DENKA
DENKI KAGAKU KOGYO KABUSHIKI KAISHA

Sanshin Bldg., 1-4-1,
Yurakucho, Chiyoda-ku,
Tokyo 100-8455, Japan

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DENKA
DENKI KAGAKU KOGYO KABUSHIKI KAISHA

2000 ANNUAL REPORT

MERGING TECHNOLOGY AND A CHALLENGING SPIRIT

Profile

In April 2000, DENKA (Denki Kagaku Kogyo Kabushiki Kaisha) celebrated its 85th anniversary. Having started as a pioneer company in the field of electrochemical engineering, it has developed into a leading manufacturer of carbide and nitrolime, and expanded its business to include carbide acetylene series organic synthesis, cements and petrochemical fields. It recently entered the areas of electronics, fine ceramics and biochemical products. While maintaining the business structure that covers a wide range of fields, it has cultivated technologies and enhanced the company competitiveness by emphasizing those fields where its characteristics can best be utilized.

Today, increasingly globalized and information-oriented, the Japanese economy is in a time of great changes when the traditional values do not hold good anymore. In order to ride out this difficult time, our company is strengthening the consolidated management with other companies in the group so that efficiency and synergy effects within the group can be enhanced.

Furthermore, as a "distinctive company which makes its presence felt," it will try to improve its earning capacity and increase the corporate value, allocating the management resources selectively on the three areas of focus, which are viable sections in the market, namely, electronic materials, special cement additives, and special functional resin and resin-processing businesses.

Contents

DENKA's Business Domain

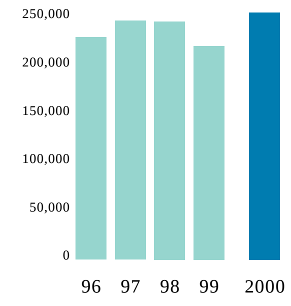
Petrochemical Products Division	Styrene, ABS
	Resin chemical products
	Functional resins
Specialized Chemical Products Division	Resin finishing products
	Fertilizers
	Inorganic Chemical Products
	Organic Chemical Products
	Electronic and functional materials
Cement and Construction Materials Division	Cements, etc.
	Special additives
Pharmaceutical and Other Products Division	Pharmaceutical products
	Chemical-related trade, services, utilities
	Other categories of business

Financial Highlights

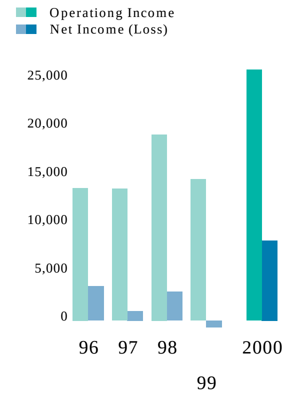
Years ended 31 March, 2000 and 1999	Millions of Yen 2000	Millions of Yen 1999	Thousands of U.S. Dollars 2000
Net Sales	¥ 256,273	¥ 221,546	$ 2,414,253
Operating Income	25,998	14,648	244,917
Income before Income Taxes	13,828	560	130,268
Net Income (Loss)	8,319	(699)	78,370
Total Assets	379,293	345,083	3,573,179
Total Shareholders' Equity	90,195	87,526	849,694
Net Income per Share (in Yen and U.S. Dollars)	17.87	(1.48)	0.168
Shareholders' Equity per Share (in Yen and U.S. Dollars)	196.33	185.49	1.849

Note : Yen amounts are translated into dollars at a rate of ¥106.15=U.S.$1.

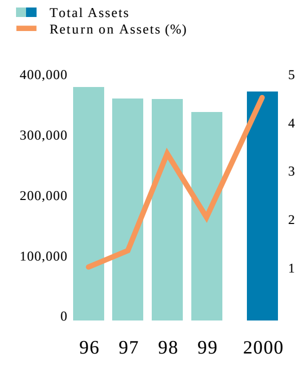
Net Sales
Millions of Yen



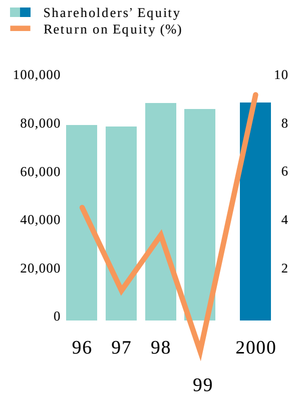
Operationg Income and Net Income (Loss)
Millions of Yen



Total Assets and Return on Assets
Millions of Yen



Shareholders' Equity and Return on Equity
Millions of Yen



Increased Production of Fused Silica

Although our company has so far maintained the top market share in the spherical-shaped fused silica for semiconductor sealing materials, the current term saw the further reinforcement of production facilities to meet the higher demands that follow the higher performance of semiconductors. Omuta Plant has already completed its production line extension for spherical filler. In Singapore, they have started expansion on the same scale. By the end of the year 2000, big capacity increase will have been realized for the entire group, securing its status as the leading manufacturer.

Denka Technocrete System Popularization

Starting with the collapse accidents in tunnels of the Shinkansen and viaducts, technology to repair deteriorated concrete has been attracting attention even in the society in general. In the public works budget, the ratio of repair and maintenance expenses has been rising. Demands for repair works, mainly from the Government, are predicted to grow. In this context, our company's 'Denka Technocrete Construction Method' with realkalization and dechlorination is attracting considerable attention. In 1999, our company organized 20 firms of contractors nationwide to set up a study group for Technocrete systems, and in December of the same year, a business tie-up was signed with KFC Ltd. In addition to in-house development efforts, it is actively endeavoring to disseminate the benefit of its Technocrete systems.

Denka Seiken Co., Ltd. Stocks Introduced Over-the-counter

One of our subsidiaries, Denka Seiken Co., Ltd., which manufactures and sells inspection reagents and vaccines, introduced its stocks over the counter in December 1999. The vaccine for influenza is its key product with a 25% share. It also has special technologies such as culture technology and biotechnology. It has been promoting exports as well in these years, and has established the position as a distinctive reagent maker

Development of Joint Function Improvement Agent "SUVENYL" (hyaluronic acid)

A joint function improvement agent "SUVENYL" was developed jointly with Aventis Pharma Ltd. and Chugai Pharmaceutical Co., Ltd. by using high molecular weight hyaluronic acid which our Company had originally developed through fermentation method (biotechnology). It has been approved for manufacture as a new drug, and is going to be on the market.

One notable characteristic of "SUVENYL" is its higher molecular weight (1.9 to 2.5 million, compared to 0.6 to 1.2 million of previous products). It is effective for arthralgia in the knee from rheumatoid arthritis, osteoarthrosis in the knee, inflammation around the shoulder joint, and so on. Efficacy for rheumatoid arthritis, in particular, is a first for an agent made from hyaluronic acid. It is expected to contribute to the improvement of the quality of life for patients in this increasingly aging society.
This "SUVENYL" will be produced by our company through consignment, with Aventis Pharma Ltd. as manufacturer and Chugai Pharmaceutical Co., Ltd. as distributor.

We are going to establish "SUVENYL" as one of the pillars of our company's pharmaceutical business, and develop new areas of the business by emphasizing research and development activities.

To Our Shareholders

Our consolidated sales for the current term are ¥256,273 million (US $2,414.3 million) with a 15.7% increase compared to the previous year, the operating income 25,998 million (US $244.9 million) with a 77.5% increase compared to the previous year, and the net income ¥8,319 million (US $78.4 million) with an increase of ¥9,018 million from the preceding year's ¥699 million in red, all of which have turned increase.

Soon after the Bubble burst, our company set out to reconstruct our business, which was rather an early reaction, and built up the business competitiveness, lowering the profit and loss break-even point by cost reduction. In addition, management resources have been concentrated on areas with overriding priorities so as to improve earning capacity. These efforts bore fruit and recent years saw increasing operating profit margins, allowing us to feel confident that the profit profile has been established.

It is our greatest pleasure to present you with our report of this term in the year 2000, which is our 85th anniversary.

Toshio Hiruma, President Tsuneo Yano, Chairman

Tsuneo Yano

Tsuneo Yano
Chairman

Toshio Hiruma

Toshio Hiruma
President

Revenue increase and strong profit growth had been achieved in the current term

The consolidated sales of our group are ¥256,273 million (US $2,414.3 million), which means a revenue increase of ¥34,727 million (US $327.2 million), while the actual increase is about ¥12.5 billion excluding the effects of Toyo Chemical Co., Ltd. which joined as a subsidiary in the consolidation group this term.

In terms of the profit, on the other hand, although the costs of petrochemical materials rose substantially, it was compensated by revising products prices, increasing the sales volume, reducing costs, and resulting in an operating income of ¥25,998 million (US $244.9 million). By appropriating the loss from the revaluation of securities as extraordinary loss, the current term net income is ¥8,319 million (US $78.4 million), an increase of ¥9,018 million compared to the previous year.

The current term cash flow by operating activities is ¥32,054 million (US $302.0 million) due to a big increase in profit, as well as appropriation of the loss from the revaluation of securities, while the cash flow by investing activities is ¥12,932 million (US $121.8 million), with capital investment limited within its own fund. As for the cash flow by financing activities, there was capital increase funding of ¥1,036 million (US $9.8 million) by Denka Seiken Co., Ltd., a subsidiary in the consolidation group, going public on the one hand, and an outflow of ¥6,847 million (US $64.5 million) as the shareholder return fund of dividends plus treasury stock redemption on the other, leaving the rest for the repayment of interest-bearing liabilities. As a result, the closing balance of cash and cash equivalent is ¥6,346 million (US $59.8 million) with a ¥187 million increase.

