 2017.

(Underlined portions are amended)

| Current Articles of Incorporation  | Proposed Amendments of Articles of Incorporation  |
|--|---|
| Article 6 (Number of Authorized Shares)<br>The total number of authorized shares of the Company shall be <u>1,584 million 70,000</u> shares. | Article 6 (Number of Authorized Shares)<br>The total number of authorized shares of the Company shall be <u>290 million</u> shares. |
| Article 8 (Number of Shares Per Unit)<br>The number of shares per unit of the Company shall be <u>1,000</u> shares.                          | Article 8 (Number of Shares Per Unit)<br>The number of shares per unit of the Company shall be <u>100</u> shares.                   |

### Proposal No. 3: Election of Eight (8) Directors

The terms of office of all of the eight (8) Directors will expire at the conclusion of this Ordinary General Meeting of Shareholders. Accordingly, the election of eight (8) Directors is proposed.

The Company's views regarding Directors and the candidates for Directors are as follows.

[The Company's views regarding Directors]

To meet the goals of the current Denka100 management plan and of "The Denka Value" corporate philosophy compiled in 2016, the Company aims to strengthen the management structure with Directors and Executive Officers, while enriching the governance structure and supervisory functions. In electing Directors, internal Directors are chosen from persons who possess a wealth of experience and achievements in various divisions within the Company, while also possessing insights and adequate specialized knowledge as Director, and Outside Directors are chosen from persons who possess specialization required for continuous growth and improvement in corporate value of the Company and wide insights based on a wealth of business experience. The Company believes that a well-balanced election of persons with various knowledge, experience, and abilities is important for the Board of Directors as a whole.

Additionally, the Company believes that Independent Directors should comprise at least one-third of Directors, and implements this policy.

| No. | Name                            | Positions and responsibilities at the Company  | Attendance at Board of Directors meetings               |
|-----|---------------------------------|--|---|
| 1   | Reappointed Shinsuke Yoshitaka  | Representative Director, Chairman, Board of Directors  | 13/13<br>(100%)   |
| 2   | Reappointed Manabu Yamamoto     | Representative Director, President and Chief Executive Officer   | 13/13<br>(100%)   |
| 3   | Reappointed Mitsukuni Ayabe     | Director and Executive Vice President<br>Supervisor of Life Innovation<br>President and Representative Director of DENKA SEIKEN Co., Ltd.  | 13/13<br>(100%)   |
| 4   | New candidate Norihiro Shimizu  | Managing Executive Officer<br>Chief R&D Officer, Innovation Center<br>New Business Development Dept., R&D Promoting Dept., Intellectual Property Dept.                                       | —/—   |
| 5   | Reappointed Kenji Nakano        | Director and Managing Executive Officer<br>Chief Compliance Officer (CCO)<br>Secretary Dept., Internal Auditing Dept., Administrative Dept., Legal Dept., HR Dept., Denka100 Promoting Dept. | 10/10<br>(100%)<br>(After assuming office in June 2016) |
| 6   | Reappointed Yasuo Sato          | Director<br>(Outside Director)<br>(Independent Director)   | 13/13<br>(100%)   |
| 7   | Reappointed Akio Yamamoto       | Director<br>(Outside Director)<br>(Independent Director)   | 13/13<br>(100%)   |
| 8   | Reappointed Tatsutsugu Fujihara | Director<br>(Outside Director)<br>(Independent Director)   | 10/10<br>(100%)<br>(After assuming office in June 2016) |

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]   | Career summary and significant concurrent positions, etc.  | Number of shares of the Company held |
|-----|---|--|--------------------------------------|
| 1   | <p>Shinsuke Yoshitaka<br/>(February 1, 1951)<br/>Age: 66</p> <p>[June 2008]<br/>[9 years<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (13/13)]<br/>(Reappointed)</p> | <p>April 1974      Joined the Company<br/>January 2001    General Manager of Corporate Planning Dept. of the Company<br/>June 2006       Director of the Company, General Manager of Corporate Planning Dept. and Investor Relations &amp; Corporate Communications Dept.<br/>June 2007       Senior Executive Officer of the Company<br/>June 2008       Director and Senior Executive Officer of the Company<br/>April 2010       Representative Director and Managing Executive Officer of the Company<br/>April 2011       Representative Director, President and Chief Executive Officer of the Company<br/>June 2011       Director of Koatsu Gas Kogyo Co., Ltd. (present)<br/>April 2017       Representative Director, Chairman, Board of Directors of the Company (present)</p> <p>Reasons for selection as the candidate for Director<br/>Subsequent to responsibility for management strategy, medical business, accounting and finance, and investor relations and corporate communication, Mr. Shinsuke Yoshitaka has promoted the “Denka100” management plan as Representative Director, President. In addition to a wealth of experience and results as a manager, he serves as the Chairman of the Board of Directors, as the Representative Director and Chairman based on his deep knowledge and understanding of the Group. The Company has judged that he can appropriately fulfill the role of supervising the business execution of Directors and Executive Officers, and requests his election as Director.</p> <p>Message to shareholders<br/>As Chairman of the Board of Directors, the management supervisory organ and the highest decision-making body for execution of company business, my goals are to improve transparency and soundness of management activities and make every effort to boost corporate value and realize “The Denka Value,” the Company’s philosophy.</p> | 131,000                              |

Note: No material conflict of interest exists between the Company and the above candidate.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]  | Career summary and significant concurrent positions, etc.  | Number of shares of the Company held |
|-----|--|--|--------------------------------------|
| 2   | <p>Manabu Yamamoto<br/>(March 31, 1956)<br/>Age: 61</p> <p>[June 2013]<br/>[4 years<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (13/13)]<br/>(Reappointed)</p> | <p>April 1981      Joined the Company<br/>June 2004      General Manager of Functional Ceramics Div. of Electronics Materials Business Group of the Company<br/>April 2009      Executive Officer of the Company, General Manager of Electronics Materials Div. of Electronics Materials Business Group of the Company<br/>April 2011      Senior Executive Officer of the Company<br/>April 2013      Managing Executive Officer of the Company, Head of Electronics &amp; Innovative Products<br/>June 2013      Director and Managing Executive Officer of the Company<br/>April 2015      General Manager of Corporate Planning Dept. of the Company<br/>April 2016      Director and Senior Managing Executive Officer of the Company<br/>June 2016      Outside Audit &amp; Supervisory Board Member of Koatsu Gas Kogyo Co., Ltd. (present)<br/>April 2017      Representative Director, President and Chief Executive Officer of the Company (present)</p> <p>Reasons for selection as the candidate for Director<br/>Through work experience at overseas subsidiaries and many years of responsibility for the electronics materials business division, Mr. Manabu Yamamoto possesses international viewpoints and adequate operational experience. After he integrated new business strategies and accounting and finance strategies across the entire Denka Group as the executive responsible for management strategy, accounting and finance, and investor relations and corporate communication divisions, Mr. Yamamoto currently serves as President and Representative Director. Based on his rich experience and impressive track record in Company administration, it is hence judged by the Company that he can appropriately fulfil the role of determining important business execution and supervising the business execution of Directors and Executive Officers, and requests his election as Director.</p> <p>Message to shareholders<br/>Aiming to ensure sustainable growth even in a market environment of rapid change, and to enable sound growth that generates due benefits for all stakeholders, I am committed to realize "The Denka Value" concept while striking a balance between enhancement of corporate value and fulfilment of social responsibility.</p> | 28,000                               |

Note: No material conflict of interest exists between the Company and the above candidate.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]  | Career summary and significant concurrent positions, etc.   | Number of shares of the Company held |
|-----|--|---|--------------------------------------|
| 3   | <p>Mitsukuni Ayabe<br/>(September 23, 1952)<br/>Age: 64</p> <p>[June 2011]<br/>[6 years<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (13/13)]<br/>(Reappointed)</p> | <p>April 1977      Joined the Company<br/>June 2004      General Manager of Research and Development Dept. of the Company<br/>June 2007      Executive Officer of the Company, Managing Director of Denka Singapore Pte., Ltd., Managing Director of Denka Advantech Pte., Ltd.<br/>April 2010      Senior Executive Officer of the Company, Director and Chairman of Denka Chemicals Holdings Asia Pacific Pte., Ltd.<br/>June 2011      Director and Managing Executive Officer of the Company<br/>April 2013      Director and Senior Managing Executive Officer of the Company<br/>April 2015      Representative Director and Senior Managing Executive Officer of the Company<br/>April 2016      Representative Director, Executive Vice President and Chief Operating Officer of the Company<br/>April 2017      Director, Executive Vice President of the Company (present)<br/>President and Representative Director of DENKA SEIKEN Co., Ltd. (present)</p> <p>Reasons for selection as the candidate for Director<br/>Subsequent to management of research and development and overseas subsidiaries and responsibility for medical business, accounting and finance, and investor relations and corporate communication, Mr. Mitsukuni Ayabe directed the overall technical divisions as the general executive for planning and development, while also assisting the President as Executive Vice President and Chief Operating Officer. Currently, Mr. Ayabe is in charge of the Life Innovation Division and supports strategies in the growing healthcare field. The Company has judged that he can appropriately fulfill the role of determining important business execution and supervising the business execution of Directors and Executive Officers, and requests his election as Director.</p> <p>Message to shareholders<br/>Looking ahead to the next 100 years, by thoroughly promoting “The Denka Value” vision of the Company internally and externally, I will work to strengthen and develop our earnings platform for future growth, and build a company that is even more deeply and widely trusted thanks to its social contribution activities.</p> | 54,000                               |

Note: No material conflict of interest exists between the Company and the above candidate.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings] | Career summary and significant concurrent positions, etc.  | Number of shares of the Company held |
|-----|---|--|--------------------------------------|
| 4   | <p>Norihiro Shimizu<br/>(October 2, 1955)<br/>Age: 61</p> <p>[—]<br/>[—]<br/>[—/—]<br/>(New candidate)</p>                | <p>April 1980    Joined the Company<br/>October 2008    General Manager of Electronic Materials Research Institute of the Company<br/>April 2009    Executive Officer of the Company<br/>April 2011    Senior Executive Officer, General Manager of Central Research Institute of the Company<br/>April 2013    Managing Executive Officer, General Manager of Research and Development Dept. of the Company<br/>April 2017    Managing Executive Officer of the Company (present)</p> <p>Reasons for selection as the candidate for Director<br/>Mr. Norihiro Shimizu has ample practical experience, including oversight of research and development activities for many years in the fields of polymers and electronic materials. As overall executive officer in charge of research and development and Denka Innovation Center now, he is responsible for all research and development operations, and for business strategy including development of next-generation products and of new businesses. In light of his deep expertise and experience in research and development operations, we judge him to be well-suited for decision-making regarding significant business matters, and for supervision of business execution by directors and executive officers, and so seek his election as a director.</p> <p>Message to shareholders<br/>Through continuous innovation leveraging the comprehensive capabilities of the Group, I am committed to ensuring sustainable growth and improving corporate value by implementing business strategy at individual businesses in a way that strikes a balance between profitability and sustainability.</p> | 22,000                               |

Note: No material conflict of interest exists between the Company and the above candidate.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]   | Career summary and significant concurrent positions, etc.   | Number of shares of the Company held |
|-----|---|---|--------------------------------------|
| 5   | <p>Kenji Nakano<br/>(November 17, 1955)<br/>Age: 61</p> <p>[June 2016]<br/>[1 year<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (10/10)]<br/>(Reappointed)</p> | <p>April 1980      Joined the Company<br/>June 2007      General Manager of Secretary Dept. of the Company<br/>April 2011      Executive Officer of the Company, General Manager of HR Dept. of the Company<br/>April 2013      Executive Officer of the Company, Representative in China<br/>April 2014      Managing Executive Officer of the Company<br/>June 2016      Director and Managing Executive Officer of the Company (present)</p> <p>Reasons for selection as the candidate for Director<br/>Through work experience at plants and many years of responsibility for management divisions such as general affairs, legal, and HR divisions, Mr. Kenji Nakano possesses adequate operational experience, in addition to integrating business strategy in China as the Representative in China. Currently, in addition to overseeing general affairs, legal matters, personnel affairs, internal auditing and other areas, Mr. Nakano is promoting strengthening risk management and compliance systems as the executive responsible for compliance. The Company has judged that he can appropriately fulfill the role of determining important business execution and supervising the business execution of Directors and Executive Officers, and requests his election as Director.</p> <p>Message to shareholders<br/>From a long-term, overhead point of view with the aim of building corporate value, I am committed to working for continuous growth based on transparent and sound management that prioritizes compliance.</p> | 24,000                               |

Note: No material conflict of interest exists between the Company and the above candidate.

Candidates for Outside Director

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]   | Career summary and significant concurrent positions, etc.   | Number of shares of the Company held |
|-----|---|---|--------------------------------------|
| 6   | <p>Yasuo Sato<br/>(September 30, 1942)<br/>Age: 74</p> <p>(Outside Director)<br/>(Reappointed)<br/>(Independent Director)<br/>[June 2015]<br/>[2 years<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (13/13)]</p> | <p>April 1965      Joined TEIKOKU SANSO Co., Ltd. (present Air Liquide Japan Ltd.)</p> <p>March 1987      Director and Vice President of Electronics Div. of Air Liquide Japan Ltd.</p> <p>April 1992      Vice President of Worldwide Electronics Div. of L'Air Liquide S.A. (until March 1996)</p> <p>March 1999      Representative Director and President of Air Liquide Japan Ltd. (until January 2003)</p> <p>January 2003    Director and Chairman of Japan Air Gases Co., Ltd. (until March 2005)</p> <p>March 2005      Director and Advisor (part-time) of Air Liquide Japan Ltd. (until September 2007)</p> <p>June 2005      Outside Director of Denal Silane Co., Ltd. (until February 2008)</p> <p>May 2006      President &amp; CEO of I.B. Associates Co., Ltd. (present Wisemech Corporation) (until June 2016)</p> <p>June 2006      Outside Auditor of Santen Pharmaceutical Co., Ltd. (until June 2014)</p> <p>February 2008   Auditor of Denal Silane Co., Ltd. (until June 2014)</p> <p>June 2015      Outside Director of the Company (present)</p> <p>July 2016      Director Chairman of Wisemech Corporation (present)</p> <p>Reasons for selection as the candidate for Outside Director<br/>Mr. Yasuo Sato has gained rich experience and great insight as a manager through his involvement in corporate management for many years. His career included serving as the President of Air Liquide Japan Ltd. He also has rich international experience, including serving as a vice president at global enterprises. The Company proposes that Mr. Sato be elected as an Outside Director in the expectation that he will utilize his knowledge in providing suggestions about the Company's overseas business expansion strategy and management in general.</p> <p>Message to shareholders<br/>In a spirit of rationality and fairness, I am committed to working for the sustainable growth and enhanced corporate value of the Company from a global, medium- to long-term perspective.</p> | -                                    |