As for the year-end dividend, it is at ¥2.50 per share as predicted at the beginning, which means annual dividends of ¥5 when the interim dividend is added.

Although the business is recovering, the present situation for industrial circles is still difficult

The Japanese economy in the current term has reportedly achieved a positive GDP growth rate. Even though the growth should be modest, it is turning around after two consecutive years of negative growth, due to the effects from fiscal and financial policies by the Government and the stable American economy, as well as favorable changes in exports as a result of the Asian economy's recovery. The present IT-related prosperity makes us believe that the economy is at last on the course of recovery on the whole; yet in industrial circles, consolidation and reorganization of companies have been going on for survival in global competition, representing the difficult situation.

In the chemical industry, the Asian economy started to recover rapidly around the middle of last year, boosting the export of petrochemical products. In addition, the information and communications area, which has taken the lead in the economic recovery, has been active during the term, and semiconductor-related materials have shown significant growth.

Meanwhile, a steep rise in crude oil prices due to reduced production in OPEC countries pushed up raw material prices from naphtha on. There was concern that the petrochemical business was going back to the old state of high operation with low profit, and the circumstances were calling for fair selling prices with further cost reduction.

Stable revenue from mature areas and emphasis on growing areas

Our group, as one of the forerunners in the industry, has been pushing restructuring measures and working on the management reconstruction for the last seven or eight years through withdrawal from and adjustment of unprofitable businesses, drastic changes in the cost structure, adjustment and structure improvement of related companies, and realignment within general-use product industry. As a result, the effects are steadily appearing, and the framework for a profitable profile is nearing its completion. Based on these effects, we hope to keep growing as a 'distinctive company which makes its presence felt' with higher profitability.

For this end, we are focusing our investment of management resources on the areas with growing markets among a wide range of business areas, while in the established, mature areas, we are trying to maintain competitive superiority from our own resources and technologies and stable profitability.

For the mature areas such as acetylene black business operated in Singapore, cements, chemical fertilizers, and inorganic/organic chemical products, systems are being established so that the share can be maintained through higher cost competitiveness and that stable income can be ensured. As for the growing areas, meanwhile, electronic materials, special cement additives, and special functional resins and resin-processing businesses are being enhanced.

In the current term, among electronic materials, semiconductor-related fused silica and spherical filler have been produced at full capacity both in Omuta and in Singapore. It has already finished adding two new lines in Omuta in December, and the construction of another two lines started in Singapore in February. As for special cement additives, quick-setting "NATMIC," developed for tunnel construction, has been produced at full capacity as the demand grew with works for the Second Tomei Highway. The deteriorated concrete rehabilitation and protection system owned exclusively by our company is drawing attention. Repair works have taken 50% of the public works budget in the U.S., and in our view, they are likely to be the mainstream in Japan, too. In addition, the earthquakes in Taiwan have raised the interest in Asia, and we are discussing future development there. Demand for the transparent polymer, CLEAREN, and special functional resins including heat-resistant resin have been increasing. To this end, reinforcement in production capacity, by utilizing surplus equipment after the business is transferred to Toyo Styrene Co., Ltd., is under consideration. In the resin-processing business, 'CLEAREN carrier sheet' and conductive sheet for carrier materials for electronic parts, such as semiconductors, have increased volume considerably.

Concentration will be further promoted and we aim to increase the shareholder value

Our company believes that maximizing profits for the entire group, enhancing the earning capacity, and aiming for an increase of the corporate value in the long run will eventually lead to larger profits for shareholders. It is our continued policy to regard the enlargement of shareholder profit as one of the most important issues in management, and to concentrate management resources on the three main businesses selectively and efficiently with the view of 'profit rather than volume' and 'selection and concentration.'

In electronic materials, fused silica filler and electronic related substrate are emphasized in supplying high quality, high performance products. As for the special cement additives, a system that allows full-scale operations in both materials and works technologies will be established with the attention-attracting repair business as its core. The reopening of overseas businesses, mainly Asia's growing markets, is also under consideration. The area of resin-processing and functional resins integrates every stage of production from material to end products, and realizes intensive and efficient development and manufacturing. As a result, each stage will be significantly streamlined and an overall reduction in cost will be realized. Any of the above is a promising area for larger demand in the future, and appropriate capital investment will be made accordingly. Furthermore, research and development will be accelerated with an aim for further growth for both speedy and meticulous response to increasingly varied customer needs and cultivation of our company's technologies.

The existing businesses have already been producing stable profits. We will endeavor to maintain and increase the market share, and to improve earning capacity by continuing cost reduction activities for enhancing global competitiveness and pursuing the products' added value at the same time.

The interest-bearing liabilities in the current term on the consolidation basis shows a ¥6 billion increase because Toyo Chemical Co., Ltd. joined as a subsidiary in the consolidation group, but the result was ¥180.4 billion at the end of the term, which is actually a ¥13.1 billion decrease. The impression of financial fragility still remains, however. In addition to the yearly repayment from cash flow to be ready for the future interest rate hike, continued careful selection for capital investment and reconsideration of assets held from leverage will further accelerate improvement in this area.

The consolidation ROE of the current term was raised from -0.8% of the previous term to 9.4% in spite of some unusual factors.

Profit return to shareholders

Our group recognizes that the stock dividend is one of the most important management issues. Our fundamental policy is to decide upon the balance of gaining retained earnings needed for further business development and allocating dividends to the shareholders based on performance taking profits into account.

For the shareholders return in the current term, we wrote-off 3.50 million shares of treasury stock for ¥621 million (US $5.9 million) in the previous term and 12.43 million shares for ¥3,197 million (US $30.1 million) in the current term.

We will continue to respect ROE, and commit ourselves to increasing your profits.

Denka Technologies and R&D Trend

Denka Technologies — Topics

Fused silica

Fused silica is used for the epoxy resin sealing filler of semiconductor packages, and is made from natural silica which is ground roughly, fused, then crushed again into micron-scale particles to be finely finished. There are two types of products: crushed and spherical-shaped. As semiconductors are getting smaller with higher performance, demand for spherical products that can be filled with higher density and higher fluidity has been steeply rising.

Our company is a leading manufacturer of spherical-shaped fused silica in the global market with know-how accumulated from long years of research. We can also respond in both quality and quantity to the market's increasingly varied demands towards micronized, perfect sphere, or higher purified products.

Silicon nitride circuit board

Our company has been targeting the research and development of ceramic substrates for power modules used as power supply substrates in hybrid cars. This year, we have succeeded in developing a substrate with thermal conductivity 1.5 times that of the conventional ones. This product as a highly thermal-conductive grade of DENKA SN PLATE which is already on the market combines excellent mechanical properties and high thermal conductivity. We also have completed the basic R & D on products with even higher thermal conductivity, and are considering to start studies required for their mass production.

Denka Technocrete system

Several cave-in accidents of tunnels and overpasses in rapid succession have raised social concern towards concrete rehabilitation technology. Our company has an original construction method, Technocrete system, for which we obtained the exclusive right for domestic use of this rehabilitation technology from a Norwegian inorganic products company. This is a concrete rehabilitation technology of realkalization (alkalete method) and chlorine ion removal (desalete method) for concrete deteriorated by neutralization and salt damage.

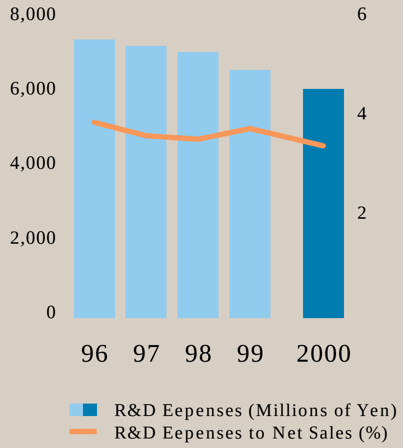
In the alkalete method, a positive electrode is attached to on the outer surface of a building, and the reinforcement inside is used as a negative electrode. After the concrete surface has been saturated with sodium carbonate solution, electric current is made to run between the two electrodes so that calcium ions permeate into the reinforcement to realkalize the much-neutralized inside part. The desalete method, on the other hand, utilizes electrophoresis. Because salt in concrete exists with negative ions, when current is run between the positive electrode attached to the concrete surface and the negative electrode which is the reinforcement inside, chlorine ions are drawn outside to the positive electrode.

Either method can be performed not only in a short period of time, but also without the need for a facility shutdown or closure of transport facilities, such as bridges, allowing the rehabilitation work to be performed while the facility is in use as usual, which is the advantage of both methods.

Policies for research and development

The overall policy is to target the three growing market areas, namely, electronic materials, special cement additives, and special functional resins and resin-processing. Research and development will naturally center around these three areas. Our policy is to cultivate existing technologies further by utilizing the available knowledge and experience, and maintaining them as a core, to extend the scope gradually to peripheral growing areas. We plan to invest heavily on technology development in areas where we are strong, from which we may establish new businesses to meet the needs of the next generation, thereby resulting in the acceleration and higher efficiency in the development of new products.