- Notes: 1. No material conflict of interest exists between the Company and the above candidate.
2. Up to February 2008, Mr. Sato was an Outside Director of a subsidiary of the Company. Up to June 2014, he worked as corporate auditor of a subsidiary of the Company.
3. Based on Article 427, Paragraph 1 of the Companies Act, the Company currently concludes liability limitation contracts with the candidate that limit his liability for damages of Article 423, Paragraph 1 of said Act to a predefined amount of ¥5 million or more or the amount stipulated by laws and regulations, whichever is higher. If the election of Mr. Sato is approved, the Company plans to continue the same contracts.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]  | Career summary and significant concurrent positions, etc.   | Number of shares of the Company held |
|-----|--|---|--------------------------------------|
| 7   | <p>Akio Yamamoto<br/>(December 2, 1951)<br/>Age: 65</p> <p>(Outside Director)<br/>(Reappointed)<br/>(Independent Director)<br/>[June 2015]<br/>[2 years<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (13/13)]</p> | <p>April 1974      Joined Mitsui &amp; Co., Ltd.<br/> April 1999      President of Mitsui &amp; Co., Benelux S.A./N.V.<br/> April 2004      Vice President of Synthetic Resin &amp; Inorganic Chemical Products Business Unit of Mitsui &amp; Co., Ltd.<br/> April 2007      Executive Officer of Mitsui &amp; Co., Ltd. (until March 2010), President of Mitsui &amp; Co. (Thailand) Ltd.<br/> April 2009      Representative Director and President of Mitsui Bussan Plastic Trade Co., Ltd. (present Mitsui &amp; Co. Plastics Ltd.) (until June 2014)<br/> June 2014      Counselor of Mitsui &amp; Co. Plastics Ltd. (until June 2015)<br/> June 2015      Outside Director of the Company (present)</p> <p>Reasons for selection as the candidate for Outside Director<br/> Mr. Akio Yamamoto has rich experience and great insight as a manager in Japan and overseas through his involvement in corporate management for many years. His career included serving as an Executive Officer of Mitsui &amp; Co., Ltd. and the Representative Director and President of Mitsui &amp; Co. Plastics Ltd. He also has rich international experience, including serving as a vice president at global enterprises. The Company proposes that Mr. Yamamoto be elected as an Outside Director in the expectation that he will utilize his knowledge in providing suggestions about the Company's overseas business expansion strategy and management in general. Although he used to work at a company that has transactions with the Company, the Company considers that there is no risk that conflict of interest with other general shareholders will arise because 1) he is not a current or a recent operating officer of the said company; 2) although the Company's sales to the said company account for 6.4% of the Company's total sales, substantial transactions between the Company and the said company are payments of commission by the Company to the said company for services offered by its trading company function and the amount of commission paid is modest (under 2% of the said company's sales); and 3) he satisfies the Company's "Standards of Independence for Outside Executives" and thus, the Company considers that the said company has no special impact on the Company's decision-making by the Board of Directors etc.</p> <p>Message to shareholders<br/> Viewing the Company from a global and historical perspective of our industry, I am determined to contribute to the further sound growth of Denka in my work, always in a spirit of humility and sincerity.</p> | -                                    |

- Notes: 1. No material conflict of interest exists between the Company and the above candidate.  
2. Until June 2014, Mr. Yamamoto worked as president and representative director for a specified related party of the Company.  
3. Based on Article 427, Paragraph 1 of the Companies Act, the Company currently concludes liability limitation contracts with the candidate that limit his liability for damages of Article 423, Paragraph 1 of said Act to a predefined amount of ¥5 million or more or the amount stipulated by laws and regulations, whichever is higher. If the election of Mr. Yamamoto is approved, the Company plans to continue the same contracts.

| No. | Name<br>(Date of birth)<br>[Director since]<br>[Director's term of office]<br>[Attendance at Board of Directors meetings]   | Career summary and significant concurrent positions, etc.  | Number of shares of the Company held |
|-----|---|--|--------------------------------------|
| 8   | <p>Tatsutsugu Fujihara<br/>(November 23, 1952)<br/>Age: 64</p> <p>(Outside Director)<br/>(Reappointed)<br/>(Independent Director)<br/>[June 2016])<br/>[1 year<br/>* at the conclusion of this Ordinary General Meeting of Shareholders]<br/>[100% (10/10)]</p> | <p>April 1976      Joined The Dai-Ichi Kangyo Bank, Ltd.<br/>May 2000      General Manager, Osaka Sales Department of The Dai-Ichi Kangyo Bank, Ltd.<br/>April 2002      General Manager, Osaka Sales Department III of Mizuho Corporate Bank, Limited<br/>March 2003      Executive Officer of Mizuho Corporate Bank, Limited (until April 2003), General Manager, Corporate Department II (until April 2003)<br/>June 2003      Managing Executive Officer of Orient Corporation (until March 2005)<br/>April 2005      Managing Executive Officer of Mizuho Corporate Bank, Limited (until March 2007)<br/>June 2007      Director and President of Mizuho Marketing Experts Co., Ltd. (until March 2013)<br/>June 2013      Representative Director and President of KSO Corporation<br/>June 2014      Representative Director and Chairman of KSO Corporation<br/>April 2016      Director of KSO Corporation<br/>June 2016      Chairman and Executive Officer of KSO Corporation (present)<br/>June 2016      Outside Director of the Company (present)</p> <p>Reasons for selection as the candidate for Outside Director<br/>Having worked in corporate management at financial institutions for many years, Mr. Tatsutsugu Fujihara has rich experience and great insight as a manager and possesses advanced insights regarding corporate finance, and to utilize these insights and receive recommendations toward the Company's overall management, his election as Outside Director is requested. Additionally, although he used to work at a financial institution that has transactions with the Company, the Company considers that there is no risk that conflict of interest with other general shareholders will arise because 1) he is not a current or a recent operating officer of the said financial institution; 2) a significant number of years have passed since he retired from the said financial institution (ten years have passed since his retirement as of the day of this Ordinary General Meeting of Shareholders); 3) the composition of borrowings relative to net assets of the Company is low at approximately 30%, and the Company's dependency on the said financial institution is low as it accounts for less than 10% of overall borrowings; and 4) he satisfies the Company's "Standards of Independence for Outside Executives" and thus, the Company considers that the said financial institution has no special impact on the Company's decision-making by the Board of Directors, etc.</p> <p>Message to shareholders<br/>In a spirit of fairness, I am determined to contribute to the creation of a platform (in terms of reforming organizational culture and attitudes) enabling creation of corporate value particularly through greater competitiveness.</p> | -                                    |

Notes: 1. No material conflict of interest exists between the Company and the above candidate.

2. Based on Article 427, Paragraph 1 of the Companies Act, the Company currently concludes liability limitation contracts with the candidate that limit his liability for damages of Article 423, Paragraph 1 of said Act to a predefined amount of ¥5 million or more or the amount stipulated by laws and regulations, whichever is higher. If the election of him is approved, the Company plans to continue the same contracts.

#### Proposal No. 4: Election of One (1) Substitute Audit & Supervisory Board Member

In order to ensure that the number of incumbent Audit & Supervisory Board Members does not fall short of that required by laws and regulations or the Articles of Incorporation of the Company, the election of one (1) substitute Audit & Supervisory Board Member is proposed.

The consent of the Audit & Supervisory Board has been obtained for the submission of this proposal.

The candidate for substitute Audit & Supervisory Board Member is as follows:

| Name<br>(Date of birth)  | Career summary, positions and significant concurrent positions  | Number of<br>shares of the<br>Company held |
|--|---|--|
| <p>Gotaro Ichiki<br/>(December 4, 1949)<br/>Age:67</p> <p>Candidate for<br/>Substitute Outside<br/>Audit &amp;<br/>Supervisory Board<br/>Member</p>  | April 1975  | -  |
|  | Admitted to the bar in Japan (Yokohama Bar Association)<br>Joined Sagami Godo Law Office  |  |
|  | April 1983  |  |
|  | Joined Hamada & Matsumoto Law Firm (transferred to<br>Daini Tokyo Bar Association)  |  |
|  | April 1985  |  |
|  | Partner in Hamada & Matsumoto Law Firm  |  |
|  | April 1996  |  |
|  | Vice President of Daini Tokyo Bar Association (until<br>March 1997)   |  |
|  | April 2000  |  |
|  | Deputy Secretary of Japan Federation of Bar Associations<br>(until March 2002)  |  |
| December 2002  | Partner in Mori Hamada & Matsumoto Law Firm formed<br>as a result of merger (until December 2014)                                     |  |
| January 2015   | Joined Kowa Law Office  |  |
| March 2015   | Outside Director of Nippon Denko Co., Ltd. (present)  |  |
| March 2016   | Outside Director (Directors Serving on the Audit &<br>Supervisory Committee) of COCA-COLA WEST<br>COMPANY, LIMITED (until March 2017) |  |
| April 2016   | Supervisory Officer of DBJ Private REIT Investment<br>Corporation (present)   |  |
| April 2017   | Outside Auditor of COCA-COLA WEST COMPANY,<br>LIMITED (present) (to date)   |  |
| <p>Reasons for selection as the candidate for substitute Outside Audit &amp; Supervisory Board Member</p> <p>Mr. Gotaro Ichiki has a long experience as a lawyer and abundant legal knowledge. The Company proposes that Mr. Ichiki be elected as a substitute Outside Audit &amp; Supervisory Board Member in the expectation that he will utilize his knowledge for the benefit of the Company's auditing system. Although he has never been directly engaged in corporate management, the Company deems that Mr. Ichiki will duly execute his duties as an Outside Audit &amp; Supervisory Board Member because he is well versed in corporate legal affairs and has extensive insight into corporate governance.</p> |   |  |

- Notes:
1. No material conflict of interest exists between the Company and the above candidate.
  2. Based on Article 427, Paragraph 1 of the Companies Act, the Company currently concludes liability limitation contracts with Outside Audit & Supervisory Board Members that limit their liability for damages of Article 423, Paragraph 1 of said Act to a predefined amount of ¥5 million or more or the amount stipulated by laws and regulations, whichever is higher. If Mr. Gotaro Ichiki assumes the position of Outside Audit & Supervisory Board Member, the Company plans to conclude an identical contract with him.

(Reference)  
Standards of Independence for Denka Outside Officers

The Company selects candidates for Outside Directors and Outside Audit & Supervisory Board Members based mainly on practical considerations, such as whether we can expect the candidate to contribute to an increase in the corporate value of the Company as an independent officer. Specifically, the Company has defined the following standards, in accordance with the requirements for independence stipulated in the Companies Act, in addition to the standards for independence defined by the Tokyo Stock Exchange and other factors.

**Standards of Independence for Outside Officers**

The standard of independence for an Outside Director or Outside Audit & Supervisory Board Member of the Company shall be persons that do not fall under any of the categories defined in items (1) through (5) below.

- (1) An executor of business (\*4) at a main customer (\*1), main supplier (\*2), or main lender (\*3) that is a main trading partner of the Company;
  - (2) A consultant, accountant, lawyer, or other such person that has received money or other property exceeding ¥10 million in value per year from the Company, excluding officer compensation, in the most recent fiscal year;
  - (3) A person belonging to a group for whom the amount paid by the Company makes up 2% or more of the group's revenues or total income in the most recent fiscal year, in cases where the entity receiving property under item (2) above is a group;
  - (4) A person that has fallen under any of the above categories (1) through (3) within the past year;
  - (5) A spouse or relation within the second degree of a person falling under any of the categories below (excluding an insignificant person):
    - i. A person that falls under any of the above categories (1) through (4);
    - ii. A person that is or was an executor of business at the Company or a subsidiary of the Company now or within the past year;
    - iii. A person that is or was a non-executive director at the Company or a subsidiary of the Company now or within the past year (for Outside Audit & Supervisory Board Members only).
- (\*1) Main customer: A customer from whom the amount paid has made up 2% or more of the Company's revenues in the most recent fiscal year
- (\*2) Main supplier: A supplier to whom the amount paid from the Company has made up 2% or more of the supplier's revenues in the most recent fiscal year
- (\*3) Main lender: A lender that was essential for the Company's funding, and that the Company relied on to the extent the lender was irreplaceable, as of the end of the most recent fiscal year
- (\*4) Executor of business: An executive director, executive, executive officer, or other employee, etc.

## **Proposal No. 5: Determination of amount and details of stock compensation, etc., for Directors**

### 1. Reasons for proposal and reasons why the remuneration is appropriate

Approval is sought for the introduction of a new stock remuneration plan (hereinafter the “Plan”) for Directors (excluding Outside Directors; hereafter the same applies). The Company requests that specific details be entrusted to a resolution of the Board of Directors within the scope of 2. hereafter.

The Plan will establish a clear peg between the Company’s stock value and Director remuneration. Directors will benefit from rises in the stock price, but they will also bear risk when it falls. With the aim of improving medium-to-long-term business performance and raising awareness of contribution to increased corporate value by ensuring that benefits and risks from share price changes are shared by all stockholders, the Company considers the Plan appropriate and seeks approval for its aim of creating a new form of payment by stock remuneration, as a separate framework from compensation limits for Directors for which approval is sought in Proposal No. 6 “Revision of the Amount of Remuneration to Directors.”

Additionally, if Proposal No. 3 “Election of Eight (8) Directors” is approved as originally proposed, the number of Directors subject to the Plan at the conclusion of this Ordinary General Meeting of Shareholders will be five.

### 2. Amount and details of remuneration, etc., under the Plan

#### (1) Overview of the Plan

In the Plan, cash shall be entrusted to a trust (hereinafter the “Trust”) to be established by the Company. The Company’s common stock (hereinafter the “Company Stock”) shall be acquired by the Trust. Points shall be granted to Directors in line with the Stock Allotment Regulations laid down by the Company, and, through the Trust, the Company Stock shall be allocated in proportion to the number of points granted.

In principle, Directors receive the Company Stock at the time when the Director resigns. For an outline of the Plan, please see “Notice of Introduction of Stock Remuneration Plan to Directors of the Company,” announced on May 10, 2017.

#### (2) Trust period

The Trust period shall be the three years from August 2017 (planned) to August 2020 (planned). However, the Trust period may be extended as provided in (3) below.

#### (3) Upper limit of cash the Company will contribute

As remuneration for Directors in office during the three years from the conclusion of this Ordinary General Meeting of Shareholders until the conclusion of the Ordinary General Meeting of Shareholders in June 2020 (hereinafter the “Applicable Period”), the Trust will contribute a maximum of ¥120 million in cash (corresponding to ¥40 million per year) during the Trust period (three years) as funds to acquire the Company Stock to grant to Directors under the Plan, and will establish the Trust with Directors who satisfy certain requirements as beneficiaries.

(Note) Cash that will be actually entrusted to the Trust by the Company shall be an amount that includes not only funds for acquisition of the Company Stock stated above, but also estimated amounts for requisite expenses such as trust remuneration and trust administrator fees.

By a resolution of the Board of Directors, the Trust period may be extended at its expiration, and the Plan may be continued (this includes *de facto* extension of the Trust contract by the transfer of assets of the Trust to another trust with the same purpose as the Trust created by the Company, and likewise hereafter). In such a case of extension, the Company shall make additional cash contributions to the Trust of up to ¥40 million multiplied by the number of years of extension, during the period of the Trust extension, as funds for additional acquisition of the Company Stock needed for payment to Directors under the Plan. In such case, moreover, the period corresponding to the continuation of the Plan and the extension of the Trust period shall be extended, and during the extended Trust period, granting of points as in (5) 1) below and payment of the Company Stock as in (5) 2) below shall be continued.

However, even in the cases where granting of points as described above is not continued, when there are Director(s) who have not yet resigned despite having already been granted their points at the expiry of the Trust period, the Trust period of the Trust may be extended until retirement of the Director(s) and completion of transfer of the Company Stock.