R&D Eepenses and R&D Eepenses to Net Sales (Non-Consolidated)



Review of Operations

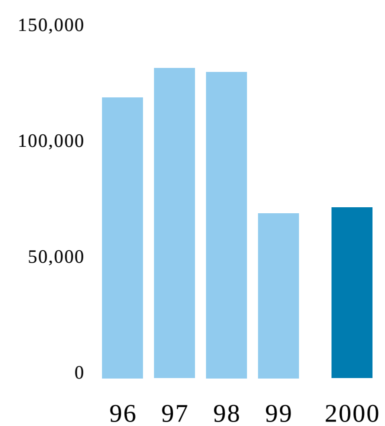
Petrochemical Products Division

Overseas sales of polystyrene were well supported by the recovery of demand in Asia. While its domestic operations were transferred to Toyo Styrene Co., Ltd. last April, and the system was changed so that the raw material styrene monomers were to be supplied by our company, these resulted in decreased profits. Styrene monomer, however, experienced a price hike and a great increase in sales volume, mainly in exports, due to the above-mentioned system change and tightening demands. Sales of ABS resin generally remained within the level of the previous year, but chemical synthetic products, such as vinyl acetate and POVAL, suffered a decrease in sales from languishing housing-related demands.

In functional resins, transparent polymers and the special resin, CLEAREN, boosted the sales volume in both the domestic and overseas markets because of the substantially larger demands for them, and heat-resistant resin exports increased considerably in applications for audio equipment.

As a result, the consolidated sales for this division are ¥73,858 million (US $695.8 million) with a 3.5% increase compared to the previous year.

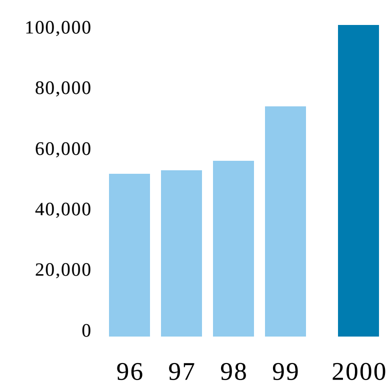
Net Sales
Millions of Yen



Revised business segmentation is used since FY 1999.

Specialized Chemical Products Division

Net Sales
Millions of Yen



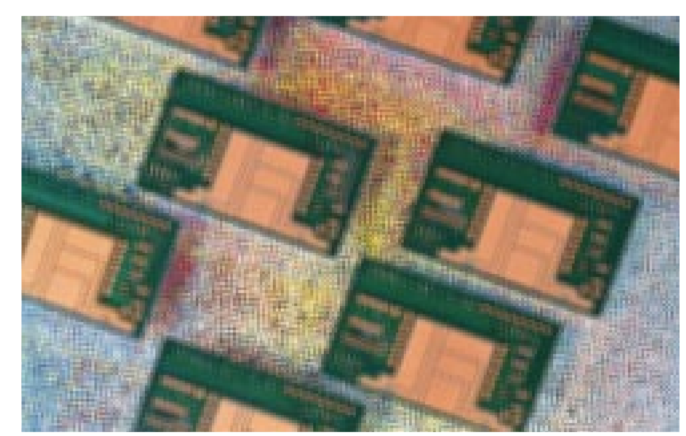
Revised business segmentation is used since FY 1999.

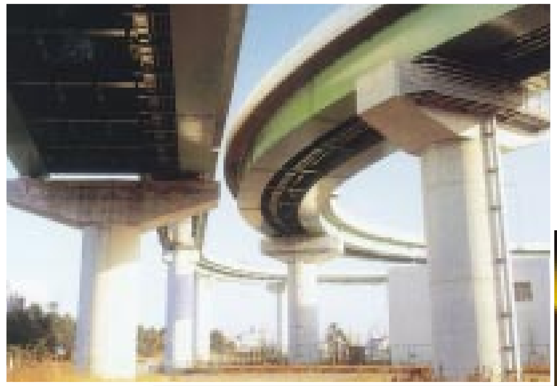
This division now includes Toyo Chemical Co., Ltd., which joined as a consolidation subsidiary from the current term. Regarding resin and process products, as vigorous demand continued in relation to PC's and mobile telephones in the information and communications area, 'CLEAREN carrier sheet' and conductive sheet for carrier materials for electronic parts, such as semiconductors, and electronic wrapping products, such as films for carrier material and adhesive tape for securing semiconductors have considerably increased in the volume. Slots for optical fibers attracted substantially increased profits partly due to the support from power companies and the Ministry of Construction's information box. Synthetic fiber products, such as those for wigs, and environmental materials, such as corrugated pipes, changed favorably. As for food packaging materials, sales level remained almost the same as the previous year.

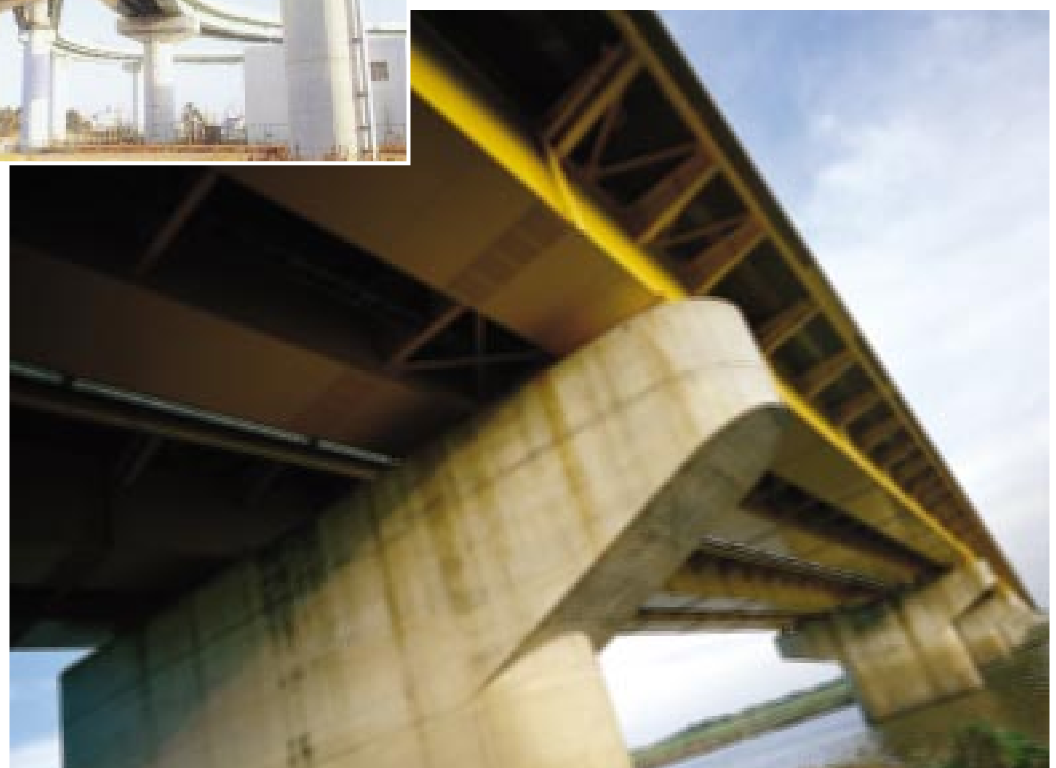
Among electronic and functional materials, spherical-shaped fused silica fillers for semiconductor sealing materials were produced at full capacity throughout the term both domestically and overseas, significantly increasing the sales volume, and monosilane gas for manufacturing semiconductors changed satisfactorily. In addition, ceramics boron carbide formed products have greatly increased profits, and various electronic circuit boards achieved a satisfactory increase in sales volume.

Fertilizers such as calcium cyanamide suffered a decrease in sales volume, partly due to increased imports, but carbide and refractory retained the level of the previous year more or less. Although chloroprene rubber recovered its export volume thanks to the economic recovery in Asian countries, it ended with reduced profits because of decreased commissions by the appreciation of the yen.

Consequently, the consolidated sales of this division are ¥102,597 million (US $966.5 million) with a 35.6% increase compared to the previous year. The increase in revenue is ¥26,963 million (approximately ¥4.8 billion without Toyo Chemical Co., Ltd.).







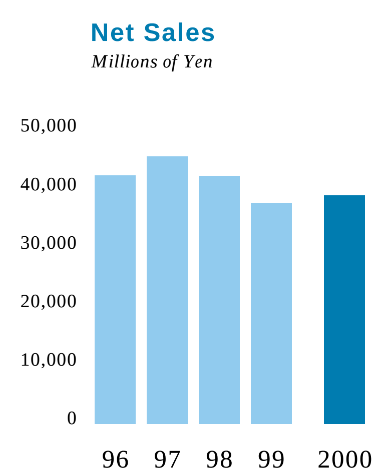
Cement and Construction Materials Division

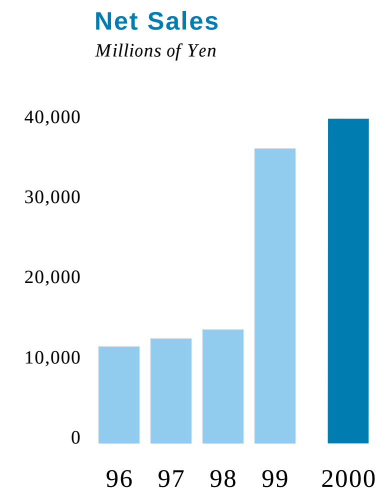
In this division, two ready-mixed concrete companies in the Akita region left the consolidated group in the current term.

Cement and ready-mixed concrete products have recovered in sales volume, mainly in the Hokuriku region, partly due to the effects of economic measures by the Government, and have increased profits.

As for special cement additives, "NATMIC" (quick-setting cement additive for shotcrete) and "DENKA ES" (quick-hardening additive for soil stabilization), both used in highways and Shinkansen tunnel constructions, saw a substantial increase in sales volume, while "PRETASCON" (non-shrink additives for grout) used for aseismic reinforcement expanded its sales as well. These factors led the increase in revenue.

As a result, consolidated net sales in the current term for the division increased by 3.9% from the previous term to ¥39,219 million (US $369.5 million).





Revised business segmentation is used since FY 1999.

Pharmaceutical and Other Products Division

As for pharmaceutical products, renewed appreciation for the efficacy of influenza vaccines promoted vaccination mainly for elderly people, and diagnostic chemicals for cholesterol thrived mainly in exports; thus, resulting in a significant revenue increase respectively.

In other businesses, the engineering business declined because of the turndown in private sector capital investment, while the securities business brought in a sizable increase reflecting a brisk securities market.

As a result, consolidated net sales in the current term for the division increased by 10.2% from the previous term to ¥40,598 million (US $382.5 million).

Overseas Operations

We are developing businesses on polystyrene, acetylene black, and fused silica overseas, with focus on operations in Singapore as the main pillar. Polystyrene has been recovering demand rapidly since last summer mainly in Hong Kong and China, rendering the plants to continue operation at full capacity at present. Fused silica, which is produced as epoxy resin fillers for semiconductors, benefited from an increase in global demand for semiconductors, thus enabling continued favorable operations. For spherical-shaped silica fillers, in particular, extension of the production line has started in the Singapore plant.

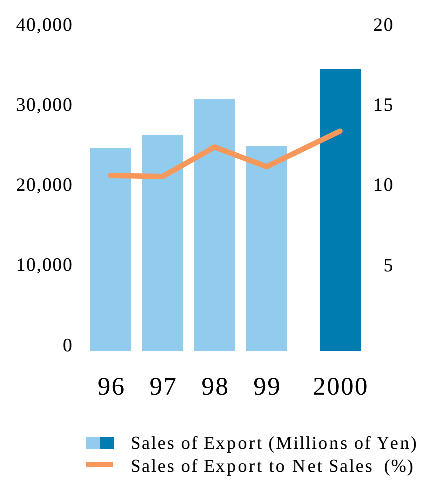
In order to cope with these market trends, out of our three production and sales companies in Singapore, DENKA Singapore (DSPL), DENKA Chemical Asia (DCA), and DENKA Advantech (DAPL), DCA, a sales company, and DAPL, a production base, were consolidated as of January 2000. The integration of production and sales will achieve rationalization and higher efficiency. The Singapore business is an important overseas base, which we intend to develop as a pillar for the realization of high revenue in the consolidated management of our group.

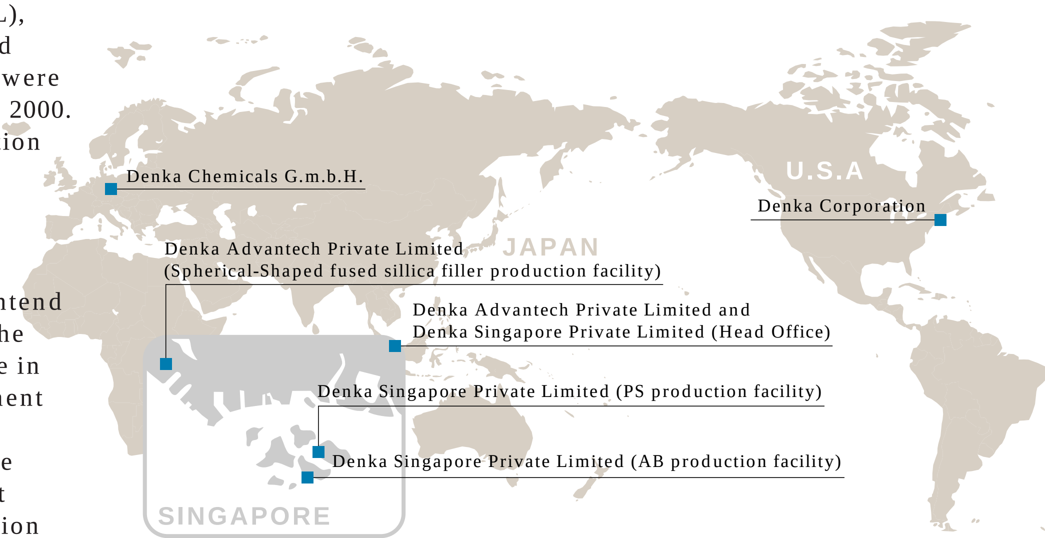
We also expect that the demand for special cement additives for the construction and repair of concrete buildings will increase in other Asian countries following economic recovery. The development of the special cement additives business by establishing a joint capital company with a local civil engineering and construction company seems to be a good idea.

In the pharmaceutical products division, diagnostic chemicals by Denka Seiken Co., Ltd. are steadily expanding export, particularly for its large-scale major products. With a target export ratio to be raised to 30% during the term that ends in March 2005, we are determined to develop our businesses aggressively from a perspective to enlarge the overseas market.

As a result of the above activities, the overseas sales for the current term are ¥35,163 million with a ¥9,621 million increase from the ¥25,542 million of the previous term.

Sales of Export and Sales of Export to Net Sales (Non-Consolidated)





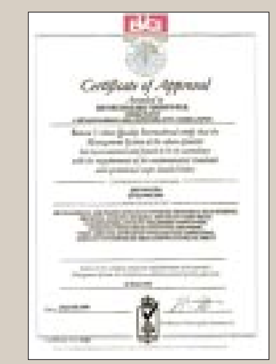
Attention to Environmental Problems

We are actively promoting "responsible care" (RC) activities, which are corporate self-management activities. The aim is to maintain good environment and secure safety by recognizing environmental conservation and safety securement as an important management issue, and paying attention to environment and safety throughout the whole process of chemical products from development, manufacturing, distribution, usage, to final consumption and disposal.

We have set up an "RC Committee," as a company-wide promoting organization, to evaluate performance by internal inspection and to reflect the results in the plan for next year.

RC Promoting Organization

- President
  - RC Committee (Secretariat: Environmental Security Division)
    - Resin and Chemical Products RC Secretariat
    - Chemical Products RC Secretariat
    - Cements RC Secretariat
    - Omi Plant RC Committee
    - Omuta Plant RC Committee
    - Chiba Plant RC Committee
    - Shibukawa Plant RC Committee
    - Research Center RC Committee
    - Energy Conservation Subcommittee (Secretariat: Power Division)
      - Branch Energy Conservation Secretariat
  - RC Internal Inspection
  - Safety Measures Head Office



As an RC activities promoting organization, the head office has the RC Committee chaired by a technological development manager, and each office has a branch RC Committee chaired by its manager, which decides activity policies and checks progress. In addition, each business division at the head office is going to set up an RC Secretariat to provide safety information and respond to complaints and requests. We also have a system in which a group of in-house experts, supervised by the RC chairman, conducts internal inspection on RC activity practices and submits the results to the board of directors to be reviewed by it and to be reflected in the plan for next year.

We are enhancing these RC activities, and coping steadily with tasks, especially for the reduction of environmental load, based on the environment interim plan, which emphasizes three themes of promoting energy conservation, reducing wastes, and reducing discharge of toxic chemicals. Furthermore, since we are dealing with the cement business, we shall apply these activities for waste disposal by annually receiving 250,000 tons of coal ash, disposed tires and other kinds of industrial waste, to be used effectively in the cement business. Starting from the year 2002, we plan to use carbide processed from general waste.

As for the landfill volume, we intend to reduce it to 40% of the 1990 level by correctly segregating disposal, encouraging recycling, and other measures.

We will continue to emphasize these three themes in our future policies for RC activities.

We are also working on obtaining ISO14001 certification in order to promote the establishment and operation of an environmental management system. Following the Chiba Plant and the Omi Plant cement division, we expect that all the plants will acquire certification during 2000.

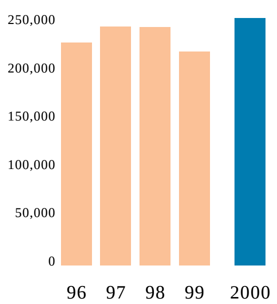
Five-Year Summary

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

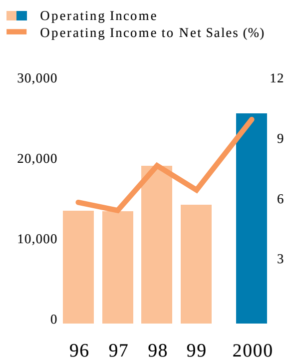
	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Net Sales	¥ 256,273	¥ 221,546	¥ 246,624	¥ 247,590	¥ 230,718	$ 2,414,253
Net Income (Loss)	8,319	(699)	3,020	1,009	3,586	78,370
Shareholders' Equity	90,195	87,526	90,035	80,201	80,917	849,694
Total Assets	379,293	345,083	367,031	367,780	387,965	3,573,179

Note: Yen amounts are translated into dollars at a rate of ¥106.15=U.S.$1.