(4) Method of acquisition of Company Stock by the Trust

While keeping to the upper limit of funding for stock acquisition in (3) above, acquisition of the initial round of Company Stock by the Trust is scheduled to be carried out through a securities exchange (including after-hours transactions) or through disposal of treasury stock at the Company. Details of the method of acquisition will be decided by resolution of the Ordinary General Meeting of Shareholders and made public.

During the Trust period, if, due to an increase in the number of Directors, etc., the possibility arises of a shortfall in the number of shares in relation to the number of points to be granted to Directors, additional cash may be entrusted to the Trust for additional acquisition of Company Stock, within the upper limit of Trust funding approved by the Ordinary General Meeting of Shareholders in (3) above.

(5) Method of calculation and upper limit for number of shares of Company Stock to be delivered to Directors

1) Method of granting points for Directors and upper limits

Based on the Stock Allotment Regulations laid down by the Board of Directors, points shall be granted based on position or role of the individual Director on the day of point granting, as laid down in the provisions of share transfer during the period of the Trust.

However, the total number of points to be granted by the Company to Directors shall not exceed 110,000 per year.

2) Grants of Company Stock corresponding to number of points granted

In line with the procedures described in (6) below, Directors shall receive Company Stock in a total corresponding to the number of points granted to them as described in 1) above.

The total of shares of Company Stock to be granted to individual Directors shall be 1.0 times the number of points granted to the Director. (However, with regard to Company Stock, in the cases where it is deemed reasonable to adjust the number of shares of Company Stock to be transferred due to stock split or stock consolidation, etc., a reasonable adjustment shall be made in proportion to the ratio of the stock split or consolidation. Please note that, as stated in (2) above, establishment of the Trust is planned for August 2017, and a proposal for consolidation of stock will be discussed as Proposal No. 2 at the Ordinary General Meeting of Shareholders. If this proposal is approved in its original form, the date of effect of the stock consolidation is scheduled to be October 1, 2017, at which point, reasonable adjustments shall be made based on the said consolidation of stock.)

(6) Grant of Company Stock to Directors

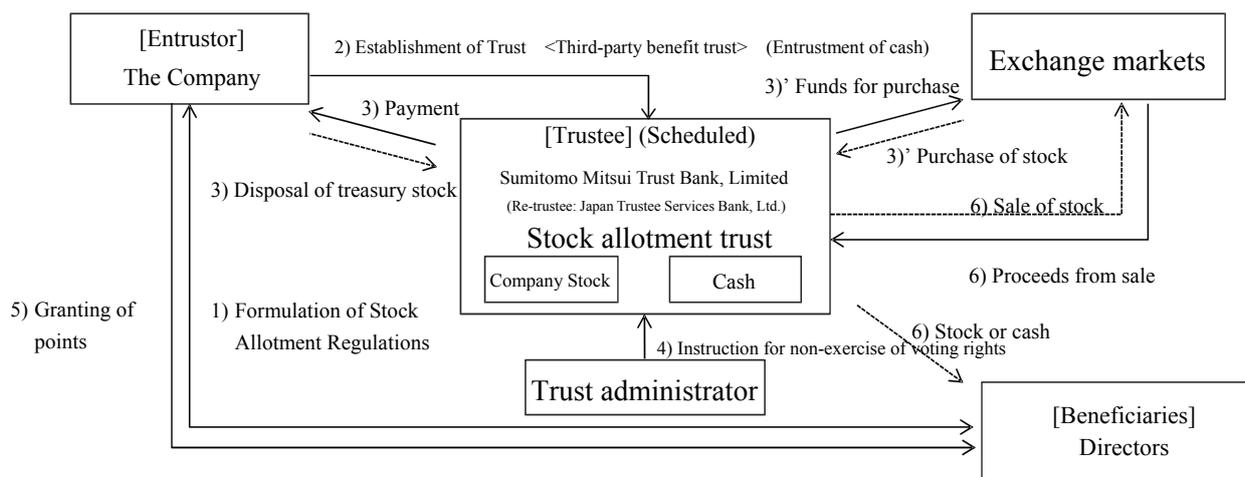
The grant of Company Stock to individual Directors described in (5) above shall be undertaken by the Trust through the prescribed beneficiary determination procedures at the time of retirement of the Director. However, when conditions of the provisions for grant of stock are met, cash payment may be made instead of Company Stock compensation, after converting a certain proportion of the Company Stock within the Trust. In the event of a settlement of the Company Stock in the Trust by responding to a tender offer, etc., when Company Stock in the Trust is converted to cash, cash payments may be made instead of granting Company Stock.

(7) Exercise of voting rights

In accordance with instructions from trust administrators independent of the Company and the Company's executive officers, no voting rights of any kind relating to Company Stock in the Trust may be exercised. Through this measure, our aim is to ensure the neutrality of the Company management with regard to the exercise of voting rights relating to Company Stock under the Trust.

(Reference)

### Outline of the Plan structure



- 1) We will formulate Stock Allotment Regulations for Directors of the Company.
- 2) A stock allotment trust (third-party benefit trust) has been set up with the Directors of the Company as beneficiaries. In that connection, the Company has entrusted to the trustee a sum of cash equivalent to the funds for acquisition of stock (however, this sum is within the limit approved by the General Meeting of Shareholders).
- 3) The Trustee shall acquire Company Stock in a single lot in an amount equivalent to the future transfers that can be expected (with methods of acquisition being disposal of treasury stock or acquisition on exchange markets (including after-hours transactions)).
- 4) The interests of beneficiaries to whom the Stock Allotment Regulations apply during the Trust period shall be protected, and a trust administrator to supervise the trustee shall be appointed (as an entity independent of the Company and its executive officers).  
Regarding Company Stock in the Trust, the Trust administrator shall instruct the trustee not to exercise voting rights. The trustee will comply with such direction and will not exercise any kind of voting rights during the Trust period.
- 5) Pursuant to the Stock Allotment Regulations, the Company will grant points to Directors.
- 6) Directors who satisfy conditions defined in the Stock Allotment Regulations and the trust agreement for the Trust will, as beneficiaries of the Trust, receive Company Stock from the trustee, in an amount corresponding to their cumulative total of points. It should be noted that in certain applicable cases laid down in advance in the Stock Allotment Regulations and trust agreement, some of the Company Stock to be granted may be sold on securities exchanges, and payment of cash may be made.  
Sumitomo Mitsui Trust Bank, Limited, the trustee in the Plan, will assign the Trust assets to Japan Trustee Services Bank, Ltd. for management (under a “re-trust” arrangement).

## **Proposal No. 6: Revision of the Amount of Remuneration to Directors**

It was approved at the 156th Ordinary General Meeting of Shareholders held on June 19, 2015 that the maximum amount of remuneration for Directors of the Company shall be ¥540.0 million a year (including the maximum amount of ¥50.0 million for Outside Directors). Assuming approval of Proposal No. 5, “Determination of amount and details of stock compensation, etc., for Directors,” the Company proposes that the maximum amount of remuneration, etc. to Directors be revised to ¥500.0 million a year (including the maximum amount of ¥50.0 million for Outside Directors).

This revised payment will be made outside the framework of the compensation limits for new stock compensation to be discussed and approved in Proposal No. 5. A reduction in a corresponding sum will be made.

As previously, the above amount of remuneration to Directors does not include portions of their salaries as employees.

Outside Directors are outside the scope of the payment of bonuses for Directors.

If Proposal No. 3 is approved as originally proposed, the Company will have eight (8) Directors (including three (3) Outside Directors).

## (Reference)

### Denka's Corporate Governance Initiatives

#### Basic Approach to Corporate Governance

In order to fulfill the expectations and trust of its many stakeholders, including shareholders, customers, local society, and employees, based on “The Denka Value” (corporate philosophy), which was outlined in 2016 and forms the basis for the activities of the Denka Group, the Company strives to strengthen its business foundation by improving its earnings power and expanding the scope of operations, while also working to improve corporate value by making every effort to continue being a company that can win the trust and sympathy of society.

The Company considers corporate governance as the foundation for the above, and so we have striven to strengthen governance, in order to fulfill the responsibilities we owe to all our stakeholders, and ensure the transparency and soundness of our management.

#### The Denka Value (Corporate Philosophy)

“The Denka Value” (corporate philosophy) consists of the “Denka Mission,” which represents our uppermost mission statement, and the “Denka Principles,” a set of precepts guiding actions taken by every Group employee.

“The Denka Mission”, which stands above all else, is defined as “taking on the challenge of expanding the possibilities of chemistry to create new value and contribute to sound social development.”

“The Denka Value” (Corporate Philosophy)

The Denka Mission

Taking on the challenge of expanding the possibilities of chemistry to create new value and contribute to sound social development.

Note: Based on the corporate slogan “Possibility of Chemistry.”

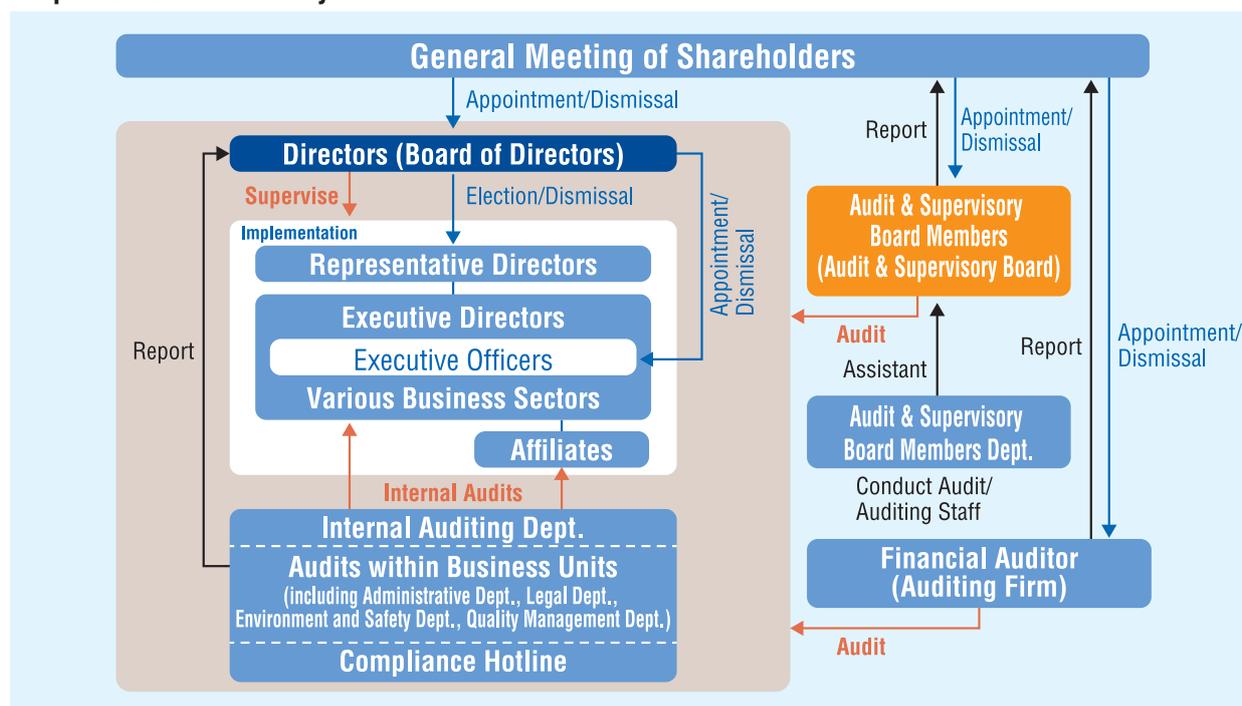
The Denka Principles

We:

- Boldly confront challenges with determination and sincerity.
  - Think and take action today with the future in mind.
  - Deliver new values, and inspire customers through innovative monozukuri.\*
  - Respect the environment and create a cheerful workplace that prioritizes safety.
  - Contribute to a better society, whilst taking pride in being a trusted corporate citizen.
- \*Japanese-style craftsmanship



## Corporate Governance System



### Board of Directors

The Board of Directors makes decisions relating to the execution of important business duties and monitors and supervises the execution of business duties by corporate officers, in accordance with strategic initiatives and management plans aimed at realizing the corporate philosophy of the Company.

In addition, in principle, the Company has discontinued the use of executive titles, (such as Senior Managing Director, Managing Director) for Directors, such that all Directors may focus on monitoring and supervising the execution of business duties from an equal standpoint. Also, the Company has set the length of directors' terms to one year, in order to facilitate flexible checks on directors at the General Meeting of Shareholders.

Furthermore, the Board of Directors as a whole appoints candidates to be directors in line with the standards for the appointment of both internal and outside directors, based on the belief that it is important to appoint a good balance of people with a variety of expertise, experiences, and skills. (Please see page 8 for details of the Company's approach to the appointment of directors.)

#### ■ Evaluation of the Effectiveness of the Board of Directors

At Denka, the effectiveness of the Board of Directors is analyzed and evaluated annually by all Directors and Audit & Supervisory Board Members, and the results disclosed in the Corporate Governance Report.

In the previous fiscal year, the Company analyzed and evaluated the effectiveness of the Board of Directors by having all Directors and Audit & Supervisory Board Members complete a "Self-Evaluation Questionnaire," which covers 20 items related to the effectiveness of the Board of Directors, such as its scale, composition, operation, and other items, and discuss the questionnaire results at Board of Directors meetings.

Based on the results of the evaluation, Denka concluded that the scale and composition (the balance and diversity of expertise, experience and skills) of the Board of Directors, as well as the frequency and timing of Board of Directors meetings are appropriate; discussions at Board of Directors meetings are stimulated by active opinions from Outside Directors, drawing on their significant insights in their respective fields; and that systems are in place to facilitate important decision-making and monitor the execution of duties.

Moreover, the Board of Directors offer constructive views that further promote a management system that aims to enhance the corporate value of the Denka Group. Going forward, we will continually strive to enhance the functions of the Board of Directors to further increase corporate value based on more in-depth and insightful discussions among all Directors and Audit & Supervisory Board Members.

### Audit & Supervisory Board

In accordance with their fiduciary responsibilities to shareholders, Corporate Auditors and the Audit & Supervisory Board work with the support of the full-time staff of the Auditor's Office, whose independence from management is ensured, to conduct audits of the execution of directors' duties, internal governance, business duties, and accounting, by exercising statutory rights that include requesting reports on the businesses of the Company, investigations pertaining to business duties and accounting, and the appointment, dismissal, and remuneration of an external auditing firm.

In addition, in view of the roles and responsibilities of the Audit & Supervisory Board, the Company appoints candidates to be Audit & Supervisory Board Members based on the decision that there should be at least one person with expertise in finance and accounting.

### **Outside Officers**

Regarding Outside Directors and Outside Audit & Supervisory Board Members, the Company selects candidates based mainly on practical considerations, such as whether we can expect the candidate to contribute to an increase in the corporate value of the Company as an independent officer, and has also defined its own standards of independence (Please see page 18.), in accordance with the requirements for independence stipulated in the Companies Act, in addition to the standards for independence defined by the Tokyo Stock Exchange and other factors.

In addition, by enhancing their understanding of the Company, the Company strives to create an environment that allows those appointed as Outside Officers to perform their roles for the sake of the sustainable growth of the Company and the increase of its corporate value.