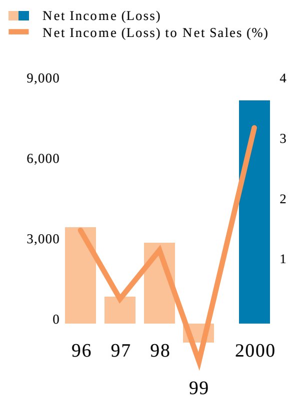
Net Sales
Millions of Yen



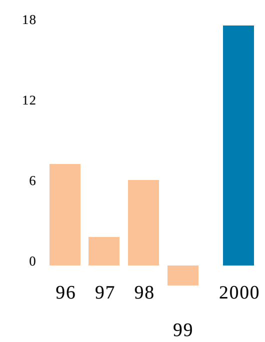
Operating Income and Operating Income to Net Sales
Millions of Yen



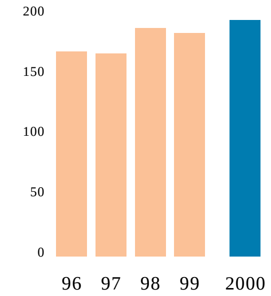
Net Income (Loss) and Net Income (Loss) to Net Sales
Millions of Yen



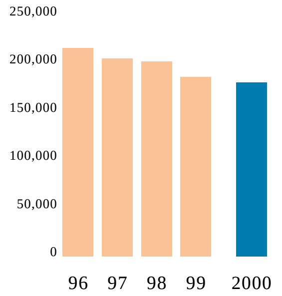
Net Income Per Share
Millions of Yen



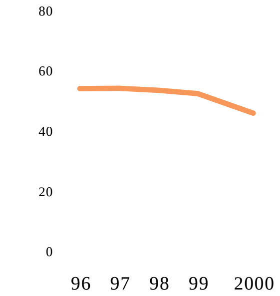
Shareholders' Equity Per Share
Millions of Yen



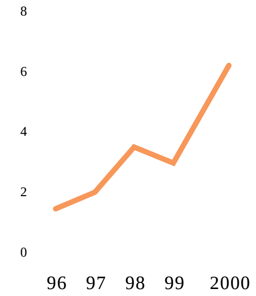
Interest-bearing Liabilities
Millions of Yen



Interest-bearing Liabilities to Total Assets
%



Interest Coverage
Times



ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
3-2-5, Kasumigaseki, Chiyoda-ku,
Tokyo 100-6088, Japan

Report of Independent Certified Public Accountants

To the Board of Directors of
Denki Kagaku Kogyo Kabushiki Kaisha

We have audited the accompanying consolidated balance sheets of Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for the years then ended and the consolidated statement of cash flows for the year ended March 31, 2000, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries as of March 31, 2000 and 1999, and the consolidated results of their operations for the years then ended and their cash flows for the year ended March 31, 2000 in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

As described in Note 2, effective for the year ended March 31, 2000, Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries have adopted new Japanese accounting standards for preparation of consolidated financial statements, research and development costs and income taxes.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 29, 2000

Notice to readers

The accompanying consolidated financial statements are not intended to present the consolidated financial position and results of their operations and their cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in Japan.

Consolidated Balance Sheets

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2000	1999	2000
Current assets:			
Cash and time deposit	¥ 5,745	¥ 4,979	$ 54,122
Notes and accounts receivable, trade (Note 3)	72,254	60,694	680,678
Marketable securities (Note 4)	35,766	39,037	336,938
Inventories (Note 6)	29,661	30,955	279,425
Deferred tax asset	1,720	—	16,203
Prepaid expenses and other current assets (Note 3)	7,422	4,888	69,920
Allowance for doubtful accounts	(925)	(727)	(8,714)
Total current assets	151,643	139,826	1,428,572
Property, plant and equipment (Note 7) :			
Buildings and structures	96,166	92,610	905,944
Machinery and equipment	268,673	259,591	2,531,069
Land	45,311	38,389	426,858
Construction in progress	3,331	5,876	31,380
	413,481	396,466	3,895,251
Accumulated depreciation	(251,313)	(239,595)	(2,367,527)
Total property, plant and equipment	162,168	156,871	1,527,724
Intangible fixed assets:	551	510	5,191
Investments and other assets:			
Investment securities (Note 3 and 4)	15,352	16,950	144,626
Long-term loans receivable (Note 3)	1,785	1,491	16,816
Other	8,996	7,921	84,748
Deferred tax asset	500	—	4,710
Allowance for doubtful accounts	(357)	(109)	(3,363)
Total investments and other assets	26,276	26,253	247,537
Deferred charges:			
Research and development	2,025	3,681	19,077
Other	71	109	669
Total deferred charges	2,096	3,790	19,746
Assets of consolidated securities company (Note 7 and 14)	35,309	16,969	332,633
Foreign currency translation adjustments	1,250	864	11,776
Total assets	¥ 379,293	¥ 345,083	$ 3,573,179

The accompanying notes are an integral part of the statements

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	2000	1999	2000
Current liabilities:			
Notes and accounts payable (Note 3)	¥ 33,781	¥ 26,324	$ 318,238
Short-term bank loans (Note 7)	71,799	73,137	676,392
Current portion of long-term debt (Note 7)	26,115	18,799	246,020
Accrued taxes on income and other (Note 9)	5,124	1,541	48,271
Accrued bonus	2,258	1,699	21,272
Reserve for investment losses	—	1,341	—
Other current liabilities (Note 3)	17,671	17,598	166,472
Total current liabilities	156,748	140,439	1,476,665
Long;-term liabilities:			
Long-term debt (Note 7)	82,511	94,628	777,306
Deferred tax liability	1,052	—	9,911
Accrued severance indemnities (Note 12)	4,144	3,836	39,039
Other long-term liabilities	498	504	4,691
Total long-term liabilities	88,205	98,968	830,947
Liabilities of consolidated securities company (Note 14)	31,739	15,091	299,001
Total liabilities	276,692	254,498	2,606,613
Minority interest in consolidated subsidiaries	12,406	3,059	116,872
Shareholders' equity:			
Common stock: ¥50 par value per share			
Authorized: 1,584,070,000 shares			
Issued: 459,419,390 shares	35,303	35,303	332,577
Capital surplus	32,069	35,268	302,110
Retained earnings (Note 8 and 13)	22,824	16,955	215,016
Treasury stock	(1)	(0)	(9)
Total shareholders' equity	90,195	87,526	849,694
Contingent liabilities (Note 17)			
Total liabilities and shareholders' equity	¥ 379,293	¥ 345,083	$ 3,573,179

Consolidated Statements of Income

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Net sales	¥ 256,273	¥ 221,546	$ 2,414,253
Cost of sales	177,473	157,721	1,671,908
Gross profit	78,800	63,825	742,345
Selling, general and administrative expenses (Note 10)	52,802	49,177	497,428
Operating income	25,998	14,648	244,917
Other income			
Interest and dividend income	596	606	5,615
Gain on sale of marketable securities	447	643	4,211
Gain on sale of investment securities	1,056	—	9,948
Gain on sale of land, buildings and other	—	2,549	—
Other, net (Note 3)	852	1,216	8,026
	2,951	5,014	27,800
Other expenses			
Interest expenses	4,194	4,923	39,510
Loss on disposal of property, plant and equipment	643	645	6,057
Amortization of deferred research and development costs	1,391	—	13,104
Amortization of prior service cost	1,597	973	15,045
Loss on liquidation of affiliates	899	1,883	8,469
Loss on sale of marketable and investment securities	—	6,781	—
Devaluation of marketable securities	1,064	—	10,024
Equity in deficit of unconsolidated subsidiaries and affiliates	506	474	4,767
Other, net	4,827	3,423	45,473
	15,121	19,102	142,449
Income before income taxes	13,828	560	130,268
Income taxes (Note 9)			
Current	(5,028)	(1,162)	(47,367)
Deferred	509	—	4,795
	(4,519)	(1,162)	(42,572)
Income (loss) before minority interests	9,309	(602)	87,696
Minority interest in losses of consolidated subsidiaries	(990)	(97)	(9,326)
Net income (loss)	¥ 8,319	¥ (699)	$ 78,370

	Yen		U.S. Dollars (Note 1)
Per share			
Net income (loss)	¥ 17.87	¥ (1.48)	$ 0.168

The accompanying notes are an integral part of the statements

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Thousands	Millions of Yen		
	Common Stock			
	Number of Shares	Amount	Capital Surplus	Retained Earnings
Balance at March 31, 1998	475,349	¥ 35,303	¥ 35,889	¥ 18,843
Net loss	—	—	—	(699)
Increase in retained earnings resulting from inclusion of a subsidiary in the consolidation	—	—	—	100
Decrease in retained earnings resulting from exclusion of an affiliate in the consolidation	—	—	—	(77)
Cash dividends	—	—	—	(1,188)
Bonuses to directors and statutory auditors	—	—	—	(24)
Stock redemption	(3,500)	—	(621)	—
Balance at March 31, 1999	471,849	¥ 35,303	¥ 35,268	¥ 16,955
Deferred income taxes	—	—	—	902
Net income	—	—	—	8,319
Increase in retained earnings resulting from exclusion of subsidiaries and an affiliate in consolidation	—	—	—	72
Increase in retained earnings resulting from change of the method of elimination of unrealized inter-company profit	—	—	—	117
Decrease in retained earnings resulting from exclusion of a subsidiary	—	—	—	(4)
Decrease in retained earnings resulting from inclusion of an affiliate	—	—	—	(6)
Cash dividends	—	—	—	(3,507)
Bonuses to directors and statutory auditors	—	—	—	(24)
Stock redemption	(12,430)	—	(3,199)	—
Balance at March 31, 2000	459,419	¥ 35,303	¥ 32,069	¥ 22,824

	Thousands	Thousands of U.S. Dollars (Note 1)		
	Common Stock			
	Number of Shares	Amount	Capital Surplus	Retained Earnings
Balance at March 31, 1999	471,849	$ 332,577	$ 332,247	$ 159,726
Deferred income taxes	—	—	—	8,497
Net income	—	—	—	78,370
Increase in retained earnings resulting from exclusion of subsidiaries and an affiliate in consolidation	—	—	—	678
Increase in retained earnings resulting from change of the method of elimination of unrealized inter-company profit	—	—	—	1,102
Decrease in retained earnings resulting from exclusion of a subsidiary	—	—	—	(37)
Decreases in retained earnings resulting from inclusion of an affiliate	—	—	—	(56)
Cash dividends	—	—	—	(33,038)
Bonuses to directors and statutory auditors	—	—	—	(226)
Stock redemption	(12,430)	—	(30,137)	—
Balance at March 31, 2000	459,419	$ 332,577	$ 302,110	$ 215,016

The accompanying notes are an integral part of the statements

Consolidated Statement of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31, 2000	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Cash flows from operating activities:		
Income before income taxes	¥ 13,828	$ 130,268
Adjustments -		
Depreciation	15,106	142,308
Amortization of deferred charges	1,808	17,033
Provision for doubtful accounts	182	1,715
Interest and dividend income	(596)	(5,615)
Interest expenses	4,194	39,510
Devaluation of marketable securities	1,064	10,024
Gain on sale of marketable and investment securities	(1,502)	(14,150)
Equity losses of affiliated companies	506	4,767
Loss on sales of property, plant and equipment, net	1,044	9,835
Other	318	2,996
Changes in assets and liabilities:		
Receivables	(5,005)	(47,150)
Inventories	3,835	36,128
Notes and accounts payable	4,920	46,350
Other, net	(1,614)	(15,205)
Sub-total	38,088	358,814
Interest and dividend received	670	6,312
Interest paid	(4,176)	(39,341)
Income taxes paid	(2,528)	(23,815)
Net cash provided by operating activities	32,054	301,970
Cash flow from investing activities:		
Purchase of marketable securities	(3,782)	(35,629)
Sales of marketable securities	6,891	64,918
Purchases of property, plant and equipment	(16,343)	(153,961)
Sales of property, plant and equipment	3,818	35,968
Purchase of investment securities	(3,591)	(33,829)
Sales of investment securities	1,385	13,048
Other, net	(1,310)	(12,341)
Net cash used in investment activities	(12,932)	(121,826)
Cash flow from financing activities:		
Decrease in short-term borrowings	(3,919)	(36,919)
Proceeds from long-term debt	11,609	109,364
Repayment of long-term debt	(20,813)	(196,072)
Cash dividends	(3,648)	(34,366)
Capital stock subscription	1,036	9,760
Purchase of treasury stock	(3,197)	(30,118)
Other	(2)	(19)
Net cash used in financing activities	(18,934)	(178,370)
Effect of exchange rate changes on cash and cash equivalent	(67)	(631)
Net increase in cash and cash equivalent	121	1,140
Cash and cash equivalent at the beginning of the year	4,979	46,905
Increase of cash and cash equivalent resulting from inclusion and exclusion of subsidiaries in the consolidation	1,246	11,738
Cash and cash equivalent at the end of the year	¥ 6,346	$ 59,783

The accompanying notes are an integral part of the statements

Notes to Consolidated Financial Statements

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

1. Basis Presenting Consolidated Financial Statements:

The accompanying consolidated financial statements of Denki Kagaku Kogyo Kabushiki Kaisha and its consolidated subsidiaries (the "Company") are basically an English version of those which have been prepared in accordance with accounting principles and practices generally accepted in Japan and filed with the Japanese Ministry of Finance. The consolidated statement of cash flows for the year ended March 31, 2000 has been prepared by the requirement of the new Japanese accounting rules which have become effective for fiscal years beginning on or after April 1, 1999.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form which is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information which is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

The U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside of Japan. Those translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The rate of ¥106.15 = US$1, the approximate rate of exchange as at March 31, 2000 has been used for the purpose of such translations.

2. Summary of Significant Accounting Policies:

(1) Consolidation and investments in affiliated companies —

The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements consist of, with exceptions which are not material, those of its 30 majority and wholly-owned subsidiaries (32 subsidiaries in 1999). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in unconsolidated subsidiaries and affiliated companies in which the Company has significant influence are stated at the equity method. These unconsolidated subsidiaries and affiliated companies for which the equity method is applied total 20 and 21 at March 31, 2000 and 1999, respectively. Consolidated net income includes the Company's equity in current earnings after elimination of unrealized inter-company profits.

The excess of the cost over the underlying net equity of investments in consolidated subsidiaries as well as companies accounted for on an equity basis, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

Seven subsidiaries (Nine subsidiaries in 1999) were consolidated on the basis of their fiscal years ended at December 31, 2000 and 1999. The year end data of a subsidiary were November 30, 2000 and 1999. Therefore, the subsidiary tentatively closed it's account at January 31, 2000 and 1999 for the consolidation purpose. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

(2) Marketable and investment securities —

Marketable and investment securities, including marketable equity securities are stated at cost determined by the moving average method.

(3) Inventories —

Inventories are principally stated at cost determined by the total average method.

(4) Property, plant and equipment —

Property, plant and equipment, including significant renewals and improvements, are carried at cost less depreciation. Maintenance and repairs including minor renewals and betterments are charged to income as incurred. Depreciation is computed primarily on the straight-line method at rates based on the estimated useful lives of the assets which are prescribed by the Japanese income tax laws. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

(5) Deferred charges —

Deferred bond issue costs are amortized on a straight-line method over three years.

Prior to April 1, 1999, research and development costs were charged to income as incurred except for those related to new products and technologies, which were capitalized and amortized over five years. In accordance with new Japanese accounting rules which have become effective for fiscal years beginning on or after April I, 1999, all research and development costs are charged to income as incurred. The effect of this change was to decrease income before income taxes by ¥1,260 million.

(6) Accrued severance indemnities and pension plan —

Employees whose service with the Company and certain domestic subsidiaries is terminated are, in most circumstances, entitled to lump-sum severance payments determined by reference to current basic rate of pay and length of service at the time when and the circumstances in which, the termination occurs. The minimum payment to employees is an amount based on voluntary termination of employment.

The Company and certain consolidated subsidiaries have provided for this liability, to the extent of 40% of the amount which would be required if all employees terminated employment voluntarily as at the relevant balance sheet date, less related benefits provided by the pension plans.

The Company and certain of its consolidated subsidiaries have qualified pension plans to cover part of their employees' severance indemnities. The aggregate past service costs for the pension plans were ¥5,295 million ($49,882 thousand) and ¥2,945 million at March 31, 2000 and 1999, respectively, which are amortized by the declining-balance method at an annual rate of 30%.

In addition, the Company and certain of its consolidated subsidiaries provide for severance indemnities for directors and statutory auditors in accordance with their rules for directors' severance indemnities. Accrued severance indemnities as at March 31, 2000 and 1999 include severance indemnities for directors and statutory auditors of ¥692 million ($6,519thousand) and ¥539 million, respectively. Payment of directors' severance indemnities is subject to shareholders' approval.

(7) Accounting for leases —
Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are principally accounted for by the method that is applicable to ordinary operating leases.

(8) Translation of foreign currency accounts —
Current foreign currency receivables and payables are translated into Japanese yen at the applicable exchange rates at the balance sheet date except for those receivables and payables covered by forward exchange contracts which are translated at the forward exchange rates. Resulting exchange gains or losses are credited or charged to income. Non-current foreign currency receivables and payables are generally translated at historical rates.

Foreign currency financial statements have been translated into yen at the appropriate year end current rate except for common stock, capital surplus and certain other inter-company accounts. Translation differences resulting therefrom have been deferred and are reflected in the accompanying consolidated balance sheets as "Foreign currency translation adjustments".

(9) Income taxes —
Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

In the year ended March 31, 2000, the Company and its subsidiaries adopted the deferred tax accounting method in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at April 1, 1999 was charged to retained earnings.

In the year ended March 31, 1999, income taxes of the Company and its domestic subsidiaries were provided for at an amount currently payable based on the tax returns filed with tax authorities.

The effect of this change was to increase income before income taxes and net income for the year ended March 31, 2000 by ¥3 million ($28 thousand) and ¥512 ($4,823 thousand) million, respectively, and to increase retained earnings at March 31, 2000 by ¥1,414 million ($13,321 thosand).

(10) Appropriation of retained earnings —
Appropriation of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Japanese Commercial Code.

(11) Cash and cash equivalent —
Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(12) Net income per share —
The computation of net income per share is based on the average number of shares outstanding during each year.