Specifically, in addition to tours of offices, plants, and other facilities, the Company has been implementing the following initiatives:

#### ■ Directors and Corporate Auditors Round-Table Conference

In order to facilitate in-depth discussions regarding management matters that are of particular importance, internal and outside Directors and Audit & Supervisory Board Members hold a "Directors and Corporate Auditors Round-Table Conference" once a month as a forum for free, open-minded, constructive discussions, exchanging opinions and information, and strengthening cooperation.

#### ■ Business and research policy briefings

Briefings are held twice a year in order to have Outside Officers understand the Company's medium- to long-term and short-term business and research policies.

#### ■ Outside Officer Liaison Committee

The Company holds "Outside Officer Liaison Committee" meetings four times a year to facilitate the exchange of information and mutual awareness among Outside Officers concerning matters related to Denka's corporate governance and business.

### **Message to Shareholders from Outside Audit & Supervisory Board Members**

"Pursuant to the code and guidelines related to corporate governance and compliance, I will work to monitor Directors in the execution of their duties" (Tsunehiro Sasanami, Outside Audit & Supervisory Board Member)

"As one of Denka's Outside Audit & Supervisory Board Members and a Certified Public Accountant, I am committed to monitoring and preventing corporate wrongdoing as well as strengthening corporate governance." (Toshio Kinoshita, Outside Audit & Supervisory Board Member)

## Initiatives to Corporate Governance Thus Far

|      |  |
|------|--|
| 2007 | The Company cut the number of directors by half in order to speed up decision-making, and introduced a corporate officer system.   |
| 2008 | <p>The Company discontinued executive titles (such as Senior Managing Director, Managing Director), such that directors would monitor and supervise the execution of business duties from an equal standing.</p> <p>The Company transferred the authority of business execution and executive titles from directors to corporate officers, in order to distinguish clearly between monitoring and supervisory functions.</p> <p>The Company shortened the length of directors' appointments to one year, to facilitate flexible checks on directors.</p> <p>The Company appointed two Outside Directors, such that the total of four outside officers, including two Outside Audit &amp; Supervisory Board Members (per statutory requirements), could carry out checks on management. The Company also created a framework for receiving appropriate advice by facilitating adequate exchanges even outside of meetings of the Board of Directors, such as conducting regular exchanges of opinions with top management.</p> <p>The Company established a Management Committee comprising directors, Audit &amp; Supervisory Board Members (Outside), and some corporate officers, in order to deepen discussion of important management items, and speed up the decision-making process.</p> |
| 2015 | <p>The Company increased the number of Outside Directors (from two to three) and decreased the number of members of the Board of Directors (decreased the number of directors by two), in order to strengthen the governance framework, and increase the transparency and soundness of management.</p> <p>The Company resolved to strengthen the round-table conferences between Outside Directors and Corporate Auditors, formerly held twice per year, by holding a "Directors and Corporate Auditors Round-Table Conference" once per month.</p> <p>The Company established the Denka Corporate Governance Guidelines, aimed at creating the optimum corporate governance for sustainable growth and improving medium- to long-term corporate value.</p> <p>The Company facilitated more advance explanations to Outside Officers regarding specific projects that required adequate explanation, in order to deepen understanding of the Company's business, and stimulate debate at meetings of the Board of Directors.</p> <p>The Company resolved to hold an "Outside Officer Liaison Committee" four times per year to facilitate the exchange of information and a shared awareness between Outside Officers.</p>   |
| 2016 | <p>The Company resolved to conduct business and research objective briefings for Outside Officers twice per year, for understanding the Company's medium- to long-term and short-term business and research objectives.</p> <p>The Company clarified the contents of reporting documentation and documentation related to discussions at meetings of the Board of Directors, in order to ensure that monitoring and supervision of the execution of business duties by corporate officers would be adequately conducted.</p> <p>The effectiveness of the Board of Directors is analyzed and evaluated annually by each Director and each Audit &amp; Supervisory Board Member, and the results disclosed in the Corporate Governance Report.</p>   |

## **Business Report**

(From April 1, 2016 to March 31, 2017)

### **1. Overview of the Group**

#### **(1) Business Progress and Results**

During the fiscal year ended March 31, 2017 (fiscal 2016), the Japanese economy was on a mild recovery trend with signs of recovery in personal consumption and capital investment, and increase in exports and production as well. Overall, the global economy continued a moderate recovery, despite a slowdown in the Chinese economy in the first half of the fiscal year and weak momentum in some emerging countries.

In the chemical industry, in addition to yen appreciation, raw materials prices, which had remained low year on year, started to rise during the second half of the fiscal year, however corporate profits remained largely strong.

In these economic circumstances, the Denka Group strove to expand its businesses and secure profitability by working to increase sales in Japan and overseas and cutting costs. As a result, sales volume increased, but consolidated sales decreased ¥7,205 million or 1.9% year on year to ¥362,647 million. This is because of yen appreciation which decreased the actual income and the Company's sales prices revision for petrochemical products following the decline in prices of raw materials. In terms of profits, operating income decreased by ¥4,789 million or 15.6% to ¥25,844 million because of the effects from yen appreciation as well as higher costs for scheduled biennial maintenance of styrene monomer plants and to accelerate the development of overseas business and research and development. The ratio of operating income to net sales decreased 1.2 percentage points to 7.1%. Furthermore, ordinary income decreased ¥3,863 million or 14.3% to ¥23,158 million, and profit attributable to owners of parent decreased ¥1,327 million or 6.8% to ¥18,145 million.

Results of operations by division are described below.

#### **Elastomers & Performance Plastics Division (Sales: ¥151,705 million)**

Principal products: Chloroprene rubber, acetylene black, styrene monomer, polystyrene resin, ABS resin, CLEAREN, heat-resistant resin, transparent resin, POVAL, etc.

Revenue from chloroprene rubber declined due to yen appreciation, but sales volume and profit rose as the sales volume increased thanks to full year steady operation of the Company's Omi Plant and a US-based subsidiary Denka Performance Elastomer, which had started its operation in the second half of the previous fiscal year. Shipment of styrene monomers, ABC resin, and polystyrene resin by Denka Singapore Pte. Ltd., a subsidiary in Singapore, was robust, however sales were down as a result of the revision of the sales prices corresponding to the lower raw material prices.

As a result, division sales decreased ¥3,895 million or 2.5% year on year to ¥151,705 million.

#### **Infrastructure & Social Solutions Division (Sales: ¥51,816 million)**

Principal products: Cement, special cement additives, fertilizers, calcium carbide, fire resistant materials, environmental materials, etc.

Increased sales volumes resulted in higher sales of corrugated drainpipes for agriculture and civil engineering, and while sales of fire resistant cement and ferrous raw materials were largely flat year on year, sales of special cement additives declined and sales of cement and fertilizers also decreased.

As a result, division sales decreased ¥1,536 million or 2.9% year on year to ¥51,816 million.

**Electronics & Innovative Products Division (Sales: ¥46,252 million)**

Principal products: Fused silica, electronic circuit substrates, fine ceramics, electronic packaging materials, etc.

Shipment of ALONBRIGHT SiAlON phosphors for LED and functional films such as THERMO FILM ALS for transportation and packing of electronic components and semiconductors was favorable due to robust demand, and sales of spherical fused silica fillers for semiconductor sealing were higher than the previous year. However, sales volume of electronic circuit substrates and ALSINK highly reliable heat-dissipating plate declined and caused sales to decrease.

As a result, division sales increased ¥559 million or 1.2% year on year to ¥46,252 million.

**Life Science & Environmental Products Division (Sales: ¥75,209 million)**

Principal products: Food packaging materials, vaccines, joint function improvers, diagnostic reagents, housing materials, social life products, etc.

Regarding life innovation products, both domestic and export sales volumes of reagents of a subsidiary of DENKA SEIKEN Co., Ltd increased and caused sales to rise, and shipment of influenza vaccines exceeded the plan.

In processed products, sales of plastic rain gutters and DX Film, anti-weather fluorine alloy film increased due to higher sales volumes. However, while sales of film for food packaging and sales of products processed by subsidiary DENKA Polymer Co., Ltd. remained largely firm, sales of TOYOKALON synthetic fiber for wigs and hairpieces and vinyl tapes declined.

As a result, division sales increased ¥69 million or 0.1% year on year to ¥75,209 million.

**Others Division (Sales: ¥37,662 million)**

Principal business: Plant engineering etc.

Transaction volumes of Akros Trading Co., Ltd. and other trading companies were down from the previous year. The value of projects completed by Denka Consultant & Engineering Co., Ltd. remained flat year on year.

As a result, division sales decreased ¥2,403 million or 6.0% year on year to ¥37,662 million.

## **(Reference)**

### **Topics**

In order to cultivate the health and life science sector, which is expected for further growth, as a mainstay business of the Group, Denka established the new fifth business division, “Life Innovation Division” in April, 2017. Through this establishment, Denka will allow the Company to integrate all of the Group’s health related businesses, and utilize resources efficiently and strengthen efforts to promote its business strategy. The newsletter provides two recent news and three other topics concerning the health and life science sector.

#### **Opening ceremony for Denka Life Innovation Research**

Denka established its first overseas research center in the health and life science sector, Denka Life Innovation Research Private Limited (DLIR), in Biopolis, Singapore. The opening ceremony was held on February 13, 2017.

In order to develop biomedical science research systems, the Singapore government has been actively soliciting domestic and overseas research institutions and companies. The Agency for Science, Technology and Research (A\*STAR), Singapore’s bio research institute, as well as global bio companies have gathered in “Biopolis”, biomedical research hub linking government sectors with private entities to promote cutting-edge, dynamic research and development.

Several researchers and Singapore government officials attended the ceremony, including the Chairman of Singapore’s Economic Development Board, Beh Swan Gin, and the Chairman of A\*STAR, Lim Chuan Poh. Chairman Yoshidaka (at that time, President) expressed our appreciation to the people of Singapore, and with the aim of bringing, 2017 “life innovation”, expressed our commitment to contribute to society by using new technologies to tackle issues that people are facing such as cancer and infectious diseases.

With the opening of DLIR, the Denka Group started measures to accelerate the research and development of simple diagnostic systems that use genetic testing methods for tropical infectious diseases such as the zika virus and dengue fever, and seasonal influenza vaccines derived from protein production technologies using plants.

#### **Denka established Denka-KEW Genomics, a joint venture with KEW, Inc., which offers diagnostics services in the U.S.**

On February 15, 2017, Denka and U.S.-based KEW, Inc., established a joint-venture, Denka-KEW Genomics LLC (DKGX), for the purpose of providing comprehensive genomic profiling to cancer patients and guiding therapeutic decisions based on individual patient tumor profiles. In June 2015, Denka and KEW, Inc. collaborated with Niigata University and other entities to study and evaluate the benefits of KEW, Inc.’s CANCERPLEX® in Japanese cancer patients. The results of the study, which focused on colorectal cancer cases, was published in the Genome Medicine providing possibility of implementing in Japan, and served as the basis for establishing DKGX. DKGX conducts diagnostics on solid tumors at the examination lab in Denka Innovation Center in Machida City, Tokyo, and plans to use CANCERPLEX®, a genome sequencing platform, for the purpose of providing comprehensive genomic profiling and information to cancer patients in Japan. Denka and KEW, Inc. intend to use DKGX to create an environment that provides optimal treatment services for all patients, and to contribute to enhancing the quality of life of all individuals.

(Note) CANCERPLEX® is a comprehensive genomic profiling platform using next generation sequencer and bioinformatics for sequencing over 400 cancer-related genes, providing analysis of gene mutation of solid tumor accurately, timely and in detail.

#### **CO<sub>2</sub>-SUICOM®, an environment-friendly concrete product, was awarded the 13th Eco Products Grand Prize Promotion Council’s Special Award (Excellence Award)**

CO<sub>2</sub>-SUICOM®, an environment-friendly concrete product jointly developed by four companies (Denka, Chugoku Electric Power Co., Inc., Kajima Corporation and Landes Co., Ltd.) was awarded the 13th Eco Products Grand Prize Promotion Council’s Special Award (Excellence Award).

The award recognizes outstanding products and services that give consideration to lessening their environmental impact.

By absorbing CO<sub>2</sub>, CO<sub>2</sub>-SUICOM® utilizes special cement additives that strengthen concrete (capturing), which and since it reduces the volume of cement used and absorbs CO<sub>2</sub> in exhaust gas emitted from power stations and factories. The product is capable of reducing net CO<sub>2</sub> emissions volume during curing to zero or less.

Leveraging special cement additive technologies accumulated over the years, Denka developed a

carbonization agent LEAF® that serves as a key material of CO<sub>2</sub>-SUICOM.

In addition to CO<sub>2</sub>-SUICOM®, Denka has been marketing EIEN®, which absorbs CO<sub>2</sub> and thereby prolongs the life of concrete structures, as well as SUQCEM®, a lightweight, ultrahigh-strength fiber-reinforced concrete product. Going forward, Denka hopes to contribute to environmental preservation through CO<sub>2</sub>-reduction, resource conservation and other various solutions.

### **Hosting the Support Itoigawa Charity Concert**

There was a major fire in central Itoigawa City of Niigata Prefecture on December 22, 2016 that destroyed approximately 150 buildings, including homes and shops.

Denka's Omi Plant is located in Itoigawa City. After the disaster, we promoted various initiatives to contribute to the reconstruction of the disaster-stricken area to facilitate the safe and comfortable development of the community. As part of these initiatives, on March 2, 2017, the Denka Group companies hosted the "Support Itoigawa Charity Concert" at Sumida Triphony Hall in Sumida Ward, Tokyo.

More than 1,000 people attended the successful event and enjoyed performances by the Japan Philharmonic Orchestra and other musicians with historical ties with the City who supported the cause. Proceeds from the concert were donated to Itoigawa City.

### **Renewed Naming Rights for Niigata Stadium (DENKA BIG SWAN STADIUM)**

On December 31, 2016, Denka renewed its naming rights for Niigata Stadium (DENKA BIG SWAN STADIUM).

DENKA BIG SWAN STADIUM was one of venues for the 2002 FIFA World Cup, and is now home to ALBIREX NIIGATA, a J1 League team, and ALBIREX NIIGATA Ladies, participating in the Japan Women's Football League. The stadium has also been used as an athletics field, to host the Japan National Championships in 2015 and other events.

In addition to the Omi Plant in Niigata, several Denka Group companies are located in Niigata, such as DENKA SEIKEN Co., Ltd., which manufactures vaccines and test reagents, having close ties with the local communities in Niigata dating back many years. As a naming rights sponsor, Denka will promote the Stadium as a familiar facility to be enjoyed by all the people in the region, as we continue to support its further development as a revered location for regional activity and sports promotion.

## **(2) Capital Investment**

The Group is steadily implementing many concrete measures with an offensive attitude in accordance with the three new growth strategies of the Denka100 management plan: “Create the most optimal production system,” “Scrutinize every cost element,” and “Focus management resources on new growth drivers and develop next-generation products.” In the fiscal year ended March 31, 2017, the Group conducted capital investment totaling ¥25,720 million.

Capital investment in the Elastomers & Performance Plastics Division amounted to ¥8,364 million. Principal items were capital investment for the Company’s Omi Plant and Chiba Plant.

In the Infrastructure & Social Solutions Division, capital investment amounted to ¥8,692 million, which mostly concerned the Company’s Omi Plant and Omuta Plant.

In the Electronics & Innovative Products Division, capital investment amounted to ¥2,947 million, which mostly concerned the Company’s Omuta Plant and Isesaki Plant.

Capital investment in the Life Science & Environmental Products Division amounted to ¥5,625 million mainly for the Company and DENKA SEIKEN Co., Ltd.

Main capital investment projects completed during fiscal 2016 include construction work to strengthen competitiveness by optimizing utility usage and to lower costs at the styrene monomer plant at the Company’s Chiba Plant. Furthermore, ongoing construction work at facilities include construction of a new hydroelectric power plant at the Company’s Omi Plant and an anti-cancer virus G47 Δ production facility at DENKA SEIKEN Co., Ltd.

In addition, in the “environment”, “energy”, “infrastructure” and “health” sectors, which have been identified as “four growth sectors”, the Company has been actively implementing strategic investment such as M&A to generate further growth. In the “infrastructure” sector, as part of its efforts to develop the special cement additives business in Southeast Asia and in a follow up to Malaysia, the Company converted Indonesia-based PT. ESTOP Indonesia, a construction materials manufacturer, to a subsidiary by raising its capital stake from 33% to 79%.

Furthermore, in the “health” sector, the Company utilized its partnership with Singapore’s Agency for Science, Technology and Research (A\*STAR) to establish Denka Life Innovation Research Private Limited in Singapore. This is the Company’s first overseas R&D base specializing in the life science sector. It also collaborated with KEW, Inc., a U.S.-based diagnostics service company, to establish Denka-KEW Genomics for the purpose of providing comprehensive genomic profiling to cancer patients and anti-cancer information.

## **(3) Financing**

The Company did not procure funds through the issuance of new shares or bonds during the fiscal year under review.

## **(4) Issues to be Addressed**

Last year, the Company renewed “The Denka Value”, the corporate philosophy that serves as the basis for our corporate activities to lay the groundwork for the next 100 years. This coincided with the first year of our second century, which marked the Denka’s 101st anniversary. For details, please see “Denka’s Corporate Governance Initiatives” on page 23 of this Notice.

In order to realize “The Denka Value,” Denka has continued steadily implementing initiatives related to “focusing management resources on four growth sectors and developing next-generation products,” one of the new growth strategies of the “Denka 100” management plan.

As part of initiatives for the “environment” and “energy” sectors, we created the Automotive Materials & Solution Department at our headquarters. This department will serve as a contact point for the overall Denka Group to effectively address new requirements for next-generation automobiles and auto parts. Furthermore, the Company officially decided to construct a new hydroelectric power plant after the investigation and examination at the Kurobegawa Power Plant, which is a joint venture with the Hokuriku Electric Power Company.

In the “infrastructure” sector, as part of initiatives to develop the special cement additives business in Southeast Asia, which is experiencing remarkable economic growth, after doing so, the Company converted a construction materials manufacturer in Indonesia to a subsidiary.

Among the four growth sectors, we have particularly accelerated initiatives in the “health” sector, where future growth is expected. Specifically, mainstay Group company DENKA SEIKEN Co., Ltd. and a strategic partner PlexBio, which is headquartered in Taiwan, concluded a business alliance agreement related to measuring systems developed by PlexBio. These measuring systems have pioneered a method of simultaneously measuring several proteins and genes in a shorter time and with a simpler method than conventional measuring systems. The Company will focus on populizing this

technology as a system that solves various issues in the medical field. Furthermore, in the partnership with Singapore’s Agency for Science, Technology and Research (A\*STAR), the Company established Denka Life Innovation Research Private Limited in Singapore, and welcomed members of the Singapore government at the opening ceremony in February this year. Research institutions of global bio-related companies gather in Singapore, and we plan to take advantage of the new facility to accelerate training of global personnel and promote open innovation in the life science sector. Furthermore, Denka also collaborated with KEW, Inc., a U.S.-based diagnostics service company, to establish Denka-KEW Genomics for the purpose of providing comprehensive genomic profiling relevant information to cancer patients in Japan to guide therapeutic decisions based on individual patient profiles. Through this business, we hope to create an environment that provides optimal treatment services to each and every cancer patient in Japan.

These initiatives allow us to steadily promote the “Denka100” management plan and strengthen our corporate governance system. Accordingly, from April this year, based on an executive management structure headed by the Chairman and President, we aim to respond to an expansion of our business fields and globalization effectively and promptly, and further enhance our corporate governance functions. Furthermore, we are presently formulating the new management plan, “Denka Value-up,” to follow up on the progress achieved under “Denka100.”

Our fundamental concepts in formulating “Denka Value-Up” was resolved at a meeting of the Board of Directors, and has been announced. Specific details are outlined on the next page.

### **Fundamental concepts for “Denka Value-UP” (FY2018 to 2022)**

- Growth vision for “Denka Value-Up”
  - ◆ Become a Specialty Company\* with a strong global presence
    - \* A business that meets or has a potential to meet the following conditions in the near future :1) boasting distinctive strengths and product value; 2) equipped with resilience to changes in external factors; and 3) commanding an industry-leading market share
  - ◆ Maintain Sustained Growth by significantly enhancing productivity through innovative processes
  - ◆ Secure Sound Growth through work style reforms

### **○ Growth Strategy 1 : Sharper Focus on Specialization**

#### **Business portfolio shift = Focus on specialization**

- (1) Accelerate the expansion of our specialty businesses
    - ◆ Focus our management resources on three key fields
      - 1) Healthcare: Expand into health checkup, treatment and disease prevention employing vaccine and diagnostic reagent technologies; Expand into markets related to cancer and infectious diseases with epoch-making technologies
      - 2) Sustainability and energy: Innovative materials for mobility, energy saving and clean energy
      - 3) High-value-added infrastructure : Technologies and solutions for construction and civil engineering
  - (2) Specialize our original businesses
    - ◆ Increase “specialty grade” ratio in product lineup
    - ◆ Shift to solution business
      - Original Businesses: Elastomer, styrene-based and inorganic products and resin processing, etc.
  - (3) Redefine positioning of the commodity businesses
    - ◆ Value chain optimization, operational downsizing in step with market demand and business reorganization, etc.
- ⇒Aim to have specialized businesses contribute to 90% of fiscal 2022 operating income

### **○ Growth strategy 2 Innovative Processes**

#### **Process reforms in production, R&D and back-office operations**

Launch process reform initiatives (introduce cutting-edge ICT technologies, streamline back-office operations and standardize processes) to achieve a drastic improvement in productivity; create new businesses; promote work style reforms; and realize a more vibrant organization that embraces diversity.

#### **(1) Production**

- ◆ Apply IoT- and AI-based technologies ⇒ AI-based, unmanned futuristic plants
- ◆ Revolutionary production methods ⇒ Improved production stability and efficiency

**(2) R&D**

- ◆ Create new businesses Strengthen key operations ⇒ Speedier R&D utilizing advanced digital technologies

**(3) Back-office operations**

- ◆ Improve the productivity of back-office operations
- ◆ Create a healthy and attractive workplace
- ◆ Promote diversity

**(5) Financial Position and Results of Operations**

(Millions of yen, unless otherwise stated)

| Item                                       | 155th term<br>(from April 1, 2013 to<br>March 31, 2014) | 156th term<br>(from April 1, 2014 to<br>March 31, 2015) | 157th term<br>(from April 1, 2015 to<br>March 31, 2016) | 158th term<br>(from April 1, 2016 to<br>March 31, 2017) |
|--|---|---|---|---|
| Net sales                                  | 376,809   | 383,978   | 369,853   | 362,647   |
| Operating income                           | 21,230  | 24,047  | 30,634  | 25,844  |
| Ordinary income                            | 20,604  | 24,287  | 27,022  | 23,158  |
| Profit attributable to<br>owners of parent | 13,573  | 19,021  | 19,472  | 18,145  |
| Net income per share<br>(yen)              | 29.03   | 41.48   | 42.94   | 41.01   |
| Total assets                               | 431,347   | 445,569   | 443,864   | 454,944   |
| Total net assets                           | 189,516   | 210,798   | 216,071   | 227,487   |
| Net assets per share<br>(yen)              | 402.77  | 455.94  | 473.35  | 505.28  |
| Total shareholders'<br>equity ratio (%)    | 43.5  | 46.9  | 47.7  | 49.1  |
| Return on equity<br>(ROE) (%)              | 7.4   | 9.6   | 9.3   | 8.3   |
| Total dividends paid                       | 4,659   | 5,723   | 5,836   | 6,194   |
| Dividends per share<br>(yen)               | 10.00   | 12.50   | 13.00   | 14.00   |

- Notes: 1. Net income per share is calculated using the average number of shares issued and outstanding excluding treasury stock. Net assets per share are calculated using the number of shares issued and outstanding at the end of the fiscal year excluding treasury stock.
2. For total dividends paid and dividends per share for the 158th term, the sum of the interim dividend paid in December 2016 and the dividend proposed for resolution at this Ordinary General Meeting of Shareholders is indicated.

**(6) Significant Subsidiaries** (as of March 31, 2017)

## 1) Significant subsidiaries

| Company name   | Capital             | The Company's percentage of equity participation | Principal business  |
|--|---------------------|--|---|
| Denka Singapore Pte., Ltd.                           | SGD 69,410 thousand | 100.0<br>(100.0)                                 | Manufacturing and sales of acetylene black and functional polystyrene resin products                      |
| Denka Chemicals Holdings Asia Pacific Pte., Ltd.     | USD 68,700 thousand | 100.0  | Regional headquarters for Southeast and South Asia  |
| Denka Performance Elastomer LLC                      | USD 62,000 thousand | 70.0<br>(70.0)                                   | Manufacturing and sales of synthetic rubbers  |
| Hinode Kagaku Kogyo                                  | JPY 300 million     | 100.0  | Manufacturing and sales of chemical fertilizers   |
| Nishi-nihon Koatsu Gas Co., Ltd.                     | JPY 80 million      | 93.2   | Manufacturing and sales of high-pressure gas  |
| DENKA RENOTEC Co., Ltd.                              | JPY 50 million      | 100.0  | Repair and reinforcement work for concrete structures and buildings and sales of materials                |
| DENKA Azumin Co., Ltd.                               | JPY 300 million     | 100.0  | Manufacturing and sales of fertilizers and agricultural materials   |
| DENKA Inorganic Materials Tianjin Co., Ltd.          | JPY 250 million     | 100.0  | Manufacturing and sales of special cement additives   |
| DENKA Infrastructure Technologies Shanghai Co., Ltd. | JPY 210 million     | 100.0  | Business headquarters for special cement additives in China   |
| Denka Infrastructure Malaysia Sdn Bhd.               | MYR 7,151 thousand  | 90.0<br>(90.0)                                   | Manufacturing and sales of construction chemicals   |
| Estop Sdn. Bhd.                                      | MYR 1,500 thousand  | 100.0<br>(100.0)                                 | Manufacturing and sales of construction chemicals   |
| PT. ESTOP Indonesia                                  | IDR 6,300 million   | 78.9<br>(78.9)                                   | Manufacturing and sales of construction chemicals   |
| Denka Advantech Pte., Ltd.                           | SGD 17,000 thousand | 100.0<br>(100.0)                                 | Manufacturing and sales of fused silica and synthetic fiber for wigs and hairpieces                       |
| Denal Silane Co., Ltd.                               | JPY 500 million     | 51.0   | Manufacturing and sales of monosilane gas, etc.   |
| Denka Advanced Materials (Suzhou) Co., Ltd.          | CNY 55,440 thousand | 100.0  | Manufacturing, processing, and sales of electronic packaging materials and food packaging materials, etc. |
| Denka Electronic Materials Dalian Co., Ltd.          | JPY 1,000 million   | 100.0  | Processing and sales of electronic materials  |
| DENKA Polymer Co., Ltd.                              | JPY 2,080 million   | 100.0  | Manufacturing and sales of various packaging materials and plastic containers                             |
| Nakagawa Techno Industrial Co., Ltd.                 | JPY 50 million      | 100.0  | Manufacturing, processing, and sales of metal rain gutters  |
| Denka Advanced Materials Vietnam Co., Ltd.           | USD 12,000 thousand | 100.0<br>(100.0)                                 | Manufacturing and sales of electronic packaging materials and vinyl tapes                                 |
| DENKA SEIKEN Co., Ltd.                               | JPY 1,000 million   | 100.0  | Manufacturing and sales of vaccines and clinical diagnostic reagents                                      |

|  |                     |                  |  |
|--|---------------------|------------------|--|
| YK Inoas Co., Ltd.                       | JPY 100 million     | 100.0            | Sales of raw materials for industrial applications, civil engineering and construction materials, and interior materials |
| Denka Consultant & Engineering Co., Ltd. | JPY 50 million      | 100.0            | Design and engineering of various industrial facilities, transportation facilities, etc.                                 |
| Akros Trading Co., Ltd.                  | JPY 1,200 million   | 68.5             | Sales of inorganic industrial products, organic industrial products, industrial resins, etc.                             |
| Akros Trading China Co., Ltd.            | USD 300 thousand    | 100.0<br>(100.0) | Sales of electronic packaging materials, etc.  |
| Akros Trading Taiwan Co., Ltd.           | TWD 29,000 thousand | 100.0<br>(100.0) | Sales of resins and semiconductor-related materials, etc.  |

Note: The Company's percentage of equity participation is calculated by dividing the number of shares held by the Company by the number of shares issued and outstanding. The figure within parentheses indicates the percentage of indirect ownership by subsidiaries.