3. Accounts balances and transactions with affiliated companies —

Accounts balances with unconsolidated subsidiaries and affiliated companies accounted for on an equity basis at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Notes and accounts receivable, trade	¥ 12,321	¥ 6,219	$ 116,072
Short-term loans receivable	951	593	8,959
Other current assets	1,033	298	9,732
Investment securities	10,441	11,434	98,361
Long-term loans receivable	560	305	5,276
Notes and accounts payable, trade	4,299	1,652	40,499
Other current liabilities	504	2,405	4,748

Transactions between the parent company and its unconsolidated subsidiaries and affiliated companies accounted for on an equity basis for the years ended March 31, 2000 and 1999 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Other income—other	¥ 1,629	¥ 25	$ 15,342

4. Marketable and investment securities —

The aggregate cost and market value of marketable securities and investment securities as of March 31, 2000 composed of the following:

	Millions of Yen	Thousands of U.S. Dollars
Marketable securities		
Market value	¥ 32,210	$ 303,438
Carrying amount	34,679	326,698
Unrealized loss	2,469	23,260
Investment securities		
Market value	¥ 198	$ 1,865
Carrying amount	256	2,411
Unrealized loss	58	546

5. Derivative financial instruments —

The company entered into derivative financial instruments of foreign exchange forward contracts. The company does not hold or issue derivatives for trading purpose and it is the company's policy to use derivatives only for the purpose of reducing market risk and financing costs in accordance with internal criteria. The company does not anticipate any losses resulting from default of the counter-parties as they are limited to major domestic financial institutions with sound operational foundations.

The estimated fair value of the company's financial instruments as of March 31, 2000 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Forward exchange contracts:		
Carrying amount	¥ 14	$ 132
Estimated fair value	10	94
Unrealized loss	4	38

6. Inventories —

Inventories at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Finished products	¥ 15,312	¥ 16,380	$ 144,248
Semi-finished products	6,009	6,764	56,609
Work in process	1,778	989	16,750
Raw materials	4,703	5,027	44,305
Supplies	1,859	1,795	17,513
	¥ 29,661	¥ 30,955	$ 279,425

7. Short-term bank loans and long-term debt —

Short-term bank loans at March 31 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Bank overdrafts with interest ranging from 0.509% to 6.500% per annum	¥ 9,694	¥ 2,800	$ 91,324
Short-term bank loans with interest ranging from 0.636% to 7.250% per annum represented by short-term notes maturing at various dates within one year	62,105	70,337	585,068
	¥ 71,799	¥ 73,137	$ 676,392

Long-term debt at March 31 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Loans, principally from banks and insurance companies, maturing serially to 2008 with interest ranging from 1.59per cent. to 7.20per cent. per annum:			
Secured	¥ 2,324	¥ 104	$ 21,895
Unsecured	33,755	43,323	317,995
7.20% bonds due 2000	—	10,000	—
1.00% bonds due 2001	2,547	—	23,994
2.65% bonds due 2001	10,000	10,000	94,206
2.00% bonds due 2002	10,000	10,000	94,206
2.35% bonds due 2002	5,000	5,000	47,103
2.95% bonds due 2002	10,000	10,000	94,206
2.10% bonds due 2003	10,000	10,000	94,206
2.20% bonds due 2003	5,000	5,000	47,103
2.275%bonds due 2003	5,000	5,000	47,103
2.40% bonds due 2004	5,000	5,000	47,103
1.59% bonds due 2005	10,000	—	94,206
	108,626	113,427	1,023,326
Loss-current portion of long-term debt	26,115	18,799	246,020
	¥ 82,511	¥ 94,628	$ 777,306

A summary of assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2000 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment — at book value	¥ 86,699	$ 816,759
Assets of consolidated securities company	5,328	50,193

The aggregate annual maturities of long-term debt subsequent to March 31, 2000 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2001	¥ 26,115	$ 246,020
2002	44,753	421,601
2003	16,153	152,171
2004	6,615	62,317
2005 and thereafter	14,990	141,217
	¥ 108,626	$ 1,023,326

8. Retained earnings —

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and bonuses to directors and corporate auditors shall be appropriated as legal reserve until such reserve is equal to 25 percent of the capital stock account. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Under the Japanese Commercial Code, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held after the balance sheet date, and the accounts for the year do not reflect such appropriations.

However, the Company may pay interim dividends by resolution of Board of Directors once a fiscal year in accordance with the Japanese Commercial Code and the Company's Articles of Incorporation.

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2000, which was approved on June 29, 2000, at the general shareholders' meeting is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Legal reserve	¥ 120	$ 1,130
Cash dividends at ¥2.50 per share	1,149	10,825
Directors' and statutory auditors' bonus	60	565
	¥ 1,329	$ 12,520

9. Income taxes —

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 47.5 percent for the year ended March 31, 1999 and approximately 41.9 percent for the year ended March 31, 2000, respectively.

The significant components of deferred tax assets and liabilities at March 31, 2000 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Deferred tax assets:		
Allowance for doubtful accounts	¥ 929	$ 8,752
Enterprise income taxes	355	3,344
Accrued severance cost for directors and statutory auditors	290	2,732
Accrued severance costs for employees	390	3,674
Accrued bonus	317	3,005
Inter-company profit of inventories and fixed assets	893	8,412
Other	390	3,674
Gross deferred tax assets	3,568	33,593
Deferred tax liabilities:		
Retained earnings appropriated for tax allowable reserve	2,319	21,846
Other	80	754
Gross deferred tax liabilities	2,399	22,600
Net deferred tax assets	¥ 1,168	$ 10,993

Reconciliations of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2000 are as follows:

Statutory tax rate	41.0 %
Increase (reduction) in taxes resulting from:	
Changes in valuation allowance for affiliated companies	(11.4)%
Other	3.1 %
Effective income tax rate	32.7 %

10. Selling, general and administrative expenses —

Selling, general and administrative expenses for the years ended March 31, 2000 and 1999 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Selling expenses:			
Carriage and shipping	¥ 18,034	¥ 17,935	$ 169,892
Sales commission	5,441	5,373	51,258
Other	2,743	1,920	25,841
	26,218	25,228	246,991
General and administrative expenses:			
Salaries and remuneration	10,843	10,157	102,148
Employees' welfare	384	468	3,618
Research and development	4,305	3,899	40,556
Other	11,052	9,425	104,115
	26,583	23,949	250,437
	¥ 52,802	¥ 49,177	$ 497,428

11. Research and development expenses—

Research and development expenses included in selling, general and administrative expenses and manufacturing costs approximated ¥7,581 million ($71,418 thousands) for the year ended March 31, 2000.

12. Retirement and severance benefits —

The total charges to consolidated income for all retirement and pension plans for the years ended March 31, 2000 and 1999 amounted to ¥2,512 million ($23,665 thousand) and ¥1,842 million, including a credit of ¥231 million ($2,176 thousand) and a charge of ¥184 million, respectively, for directors.

13. Special reserves —

Under the Japanese tax regulations, certain special reserves which are not required for financial accounting purposes are deductible for income tax purposes if recorded on the books of account. Such reserves are directly appropriated from retained earnings as part of shareholders' equity.

Special reserves included in retained earnings at March 31, 2000 and 1999 were ¥1,740 million ($16,392 thousand), and ¥4,510 million, respectively.

14. Analysis of assets and liabilities of securities company —

An analysis of assets and liabilities at March 31, 2000 and 1999 of a securities company, which have been recorded in accordance with the provisions of "Uniform Accounting Standards for Securities Companies" issued by Japan Securities Dealers Association, is shown below. Inter-company assets and liabilities are eliminated.

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current assets:			
Cash and deposits	¥ 1,797	¥ 1,684	$ 16,929
Margin transaction account	13,465	3,985	126,849
Securities under the company's custody	18,827	10,100	177,362
Other	649	556	6,114
	34,738	16,325	327,254
Non-current assets	571	644	5,379
Total assets	¥ 35,309	¥ 16,969	$ 332,633
Current liabilities:			
Short-term loans	¥ 1,130	¥ 930	$ 10,645
Margin transaction account	8,872	2,354	83,580
Guarantee money	956	340	9,006
Securities received in lieu of guarantee money	12,657	6,000	119,237
Other	8,038	5,400	75,723
	31,653	15,024	298,191
Non-current liabilities	32	25	301
Reserves	54	42	509
Total liabilities	¥ 31,739	¥ 15,091	$ 299,001

Net sales for the two years ended March 31, 2000 and 1999 include operating revenue (including financial revenue) of the securities subsidiary amounting to ¥3,683 million ($34,696 thousand) and ¥1,312 million and selling, general and administrative expenses for the two years ended March 31, 2000 and 1999 include operating expenses (including financial expenses) of the securities subsidiary amounting to ¥1,849 million ($17,419thousand) and ¥1,756 million, respectively.

15. Cash and cash equivalents —

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents as of March 31, 2000 consist of:		
Cash and bank deposits	¥ 5,745	$ 54,122
Marketable securities	601	5,661
	¥ 6,346	$ 59,783

16. Leases —

Finance leases that do not transfer ownership of the leased property to the lessee are accounted for as rental transaction.