## 2) Significant affiliates

| Company name           | Capital           | The Company's percentage of equity participation | Principal business  |
|------------------------|-------------------|--|---|
| Toyo Styrene Co., Ltd. | JPY 5,000 million | 50.0   | Manufacturing, processing, and sales of polystyrene resin |
| Denak Co., Ltd.        | JPY 600 million   | 50.0   | Manufacturing and sales of monochloroacetic acid          |

## (7) Principal Business Details (as of March 31, 2017)

The Company manufactures and sells the following products.

| Business division                              | Main products   |
|--|---|
| Elastomers & Performance Plastics Division     | Chloroprene rubber, acetylene black, styrene monomer, polystyrene resin, ABS resin, CLEAREN, heat-resistant resin, transparent resin, POVAL, etc. |
| Infrastructure & Social Solutions Division     | Cement, special cement additives, fertilizers, calcium carbide, fire resistant materials, environmental materials, etc.                           |
| Electronics & Innovative Products Division     | Fused silica, electronic circuit substrates, fine ceramics, electronic packaging materials, etc.  |
| Life Science & Environmental Products Division | Food packaging materials, vaccines, joint function improvers, diagnostic reagents, housing materials, life science and industrial materials, etc. |
| Others Division                                | Plant engineering etc.  |

**(8) Principal Offices and Factories (as of March 31, 2017)**

| Company name   | Principal offices   |
|--|---|
| Denka Co., Ltd.                                      | Head Office: 1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo<br>Branches: Osaka, Nagoya, Fukuoka, Niigata, Hokuriku (Toyama), Sapporo, Tohoku (Sendai)<br>Plants: Omi (Itoigawa, Niigata Prefecture), Omuta, Chiba (Ichihara, Chiba Prefecture), Shibukawa, Ofuna (Kamakura, Kanagawa Prefecture), Isesaki<br>Research Institutes: Denka Innovation Center (Advanced Technologies Research Institute, Life Innovation Research Institute, Infrastructure & Solutions Development Research Institute) (Machida, Tokyo)<br>Polymer & Processing Technology Institute (Ichihara, Chiba Prefecture) |
| Denka Singapore Pte., Ltd.                           | Head Office and Plants: Singapore   |
| Denka Chemical Holdings Asia Pacific Pte., Ltd.      | Head Office: Singapore  |
| Denka Performance Elastomer LLC                      | Head Office and Plant: Louisiana, United States   |
| Hinode Kagaku Kogyo                                  | Head Office and Plant: Maizuru, Kyoto Prefecture  |
| Nishi-nihon Koatsu Gas Co., Ltd.                     | Head Office: Fukuoka, Fukuoka Prefecture  |
| DENKA RENOTEC Co., Ltd.                              | Head Office: Chuo-ku, Tokyo   |
| DENKA Azumin Co., Ltd.                               | Head Office and Plant: Hanamaki, Iwate Prefecture   |
| DENKA Inorganic Materials Tianjin Co., Ltd.          | Head Office and Plant: Tianjin, China   |
| DENKA Infrastructure Technologies Shanghai Co., Ltd. | Head Office: Shanghai, China  |
| Denka Infrastructure Malaysia Sdn Bhd.               | Head Office and Plant: Selangor, Malaysia   |
| Estop Sdn. Bhd.                                      | Head Office and Plant: Selangor, Malaysia   |
| PT. ESTOP Indonesia                                  | Head Office: Special Capital Territory of Jakarta, Indonesia  |
| Denka Advantech Pte., Ltd.                           | Head Office and Plant: Singapore  |
| Denal Silane Co., Ltd.                               | Head Office: Chuo-ku, Tokyo   |
| Denka Advanced Materials (Suzhou) Co., Ltd.          | Head Office and Plant: Suzhou, Jiangsu, China   |
| Denka Electronic Materials Dalian Co., Ltd.          | Head Office and Plant: Dalian, Liaoning, China  |
| DENKA Polymer Co., Ltd.                              | Head Office: Koto-ku, Tokyo<br>Plants: Sakura, Katori (Tako-machi, Chiba Prefecture), Goi (Ichihara, Chiba Prefecture)  |
| Nakagawa Techno Industrial Co., Ltd.                 | Head Office: Kasai, Hyogo Prefecture  |
| Denka Advanced Materials Vietnam Co., Ltd.           | Head Office and Plant: Hung Yen, Vietnam  |
| DENKA SEIKEN Co., Ltd.                               | Head Office: Chuo-ku, Tokyo<br>Plant: Gosen, Niigata Prefecture   |
| YK Inoas Co., Ltd.                                   | Head Office: Bunkyo-ku, Tokyo   |
| Denka Consultant & Engineering Co., Ltd.             | Head Office: Chuo-ku, Tokyo   |
| Akros Trading Co., Ltd.                              | Head Office: Minato-ku, Tokyo   |
| Akros Trading China Co., Ltd.                        | Head Office: Shanghai, China  |
| Akros Trading Taiwan Co., Ltd.                       | Head Office: Hsin-Chu, Taiwan   |

**(9) Employees** (as of March 31, 2017)

## 1) The Group

| Business segment                               | Number of employees |         |
|--|---------------------|---------|
| Elastomers & Performance Plastics Division     | 1,060               | [149]   |
| Infrastructure & Social Solutions Division     | 935                 | [161]   |
| Electronics & Innovative Products Division     | 952                 | [171]   |
| Life Science & Environmental Products Division | 1,744               | [389]   |
| Others Division                                | 773                 | [200]   |
| Corporate (common)                             | 352                 | [ 72]   |
| Total  | 5,816               | [1,142] |

- Notes: 1. The number of employees indicated is the number of full-time employees and the annual average number of temporary employees is indicated in brackets.
2. The number of employees indicated for “Corporate (common)” is the number of employees who belong to administrative divisions that cannot be classified into a specific business.

## 2) The Company

| Number of employees | Increase (Decrease)<br>from the previous<br>fiscal year-end | Average age | Average service years |
|---------------------|---|-------------|-----------------------|
| 2,960 [645]         | -14 [-12]   | 40.1        | 17.7                  |

- Note: The number of employees indicated is the number of full-time employees and the annual average number of temporary employees is indicated in the brackets.

**(10) Principal Lenders** (as of March 31, 2017)

| Lender                              | Outstanding borrowings (Millions of yen) |
|-------------------------------------|--|
| Syndicated loan                     | 25,000                                   |
| Mizuho Bank, Ltd.                   | 17,049                                   |
| M&A loans                           | 12,442                                   |
| Sumitomo Mitsui Banking Corporation | 6,358                                    |
| The Norinchukin Bank                | 6,334                                    |

- Notes: 1. The syndicated loan is managed by Mizuho Bank, Ltd., Sumitomo Mitsui Banking Corporation, and the Development Bank of Japan and is co-financed by The Daishi Bank, Ltd. and other financial institutions.
2. M&A loans refers to an overseas M&A support loan system maintained by the Japan Bank for International Cooperation in cooperation with private banks.

**(11) Other Significant Matters concerning the Group’s Current Situation**

Not applicable

## 2. Status of Shares (as of March 31, 2017)

|                                       |   |
|---------------------------------------|---|
| (1) Total Number of Authorized Shares | 1,584,070,000 shares  |
| (2) Shares of Common Stock Issued     | 465,954,121 shares<br>(including 23,473,612 shares of treasury stock) |
| (3) Number of Shareholders            | 29,363  |

### (4) Major Shareholders

| Shareholder name   | Number of shares held<br>(thousand shares) | Percentage of shares held<br>(%) |
|--|--|----------------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account)   | 36,069                                     | 8.15                             |
| Japan Trustee Service Bank, Ltd. (Trust Account)   | 31,805                                     | 7.19                             |
| Trust & Custody Services Bank, Ltd.<br>(Mizuho Corporate Bank, Ltd. Retirement Benefit Trust<br>Account re-entrusted by Mizuho Trust and Banking Co.,<br>Ltd.) | 16,079                                     | 3.63                             |
| National Mutual Insurance Federation of Agricultural<br>Cooperatives   | 13,795                                     | 3.12                             |
| MITSUI LIFE INSURANCE, CO., LIMITED  | 11,908                                     | 2.69                             |
| STATE STREET BANK AND TRUST COMPANY<br>505001  | 10,376                                     | 2.35                             |
| Japan Trustee Service Bank, Ltd. (Trust Account 9)   | 9,105                                      | 2.06                             |
| Japan Trustee Service Bank, Ltd. (Trust Account 5)   | 7,972                                      | 1.80                             |
| Trust & Custody Services Bank, Ltd. (Investment Trust<br>Collateral Account)   | 7,501                                      | 1.70                             |
| Mitsui Sumitomo Insurance Company, Limited   | 6,916                                      | 1.56                             |

- Notes: 1. The Company holds 23,473,612 shares of treasury stock but is excluded from the above major shareholders.  
2. Treasury stock is excluded for calculation of the percentage of shares held.

### (5) Other Significant Matters concerning Shares

Not applicable

## 3. Matters concerning the Company's Stock Acquisition Rights (as of March 31, 2017)

Not applicable

## 4. Company Officers

### (1) Directors and Audit & Supervisory Board Members (as of March 31, 2017)

| Name                | Position                                 | Responsibilities and significant concurrent positions   |
|---------------------|--|---|
| Shinsuke Yoshitaka  | President                                | President and Chief Executive Officer<br>Outside Director of Koatsu Gas Kogyo Co., Ltd.   |
| Mitsukuni Ayabe     | Representative Director                  | Executive Vice President and Chief Operating Officer<br>Assistant to CEO, Supervisor Corporate Planning, Development<br>Purchasing Dept., Logistics Dept.   |
| Manabu Yamamoto     | Director                                 | Senior Managing Executive Officer<br>Investor Relations Dept., CSR & Corporate Communications Dept., Internal Auditing Dept., Accounting & Finance Dept., Information System Dept.<br>General Manager, Corporate Planning Dept.<br>Outside Audit & Supervisory Board Member of Koatsu Gas Kogyo Co., Ltd. |
| Kenji Nakano        | Director                                 | Managing Executive Officer<br>Chief Compliance Officer<br>Representative in China<br>Secretary Dept., Administrative Dept., Legal Dept., HR Dept., DENKA100 Promoting Dept.   |
| Tetsuro Maeda       | Director                                 | President and Representative Director of DENKA SEIKEN Co., Ltd.   |
| Yasuo Sato          | Director (Outside Director)              | Chairman and Director of Wisemech Corporation   |
| Akio Yamamoto       | Director (Outside Director)              |   |
| Tatsutsugu Fujihara | Director (Outside Director)              | Chairman and Executive Officer of KSO Corporation   |
| Shohei Tamaki       | Audit & Supervisory Board Member         |   |
| Masanori Sakamoto   | Audit & Supervisory Board Member         |   |
| Tsunehiro Sasanami  | Outside Audit & Supervisory Board Member | Lawyer, Sasanami Law Office   |
| Toshio Kinoshita    | Outside Audit & Supervisory Board Member | Representative Director of Global Professional Partners<br>Outside Audit & Supervisory Board Member of Panasonic Corporation<br>Outside Corporate Auditor of Weathernews Inc.<br>Outside Director of ASATSU-DK Inc.<br>Outside Director of Mizuho Bank, Ltd.<br>Outside Director of TACHI-S CO., LTD.     |

- Notes: 1. Directors Mr. Yasuo Sato, Mr. Akio Yamamoto, and Mr. Tatsutsugu Fujihara are outside directors as stipulated in Article 2, Paragraph 15 of the Companies Act.
2. Audit & Supervisory Board Members Mr. Tsunehiro Sasanami and Mr. Toshio Kinoshita are outside auditors as stipulated in Article 2, Paragraph 16 of the Companies Act.
3. Audit & Supervisory Board Member Mr. Toshio Kinoshita is a certified public accountant, and has an adequate level of knowledge regarding finance and accounting.
4. The Company designated Directors Mr. Yasuo Sato, Mr. Akio Yamamoto, and Mr. Tatsutsugu Fujihara and Audit & Supervisory Board Members Mr. Tsunehiro Sasanami and Mr. Toshio Kinoshita as independent directors/auditors as defined by Tokyo Stock Exchange, Inc. and notified it of the designation.

**(Reference)****Executive Officers** (as of May 1, 2017)

| Position   | Name              | Responsibilities  |
|--|-------------------|---|
| President and Chief Executive Officer                | Manabu Yamamoto   |   |
| Executive Vice President and Chief Operating Officer | Mitsukuni Ayabe   | Supervisor, Life Innovation<br>President and Representative Director of DENKA SEIKEN Co., Ltd.  |
| Managing Executive Officer                           | Norihiro Shimizu  | Chief R&D Officer, Innovation Center<br>New Business Development Dept., R&D Promoting Dept., Intellectual Property Dept.  |
|  | Kenji Nakano      | Chief Compliance Officer<br>Secretary Dept., Internal Auditing Dept.,<br>Administrative Dept., Legal Dept.,<br>HR Dept., Denka100 Promoting Dept.   |
|  | Masaharu Suzuki   | Investor Relations Dept., CSR & Corporate<br>Communications Dept.<br>General Manager, Corporate Planning Dept.<br>Director Chairman, DCHA<br>General Manager, Business Process Reform Promotion Dept. |
|  | Tetsuya Shinmura  | Chief Technical Officer (CTO)<br>Environment and Safety Dept., Purchasing Dept.,<br>Logistics Dept.   |
|  | Junichi Kimura    | Representative, China<br>General Manager, Life Science & Environment<br>Products  |
|  | Toshio Imai       | Representative, USA<br>General Manager, Elastomers & Performance Plastics   |
|  | Hideki Hirano     | General Manager, Omi Plant  |
|  | Executive Officer | Koichi Taguchi  |
|  | Hideki Watanabe   | General Manager, Chiba Plant  |
|  | Toyoki Yokoyama   | General Manager, Infrastructure & Social Solutions  |
|  | Koki Tabuchi      | President of Denka Performance Elastomer LLC  |
|  | Shojiro Watanabe  | General Manager, Electronics & Innovative Products  |
|  | Nobuyuki Yoshino  | Assistant to Chief R&D Officer, Innovation Center<br>General Manager, Advanced Technologies Research<br>Institute   |
|  | Kazuya Tokumoto   | Managing Director, DCHA, DSPL, and DAPL   |
|  | Hideki Takahashi  | General Manager, Life Innovation  |
|  | Kazuo Takahashi   | General Manager, Omuta Plant  |
|  | Rimiru Hayashida  | Information System Dept.<br>General Manager, Accounting & Finance Dept.<br>Member of Business Process Reform Promotion Dept.  |

Notes: DCHA: Denka Chemicals Holdings Asia Pacific Pte., Ltd.

DSPL: Denka Singapore Pte., Ltd.

DAPL: Denka Advantech Pte., Ltd.

## (2) Directors that Retired During the Fiscal Year Under Review

| Name              | Date of retirement | Reason for retirement  | Positions, responsibilities, and significant concurrent positions at time of retirement  |
|-------------------|--------------------|------------------------|--|
| Hideyuki Udagawa  | June 22, 2016      | Term of office expired | Director<br>Senior Managing Executive Officer<br>General Manager, Infrastructure & Social Solutions<br>Special Cement Additives Overseas Business Promotion<br>General Manager, Disaster Reconstruction Support Div. |
| Tadashi Hashimoto | June 22, 2016      | Term of office expired | Director (Outside Director)  |

## (3) Summary of Liability Limitation Agreements

Based on Article 427, Paragraph 1 of the Companies Act, the Company currently concludes liability limitation contracts with Directors Mr. Yasuo Sato, and Mr. Akio Yamamoto, and Mr. Tatsutsugu Fujihara and Audit & Supervisory Board Members Mr. Tsunehiro Sasanami and Mr. Toshio Kinoshita that limit their liability for damages of Article 423, Paragraph 1 of said Act. The limit of liability under the contract is set to a predefined amount of ¥5 million or more or the amount stipulated by laws and regulations, whichever is higher.

## (4) Remuneration for and Other Payments to Directors and Audit & Supervisory Board Members

| Category  | Number of persons | Amount paid (Millions of yen) |
|---|-------------------|-------------------------------|
| Directors<br>(of which Outside Directors)   | 10<br>(4)         | 305<br>(36)                   |
| Audit & Supervisory Board Members<br>(of which Outside Audit & Supervisory Board Members) | 4<br>(2)          | 79<br>(24)                    |
| Total<br>(of which outside officers)  | 14<br>(6)         | 384<br>(60)                   |

- Notes:
1. The amount paid to Directors does not include portions of their salaries as employees.
  2. The maximum amount of remuneration for Directors is ¥540 million per year (of which the maximum amount of remuneration for Outside Directors is ¥50 million, excluding the portions of their salaries as employees) as resolved at the 156th Ordinary General Meeting of Shareholders held on June 19, 2015.
  3. The maximum amount of remuneration for Audit & Supervisory Board Members is ¥13 million per month as resolved at the 147th Ordinary General Meeting of Shareholders held on June 29, 2006.
  4. The number of Directors as of the end of the fiscal year under review was eight (including three Outside Directors). The difference between these figures and the figures in (1) above are due to the retirement of two Directors (including one Outside Director) at the 157th Ordinary General Meeting of Shareholders held on June 22, 2016 as in (2) above.

**(5) Outside Officers**

**1) Significant concurrent positions as executive directors etc. at other companies, etc. and the relationship between the Company and such companies, etc.**

Director Mr. Yasuo Sato is Chairman and Director of Wisemech Corporation. There are no significant transactions between the Company and Wisemech Corporation.

Director Mr. Tatsutsugu Fujihara is the Chairman and Executive Officer of KSO Corporation. There are no significant transactions between the Company and KSO Corporation.

Audit & Supervisory Board Member Mr. Tsunehiro Sasanami is a lawyer with Sasanami Law Office. There are no significant transactions between the Company and Sasanami Law Office.

Audit & Supervisory Board Member Toshio Kinoshita is Representative Director of Global Professional Partners. There are no significant transactions between the Company and Global Professional Partners.

**2) Significant concurrent positions as outside officers etc. at other companies, etc. and the relationship between the Company and such companies, etc.**

Audit & Supervisory Board Member Mr. Toshio Kinoshita is Outside Audit & Supervisory Board Member of Panasonic Corporation and Outside Corporate Auditor of Weathernews Inc. and Outside Director of ASATSU-DK Inc., Outside Director of Mizuho Bank, Ltd., and Outside Director of TACHI-S CO., LTD.

There are no significant transactions between the Company and Weathernews Inc., Asatsu-DK Inc., and TACHI-S CO., LTD.

The Company has transactions with Panasonic Corporation and Mizuho Bank, Ltd., but there are no special interest relationships.

**3) Relationship with specified related parties such as major customers**

Not applicable

**4) Principal activities in the fiscal year ended March 31, 2017**

**i. Outside Directors**

[Board of Directors meetings]

The Board of Directors met 13 times in the fiscal year ended March 31, 2017. Mr. Yasuo Sato and Mr. Akio Yamamoto attended all 13 meetings of the Board of Directors (attendance rate: 100%), and Mr. Tatsutsugu Fujihara attended all 10 meetings of the Board of Directors (attendance rate: 100%) after assuming office as Director on June 22, 2016. Mr. Sato and Mr. Yamamoto, based on their rich experience and wide views as managers and rich international experience serving as persons responsible for business at global companies, and Mr. Fujihara, based on his rich experience and wide views as a manager, and expert knowledge of corporate finance, actively made inquiries and recommendations regarding the Group's business plans, particularly regarding overseas expansion, and its internal rules, personnel strategy and compliance. Mr. Fujihara also visited the Company's business sites and subsidiaries and received briefings on the business, and asked questions and stated opinions to Directors etc., as necessary, from external viewpoints.

**ii. Outside Audit & Supervisory Board Members**

[Board of Directors meetings]

The Board of Directors met 13 times in the fiscal year ended March 31, 2017. Mr. Tsunehiro Sasanami attended all 13 meetings of the Board of Directors (attendance rate: 100%), and Mr. Toshio Kinoshita attended 12 out of the 13 meetings of the Board of Directors (attendance rate: 92%). Mr. Sasanami, based on his rich experience and expert knowledge as a lawyer, and Mr. Kinoshita, based on his experience and rich accounting knowledge as a certified public accountant in Japan and the US, actively made inquiries and made recommendations regarding the organizational structure of the Company's overseas subsidiaries, compliance and other legal risks, and business and funding plans. They also visited the Company's business sites and subsidiaries and received briefings on the business and asked questions and stated opinions to Directors, etc., as necessary, from external viewpoints.

[Audit & Supervisory Board meetings]

The Audit & Supervisory Board met 15 times in the fiscal year ended March 31, 2017. Mr. Tsunehiro Sasanami attended all 15 meetings of the Audit & Supervisory Board (attendance rate: 100%), and Mr. Toshio Kinoshita attended 14 out of the 15 meetings of the Audit & Supervisory Board (attendance rate: 93%). They also attended the Board of Directors meetings and other important meetings. In addition, they reviewed important minutes, authorization documents, etc., investigated

the Company's divisions and departments, business sites and subsidiaries, and received briefings on the status of business execution at periodic divisional report meetings. They reported the results of these activities to the Audit & Supervisory Board and had necessary discussions with other Audit & Supervisory Board Members.

|  | Board of Directors meetings |                 | Audit & Supervisory Board meetings |                 |
|--|-----------------------------|-----------------|------------------------------------|-----------------|
|  | Attendance                  | Attendance rate | Attendance                         | Attendance rate |
| Director<br>Yasuo Sato                                 | 13/13                       | 100%            | -                                  | -               |
| Director<br>Akio Yamamoto                              | 13/13                       | 100%            | -                                  | -               |
| Director<br>Tatsutsugu Fujihara                        | 10/10                       | 100%            | -                                  | -               |
| Audit & Supervisory Board Member<br>Tsunehiro Sasanami | 13/13                       | 100%            | 15/15                              | 100%            |
| Audit & Supervisory Board Member<br>Toshio Kinoshita   | 12/13                       | 92%             | 14/15                              | 93%             |

## 5. Accounting Auditor

(1) **Accounting Auditor's Name**

Ernst & Young ShinNihon LLC

(2) **Accounting Auditor's Remuneration, etc. for the Fiscal Year Ended March 31, 2017**

|  | Amount paid (thousands of yen) |
|--|--------------------------------|
| Remuneration, etc. for the Accounting Auditor for the fiscal year ended March 31, 2017                 | 67,000                         |
| Monetary or property benefits to be paid by the Company and its subsidiaries to the Accounting Auditor | 103,470                        |

Notes: 1. Under the audit agreement between the Company and its Accounting Auditor, remuneration for audits based on the Companies Act and that for audits based on the Financial Instruments and Exchange Act are not strictly distinguished and they cannot be substantially distinguished. Consequently, the sum of the amounts of these remunerations is stated as the amount of remuneration, etc. for the Accounting Auditor for the fiscal year ended March 31, 2017.

2. The Audit and Supervisory Board of the Company, in observance of the "Practical Guidelines for Cooperation with Accounting Auditors" published by the Japan Audit & Supervisory Board Members Association, has confirmed the time taken to audit each audit item compared to audit plans for previous fiscal years and comparisons with amounts for other companies as disclosed for the fiscal year ended March 31, 2016, and agrees to the fees, etc., of the Accounting Auditor under Article 399, Item 1 of the Companies Act.

3. Financial statements (including corresponding statements) of some of the Company's significant subsidiaries are audited (subject to regulations of the Companies Act and the Financial Instruments and Exchange Act; including corresponding laws and regulations overseas) by Certified Public Accountants or Audit Corporations (including persons with qualifications that correspond to these qualifications overseas) other than the Company's Accounting Auditor.

(3) **Non-audit Services**

The Company pays fees to Ernst & Young ShinNihon LLC mainly for work to verify tax reduction and exemption applications regarding the feed-in tariff scheme for renewable energy.

(4) **Policy for Determination of Dismissal or Non-reappointment of the Accounting Auditor**

If the Audit & Supervisory Board considers that it has become difficult for the Accounting Auditor to perform its duties appropriately or otherwise considers it necessary, the Audit & Supervisory Board will make a resolution for dismissal or non-reappointment of the Accounting Auditor, and the Board of Directors will submit a proposal to the General Meeting of Shareholders based on this resolution.

If the Accounting Auditor is deemed to fall under any item of Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board will dismiss the Accounting Auditor upon consent of all the Audit & Supervisory Board Members.

(5) **Disposition of Suspension of Business of the Accounting Auditor during the Past Two Years**

The Accounting Auditor of the Company received an order for the suspension of business from the Financial Services Agency on December 22, 2015 regarding the conclusion of new contracts for three months (From January 1, 2016 to March 31, 2016).

(6) **Outline of the Limited Liability Contracts**

Not applicable

# Consolidated Financial Statements

## Consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

| Account item                         | (Reference)<br>157th term | 158th term     | Account item                                  | (Reference)<br>157th term | 158th term     |
|--------------------------------------|---------------------------|----------------|---|---------------------------|----------------|
| <b>(Assets)</b>                      | <b>443,864</b>            | <b>454,944</b> | <b>(Liabilities)</b>                          | <b>227,793</b>            | <b>227,456</b> |
| <b>Current assets</b>                | <b>161,876</b>            | <b>168,902</b> | <b>Current liabilities</b>                    | <b>147,537</b>            | <b>144,190</b> |
| Cash and deposits                    | 11,895                    | 10,258         | Notes and accounts payable-trade              | 41,811                    | 46,811         |
| Notes and accounts receivable-trade  | 76,009                    | 85,069         | Short-term loans payable                      | 42,861                    | 43,492         |
| Merchandise and finished goods       | 43,981                    | 42,532         | Commercial paper                              | 5,000                     | -              |
| Work in process                      | 3,279                     | 3,745          | Current portion of long-term loans payable    | 18,225                    | 72             |
| Raw materials and supplies           | 16,839                    | 16,907         | Current portion of bonds                      | -                         | 10,000         |
| Deferred tax assets                  | 1,753                     | 2,039          | Accounts payable-other                        | 11,543                    | 14,229         |
| Other                                | 8,336                     | 8,809          | Income taxes payable                          | 2,806                     | 3,659          |
| Allowance for doubtful accounts      | (218)                     | (460)          | Accrued consumption taxes                     | 1,433                     | 814            |
|                                      |                           |                | Accrued expenses                              | 8,972                     | 9,690          |
|                                      |                           |                | Provision for bonuses                         | 2,741                     | 2,880          |
|                                      |                           |                | Other   | 12,142                    | 12,539         |
| <b>Noncurrent assets</b>             | <b>281,988</b>            | <b>286,041</b> | <b>Noncurrent liabilities</b>                 | <b>80,255</b>             | <b>83,266</b>  |
| <b>Property, plant and equipment</b> | <b>214,329</b>            | <b>213,456</b> | Bonds payable                                 | 30,000                    | 20,000         |
| Buildings                            | 40,709                    | 39,849         | Long-term loans payable                       | 28,510                    | 40,184         |
| Structures                           | 20,350                    | 22,132         | Deferred tax liabilities                      | 3,984                     | 5,895          |
| Machinery and equipment              | 77,730                    | 73,761         | Deferred tax liabilities for land revaluation | 8,407                     | 8,405          |
| Vehicles                             | 647                       | 577            | Net defined benefit liability                 | 8,314                     | 7,774          |
| Tools, furniture and fixtures        | 3,046                     | 2,895          | Other   | 1,039                     | 1,006          |
| Land                                 | 63,084                    | 63,247         |   |                           |                |
| Lease assets                         | 371                       | 312            |   |                           |                |
| Construction in progress             | 8,388                     | 10,679         |   |                           |                |
| <b>Intangible assets</b>             | <b>11,131</b>             | <b>10,342</b>  | <b>(Net assets)</b>                           | <b>216,071</b>            | <b>227,487</b> |
| Software                             | 917                       | 1,170          | <b>Shareholders' equity</b>                   | <b>190,647</b>            | <b>199,865</b> |
| Goodwill                             | 6,401                     | 5,694          | Capital stock                                 | 36,998                    | 36,998         |
| Right of using patent                | 3,813                     | 3,477          | Capital surplus                               | 49,284                    | 49,284         |
| <b>Investments and other assets</b>  | <b>56,527</b>             | <b>62,242</b>  | Retained earnings                             | 112,335                   | 123,752        |
| Investment securities                | 49,843                    | 54,604         | Treasury stock                                | (7,971)                   | (10,170)       |
| Long-term loans receivable           | 1,293                     | 664            |   |                           |                |
| Long-term prepaid expenses           | 1,581                     | 2,789          |   |                           |                |

|                                 |                |                |   |                |                |
|---------------------------------|----------------|----------------|---|----------------|----------------|
| Deferred tax assets             | 1,210          | 1,608          | <b>Accumulated other comprehensive income</b>         | <b>21,087</b>  | <b>23,700</b>  |
| Other                           | 3,368          | 3,399          | Valuation difference on available-for-sale securities | 10,775         | 14,837         |
| Allowance for doubtful accounts | (770)          | (823)          | Revaluation reserve for land                          | 10,267         | 10,265         |
|                                 |                |                | Foreign currency translation adjustment               | 2,739          | 1,496          |
|                                 |                |                | Remeasurements of defined benefit plans               | (2,695)        | (2,898)        |
|                                 |                |                | <b>Non-controlling interests</b>                      | <b>4,336</b>   | <b>3,922</b>   |
| <b>Total</b>                    | <b>443,864</b> | <b>454,944</b> | <b>Total</b>  | <b>443,864</b> | <b>454,944</b> |

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

## Consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

| Account item   | (Reference)<br>157th term |                | 158th term |                |
|--|---------------------------|----------------|------------|----------------|
| <b>Net sales</b>   |                           | <b>369,853</b> |            | <b>362,647</b> |
| <b>Cost of sales</b>   |                           | <b>278,064</b> |            | <b>273,263</b> |
| <b>Gross profit</b>  |                           | <b>91,788</b>  |            | <b>89,383</b>  |
| Selling, general, and administrative expenses  |                           | 61,154         |            | 63,539         |
| <b>Operating income</b>  |                           | <b>30,634</b>  |            | <b>25,844</b>  |
| <b>Non-operating income</b>  |                           |                |            |                |
| Interest and dividend income   | 1,210                     |                | 1,428      |                |
| Equity in earnings of affiliates   | 1,097                     |                | 568        |                |
| Other  | 850                       | 3,158          | 640        | 2,637          |
| <b>Non-operating expenses</b>  |                           |                |            |                |
| Interest expenses  | 860                       |                | 820        |                |
| Other  | 5,909                     | 6,770          | 4,502      | 5,322          |
| <b>Ordinary income</b>   |                           | <b>27,022</b>  |            | <b>23,158</b>  |
| <b>Extraordinary income</b>  |                           |                |            |                |
| Gain on sales of investment securities   | -                         | -              | 683        | 683            |
| <b>Extraordinary loss</b>  |                           |                |            |                |
| Provision of allowance for doubtful accounts   | 671                       |                | -          |                |
| Acquisition-related expenses   | 632                       |                | -          |                |
| Difference on change from simple method to principled method for retirement benefits | 544                       |                | -          |                |
| Loss on liquidation of business  | -                         | 1,848          | 1,356      | 1,356          |
| <b>Income before income taxes</b>  |                           | <b>25,174</b>  |            | <b>22,486</b>  |
| Income taxes-current   | 5,488                     |                | 5,133      |                |
| Income taxes-deferred  | 438                       | 5,926          | (464)      | 4,669          |
| <b>Profit</b>  |                           | <b>19,247</b>  |            | <b>17,816</b>  |
| Loss attributable to non-controlling interests                                       |                           | (225)          |            | (329)          |
| <b>Profit attributable to owners of parent</b>                                       |                           | <b>19,472</b>  |            | <b>18,145</b>  |

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

## Non-consolidated Financial Statements

### Non-consolidated Balance Sheet

(As of March 31, 2017)

(Millions of yen)

| Account item                         | (Reference)<br>157th term | 158th term     | Account item                                  | (Reference)<br>157th term | 158th term     |
|--------------------------------------|---------------------------|----------------|---|---------------------------|----------------|
| <b>(Assets)</b>                      | <b>345,893</b>            | <b>352,757</b> | <b>(Liabilities)</b>                          | <b>190,142</b>            | <b>189,854</b> |
| <b>Current assets</b>                | <b>103,015</b>            | <b>103,773</b> | <b>Current liabilities</b>                    | <b>116,531</b>            | <b>113,660</b> |
| Cash and deposits                    | 4,476                     | 2,926          | Accounts payable-trade                        | 23,002                    | 26,766         |
| Notes receivable-trade               | 3,157                     | 4,446          | Short-term loans payable                      | 27,675                    | 27,675         |
| Accounts receivable-trade            | 46,310                    | 52,307         | Commercial paper                              | 5,000                     | -              |
| Merchandise and finished goods       | 29,014                    | 26,767         | Current portion of long-term loans payable    | 18,058                    | 58             |
| Raw materials and supplies           | 9,686                     | 9,851          | Current portion of bonds                      | -                         | 10,000         |
| Prepaid expenses                     | 944                       | 980            | Accounts payable-other                        | 9,808                     | 12,454         |
| Deferred tax assets                  | 699                       | 807            | Income taxes payable                          | -                         | 1,169          |
| Short-term loans receivable          | 3,960                     | 706            | Accrued consumption taxes                     | 1,012                     | 335            |
| Other                                | 4,772                     | 4,986          | Accrued expenses                              | 5,557                     | 6,021          |
| Allowance for doubtful accounts      | (6)                       | (6)            | Deposits received                             | 24,389                    | 27,080         |
|                                      |                           |                | Provision for bonuses                         | 1,488                     | 1,523          |
|                                      |                           |                | Other   | 537                       | 575            |
| <b>Noncurrent assets</b>             | <b>242,878</b>            | <b>248,984</b> | <b>Noncurrent liabilities</b>                 | <b>73,611</b>             | <b>76,194</b>  |
| <b>Property, plant and equipment</b> | <b>168,557</b>            | <b>167,764</b> | Bonds payable                                 | 30,000                    | 20,000         |
| Buildings                            | 28,305                    | 27,587         | Long-term loans payable                       | 27,637                    | 39,554         |
| Structures                           | 17,455                    | 19,468         | Deferred tax liabilities                      | 4,906                     | 6,456          |
| Machinery and equipment              | 53,714                    | 50,184         | Deferred tax liabilities for land revaluation | 8,407                     | 8,405          |
| Vehicles                             | 464                       | 422            | Provision for retirement benefits             | 2,522                     | 1,639          |
| Tools, furniture and fixtures        | 2,118                     | 1,967          | Long-term accounts payable-other              | 13                        | 13             |
| Land                                 | 60,153                    | 60,373         | Asset retirement obligations                  | 125                       | 126            |
| Construction in progress             | 6,344                     | 7,760          |   |                           |                |

|                                       |                |                |  |                |                 |
|---------------------------------------|----------------|----------------|--|----------------|-----------------|
| <b>Intangible assets</b>              | <b>1,048</b>   | <b>1,246</b>   | <b>(Net assets)</b>  | <b>155,750</b> | <b>162,903</b>  |
| Software                              | 481            | 776            | <b>Shareholders' equity</b>                                  | <b>135,840</b> | <b>139,320</b>  |
| Right of using patent                 | 566            | 470            | <b>Capital stock</b>   | <b>36,998</b>  | <b>36,998</b>   |
|                                       |                |                | <b>Capital surplus</b>                                       | <b>49,284</b>  | <b>49,284</b>   |
| <b>Investments and other assets</b>   | <b>73,272</b>  | <b>79,972</b>  | Legal capital surplus  | 49,284         | 49,284          |
| Investment securities                 | 27,580         | 33,252         | Other capital surplus  | 0              | 0               |
| Stocks of subsidiaries and affiliates | 40,593         | 40,787         | <b>Retained earnings</b>                                     | <b>57,519</b>  | <b>63,199</b>   |
| Long-term loans receivable            | 2,412          | 2,283          | Other retained earnings                                      | 57,519         | 63,199          |
|                                       |                |                | Reserve for advanced depreciation of noncurrent assets       | 3,854          | 3,835           |
| Long-term prepaid expenses            | 950            | 1,908          | Retained earnings brought forward                            | 53,665         | 59,363          |
|                                       |                |                | <b>Treasury stock</b>  | <b>(7,962)</b> | <b>(10,161)</b> |
| Other investments                     | 1,743          | 1,742          | <b>Valuation and translation adjustments</b>                 | <b>19,910</b>  | <b>23,582</b>   |
| Allowance for doubtful accounts       | (7)            | (1)            | <b>Valuation difference on available-for-sale securities</b> | <b>9,643</b>   | <b>13,317</b>   |
|                                       |                |                | <b>Revaluation reserve for land</b>                          | <b>10,267</b>  | <b>10,265</b>   |
| <b>Total</b>                          | <b>345,893</b> | <b>352,757</b> | <b>Total</b>   | <b>345,893</b> | <b>352,757</b>  |

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

## Non-consolidated Statement of Income

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

| Account item                                  | (Reference)<br>157th term |                | 158th term |                |
|---|---------------------------|----------------|------------|----------------|
| <b>Net sales</b>                              |                           | <b>225,823</b> |            | <b>217,017</b> |
| <b>Cost of sales</b>                          |                           | <b>169,841</b> |            | <b>161,349</b> |
| <b>Gross profit</b>                           |                           | <b>55,981</b>  |            | <b>55,667</b>  |
| Selling, general, and administrative expenses |                           | 41,879         |            | 42,669         |
| <b>Operating income</b>                       |                           | <b>14,101</b>  |            | <b>12,997</b>  |
| <b>Non-operating income</b>                   |                           |                |            |                |
| Interest and dividend income                  | 4,562                     |                | 5,177      |                |
| Other   | 964                       | 5,527          | 716        | 5,893          |
| <b>Non-operating expenses</b>                 |                           |                |            |                |
| Interest expenses                             | 702                       |                | 618        |                |
| Other   | 4,786                     | 5,488          | 3,524      | 4,142          |
| <b>Ordinary income</b>                        |                           | <b>14,140</b>  |            | <b>14,748</b>  |
| <b>Extraordinary income</b>                   |                           |                |            |                |
| Gain on sales of investment securities        | -                         | -              | 432        | 432            |
| <b>Extraordinary loss</b>                     |                           |                |            |                |
| Acquisition-related expenses                  | 632                       |                | -          |                |
| Loss on liquidation of business               | -                         | 632            | 1,110      | 1,110          |
| <b>Income before income taxes</b>             |                           | <b>13,508</b>  |            | <b>14,070</b>  |
| Income taxes-current                          | 2,188                     |                | 2,109      |                |
| Income taxes-deferred                         | 554                       | 2,742          | 57         | 2,166          |
| <b>Profit</b>                                 |                           | <b>10,766</b>  |            | <b>11,904</b>  |

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

Independent Auditors' Report  
(English Translation)

May 8, 2017

To the Board of Directors  
Denka Co., Ltd.

Ernst & Young ShinNihon LLC

Shunji Momoi  
Certified Public Accountant  
Designated and Engagement Partner  
Mineo Kambayashi  
Certified Public Accountant  
Designated and Engagement Partner  
Shigeyuki Honda  
Certified Public Accountant  
Designated and Engagement Partner

Pursuant to Article 444, Section 4 of the Companies Act of Japan, we have audited the consolidated financial statements, which consist of the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, and the notes to consolidated financial statements of Denka Co., Ltd. (hereinafter referred to as the "Company") for the fiscal year from April 1, 2016 to March 31, 2017.

#### Management's Responsibility for Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan. This responsibility includes designing and operating internal control, which management considers necessary for the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit as independent auditors. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of the entity's internal control. However, in making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of

accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and the results of operations of the Denka Group consisting of Denka Co., Ltd. and its consolidated subsidiaries, applicable to the fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

#### Conflicts of Interest

Our firm and engagement partners have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act of Japan.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

Independent Auditors' Report  
(English Translation)

May 8, 2017

To the Board of Directors  
Denka Co., Ltd.

Ernst & Young ShinNihon LLC

Shunji Momoi  
Certified Public Accountant  
Designated and Engagement Partner  
Mineo Kambayashi  
Certified Public Accountant  
Designated and Engagement Partner  
Shigeyuki Honda  
Certified Public Accountant  
Designated and Engagement Partner

Pursuant to Article 436, Section 2, Paragraph 1 of the Companies Act of Japan, we have audited the non-consolidated financial statements, which consist of the balance sheet, the statement of income, the statement of changes in net assets, the notes to financial statements, and the accompanying supplementary schedules thereof of Denka Co., Ltd. (hereinafter referred to as the "Company") for the 158th term from April 1, 2016 to March 31, 2017.

#### Management's Responsibility for Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements and the accompanying supplementary schedules in accordance with accounting principles generally accepted in Japan. This responsibility includes designing and operating internal control, which management considers necessary for the preparation and fair presentation of the non-consolidated financial statements and the accompanying supplementary schedules that are free from material misstatements, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express an opinion on the non-consolidated financial statements and the accompanying supplementary schedules based on our audit as independent auditors. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplementary schedules. The procedures selected and applied depend on the auditors' judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplementary schedules, whether due to fraud or error. The purpose of the audit is not to express an opinion on the effectiveness of the entity's internal control. However, in making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the

accompanying supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used, the method of their application, and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying supplementary schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the financial statements and the accompanying supplementary schedules thereof referred to above present fairly, in all material respects, the financial position and the results of operations of the Company applicable to the fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

#### Conflicts of Interest

Our firm and engagement partners have no interest in the Company which should be disclosed in compliance with the Certified Public Accountant Act of Japan.

The above represents a translation, for convenience only, of the original report issued in the Japanese language.

## **Audit Report**

(English Translation)

With respect to the Directors' performance of their duties during the 158th term from April 1, 2016 to March 31, 2017, the Audit & Supervisory Board has prepared this audit report after deliberations based on the audit reports prepared by each Audit & Supervisory Board Member, and hereby reports as follows:

1. Auditing Method Applied by the Audit & Supervisory Board Members and the Audit & Supervisory Board and Details Thereof
  - (1) The Audit & Supervisory Board established auditing policies, assignment of duties, and other relevant matters, and received a report from each Audit & Supervisory Board Member regarding the status of implementation of audits and results thereof. In addition, the Audit & Supervisory Board received reports from the Directors, other relevant personnel and the Accounting Auditor regarding the status of performance of their duties, and requested explanations as necessary.
  - (2) In conformity with the auditing standards for Audit & Supervisory Board Members established by the Audit & Supervisory Board, and in accordance with the auditing policies, assignment of duties and other relevant matters, each Audit & Supervisory Board Member communicated with Directors, the Internal Auditing Department, other employees, and any other relevant personnel, and endeavored to collect information and maintain and improve the audit environment, conducting audits as follows.
    - 1) Each Audit & Supervisory Board Member also attended meetings of the Board of Directors and other important meetings, received reports from the Directors, employees and other relevant personnel regarding the status of performance of their duties, requested explanations as necessary, examined important documents related to important decisions and associated information, and inspected the status of operations and assets at the head office and other principal business offices. Concerning subsidiaries, communication was made with Directors and Audit & Supervisory Board Members, etc., of subsidiaries, and information was collected, and business reports were received from subsidiaries as necessary.
    - 2) The Audit & Supervisory Board Members also expressed opinions on the resolutions of the Board of Directors regarding the establishment of the system to ensure that the Directors' performance of their duties as stated in the Business Report complies with laws and regulations and the Company's Articles of Incorporation and other systems that are set forth in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act of Japan as being necessary for ensuring the appropriateness of operations of a corporate group comprised of a joint stock company (kabushiki kaisha) and its subsidiaries, and the systems (internal control systems) established based on such resolutions. Audit & Supervisory Board Members periodically received reports from Directors, employees and other relevant personnel regarding the status of development and operation of such systems and requested explanations as necessary.
    - 3) With respect to the basic policy set forth in Article 118, Item 3 (i) of the Ordinance for Enforcement of the Companies Act and the measures set forth in Item 3 (ii) of the said article, which are described in the Business Report, the Audit & Supervisory Board Members examined the content based on the status of deliberations at meetings of the Board of Directors and other meetings.
    - 4) Audit & Supervisory Board Members monitored and verified whether the Accounting Auditor maintained its independence and implemented appropriate audits, received reports from the Accounting Auditor regarding the status of the performance of its duties, and requested explanations as necessary. In addition, the Audit & Supervisory Board Members received notice from the Accounting Auditor that the "system for ensuring that duties are performed properly" (matters set forth in each item of Article 131 of the Ordinance for Corporate Accounting) had been prepared in accordance with the "Quality Control Standards Relating to Auditing" (issued by the Business Accounting Council on October 28, 2005) and other relevant standards, and requested explanations as necessary.

Based on the above method, the Audit & Supervisory Board Members reviewed the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and notes to non-consolidated financial statements) and the accompanying supplementary schedules, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets, and notes to consolidated financial statements), and the business report and its accompanying supplementary schedules for the fiscal year in question.

2. Results of Audit

- (1) Results of Audit of Business Report, etc., and Other Relevant Documents
  - 1) In our opinion, the Business Report and the accompanying supplementary schedules present fairly the conditions of the Company in conformity with the applicable laws and regulations and the Articles of Incorporation of the Company.
  - 2) We have found no instances of misconduct or material violation of the applicable laws and regulations or the Articles of Incorporation with respect to performance of duties by the Directors.
  - 3) In our opinion, the contents of the resolutions of the Board of Directors related to the internal control systems are fair and reasonable. In addition, we have found no matters requiring special mention regarding the description in the Business Report and the performance of duties by the Directors related to such internal control systems.
  - 4) We have found no matters requiring special mention with respect to the basic policies regarding the determination of policies on control of the finances and business of the Company described in the Business Report. In our opinion, the measures described in the Business Report, set forth in Article 118, Item 3 (ii) of the Ordinance for Enforcement of the Companies Act, are in line with the basic policy, do not impair the common interests of the Company's shareholders, and are not for the purpose of maintaining the position of the Company's officers.
- (2) Results of Audit of Non-consolidated Financial Statements and the Accompanying Supplementary Schedules  
In our opinion, the method and the results of the audit performed by Ernst & Young ShinNihon LLC are fair and reasonable.
- (3) Results of Audit of Consolidated Financial Statements  
In our opinion, the method and the results of the audit performed by Ernst & Young ShinNihon LLC are fair and reasonable.

May 8, 2017

Audit & Supervisory Board, Denka Co., Ltd.

|  |                    |
|--|--------------------|
| Full-time Audit & Supervisory Board Member | Shohei Tamaki      |
| Full-time Audit & Supervisory Board Member | Masanori Sakamoto  |
| Audit & Supervisory Board Member           | Tsunehiro Sasanami |
| Audit & Supervisory Board Member           | Toshio Kinoshita   |

(Note) Audit & Supervisory Board Members Tsunehiro Sasanami and Toshio Kinoshita are outside audit & supervisory board members as stipulated in Article 2, Item 16 of the Companies Act.

**(Reference)**

**Notice of Decision to Purchase and Disposal of Treasury Stock**

At the meeting of the Company's Board of Directors held on May 10, 2017, we resolved to purchase up to 7,000,000 shares of the Company (1.58% of shares of common stock issued, excluding treasury stock) and on May 15 resolved to dispose of stock 23,174,919 shares (4.97% of total shares outstanding prior to the disposal) of treasury stock for the purpose of flexibly returning profits to shareholders in accordance with the Policy on Shareholder Returns.