1) Leased assets under financial leases, if capitalized, at March 31, 2000 and 1999 comprise the followings:

At March 31, 1999	Millions of Yen		
	Acquisition Cost	Accumulated depreciation	Net book value
Buildings and Structures	¥ —	¥ —	¥ —
Machine and equipment	6,592	3,748	2,843
Vehicles and delivery equipment	320	212	107
Tools, furniture and fixtures	1,873	972	900
Intangible assets	38	11	27
Other	2,030	1,452	580
	¥ 10,853	¥ 6,395	¥ 4,457

At March 31,2000	Millions of Yen		
	Acquisition Cost	Accumulated depreciation	Net book value
Buildings and Structures	¥ 1,501	¥ 1,351	¥ 150
Machine and equipment	6,712	4,418	2,294
Vehicles and delivery equipment	279	142	137
Tools, furniture and fixtures	2,496	1,416	1,080
Intangible assets	43	22	21
	¥ 11,031	¥ 7,349	¥ 3,682

At March 31,2000	Thousands of U.S. Dollars		
	Acquisition Cost	Accumulated depreciation	Net book value
Buildings and Structures	$ 14,140	$ 12,727	$ 1,413
Machine and equipment	63,231	41,620	21,611
Vehicles and delivery equipment	2,628	1,338	1,291
Tools, furniture and fixtures	23,514	13,340	10,174
Intangible assets	405	207	198
	$ 103,918	$ 69,232	$ 34,687

Depreciation expenses of those leased assets for the year ended March 31,2000 and 1999 are computed by the straight line method over the periods of those finance leases with no remaining value.

2) The amount of outstanding future lease payments due at March 31 including the portion of interest thereon were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Future lease payments			
Within one year	¥ 1,320	¥ 1,466	$ 12,435
Over one year	2,362	2,991	22,252
	¥ 3,682	¥ 4,457	$ 34,687

3) Lease rental expenses on such finance lease contracts for the years ended March 31, 2000 and 1999 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Lease rental expenses	¥ 1,501	¥ 1,626	$ 14,140
Depreciation cost equivalent	1,501	1,626	14,140

17. Contingent liabilities —

Contingent liabilities at March 31, 2000 and 1999 for notes receivable discounted and endorsed and loans guaranteed were approximately ¥2,759 million ($25,992 thousand) and ¥3,730 million, respectively.

18. Business Segment Information —

The Companies are primarily engaged in the manufacture and sale of products in the four major segment of Petrochemical Products Division, Specialized Chemical Products Division, Cement and Construction Materials Division and Pharmaceutical and Other Products Divisions.

Information by business segment for the years ended March 31, 2000 and 1999 is summarized as follows:

Year ended March 31, 1999	Millions of Yen						
	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical and Other Products Division	Total	Elimination	Consolidation
Sales							
Outside customers	¥ 71,330	¥ 75,634	¥ 37,750	¥ 36,831	¥ 221,546	—	¥ 221,546
Inter-segment	4,721	4,409	1,882	4,265	15,276	¥ (15,276)	—
Total	76,051	80,043	39,632	41,096	236,822	(15,276)	221,546
Operating costs and expenses	76,857	68,847	36,606	39,855	222,165	(15,266)	206,899
Operating income(loss)	¥ (806)	¥ 11,196	¥ 3,026	¥ 1,241	¥ 14,657	¥ (10)	¥ 14,647
Assets	¥ 86,514	¥ 87,460	¥ 46,965	¥ 43,886	¥ 264,825	¥ 80,258	¥ 345,083
Depreciation cost	5,772	5,259	2,927	576	14,534	(9)	14,525
Capital expenditure	5,426	5,399	3,317	2,831	16,973	8,702	25,675

Year ended March 31, 2000	Millions of Yen						
	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical and Other Products Division	Total	Elimination	Consolidation
Sales							
Outside customers	¥ 73,858	¥ 102,597	¥ 39,219	¥ 40,598	¥ 256,273	—	¥ 256,273
Inter-segment	4,689	5,029	1,853	4,638	16,209	¥ (16,209)	—
Total	78,547	107,626	41,072	45,237	272,482	(16,209)	256,273
Operating costs and expenses	75,795	92,871	36,504	41,539	246,709	(16,434)	230,275
Operating income(loss)	¥ 2,752	¥ 14,755	¥ 4,568	¥ 3,698	¥ 25,773	¥ 225	¥ 25,998
Assets	¥ 76,150	¥ 111,381	¥ 48,224	¥ 64,504	¥ 300,259	¥ 79,034	¥ 379,293
Depreciation cost	5,506	6,345	2,745	527	15,125	(19)	15,106
Capital expenditure	1,726	6,748	2,249	592	11,315	3,540	14,855

Year ended March 31, 2000	Thousands of U.S. Dollars						
	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical and Other Products Division	Total	Elimination	Consolidation
Sales							
Outside customers	$ 695,789	$ 966,528	$ 369,468	$ 382,468	$ 2,414,253	—	$ 2,414,253
Inter-segment	44,173	47,376	17,456	43,693	152,699	$ (152,699)	—
Total	739,962	1,013,904	386,924	426,161	2,566,952	(152,699)	2,414,253
Operating costs and expenses	714,037	874,903	343,891	391,324	2,324,155	(154,819)	2,169,336
Operating income(loss)	$ 25,925	$ 139,001	$ 43,033	$ 34,837	$ 242,797	$ 2,120	$ 244,917
Assets	$ 717,381	$ 1,049,279	$ 454,301	$ 607,668	$ 2,828,629	$ 744,550	$ 3,573,179
Depreciation cost	51,870	59,774	25,860	4,983	142,487	(179)	142,308
Capital expenditure	16,260	63,570	21,187	5,577	106,594	33,349	139,943

Business	Product line	major products
Petrochemical Products Division	Styrene and ABS Products	Polystyrene, ABS resins, Styrene Monomer and other
	Chemical Synthetic Products	Vinyl Acetate and other
	Functional Resins	CLEAREN, Transparent Polymers and Heat--Resistant Resins and other
Specialized Chemical Products Division	Resin-Processed Products	Electronic, Wrapping Products, Food Wrapping Products
	Fertilizers and Inorganic Chemical Products	Fertilizers, Carbide, Refractory and other
	Organic Chemical Products	Chloroprene, Acetylene Black and other
	Electronic and Functional Materials	Fused Silica Filler, Electronic Circuit Boards, Fine-ceramics
Cement and Construction Materials Division	Cement and Special Additives	Cement and Special Additives and other
Pharmaceutical and Other Products Division	Pharmaceutical and Other Products	Vaccines, Diagnostic Chemicals, Veterinary Chemicals, Engineering Business, Securities Business and other

18. Overseas Sales Information —

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended March 31, 2000 and 1999 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2000			1999			2000		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	¥ 26,524	¥ 8,639	¥ 35,163	¥ 18,031	¥ 7,511	¥ 25,542	$ 249,873	$ 81,385	$ 331,258
Consolidated sales	—	—	¥ 256,273	—	—	¥ 221,546	—	—	$ 2,414,253
Percentage of overseas sales over consolidated sales	10.3%	3.4%	13.7%	8.1,%	3.4%	11.5%	10.3%	3.4%	13.7%

19. Event subsequent to March 31, 2000 —

On May 18, 2000, the company issued ¥10,000 million of debentures due 2007. The annual interest rate is 1.83% and the issue price was 100% of the face value of the debenture.

Corporate Data

Established
1st May, 1915

Paid-in Capital
¥35,303 million (US$284.7 million)

Employees
3,138

Directory
— Head Office
Sanshin Bldg., 1-4-1, Yurakucho,
Chiyoda-ku, Tokyo 100-8455, Japan
Telephone: (03)3507-5055
Facsimile: (03)3507-5059
URL: http: / / www.denka.co.jp /
— Branches
Osaka, Nagoya, Fukuoka, Niigata,
Toyama, Sapporo, Nagano, Sendai,
Takasaki, Shizuoka, Akita, Hachinohe,
Hiroshima, Takamatsu, Kagoshima
— Production Facilities
Omi(Niigata), Omuta(Fukuoka), Chiba,
Shibukawa(Gunma)

Overseas Subsidiaries

Denka Corporation
780 Third Avenue, 32nd Floor, New York,
NY 10017, U.S.A.
Telephone: 1(212)688-8700
Facsimile: 1(212)688-8727
E-mail: sat-yamamoto@email.msm.com

Denka Chemicals GmbH
Köigsallee 60, 40212 Düseldorf, F.R.
Germany
Telephone: 49(211)130990
Facsimile: 49(211)329942
E-mail: i.ishida@doitsu.de

Denka Singapore Private Limited
Denka Advantech Private Limited
Hong Leong Building, 16 Raffles Quay
#18-03, Singapore 048581
Telephone: 65-256120
Facsimile: 65-2243840
E-mail: yamamoto@denka.com.sg

Board of Directors and Auditors

(As of 29th June, 2000)

Chairman
Tsuneo Yano*

President
Toshio Hiruma*

Senior Managing Directors
Takashi Matsukami*
Takeshi Furuya*
Mitsuru Nakashima
Tadashi Ozawa

Managing Director
Yukihide Kondo
Seiji Takigawa
Michio Ohtake
Higashi Ito
Seiki Kawabata
Yoshiaki Mikami

Directors
Masaji Ishii
Shunichi Hayashi
Hisao Wakuri
Kenichi Tsuchigame
Keisuke Takagi
Shinichiro Asai
Kei Hayashi
Hideki Matsumura

Standing Auditors
Takakazu Koyama
Yukinori Tohtake

Auditors
Masakazu Koma
Kenji Fujinuma

****Representative Director***

Shareholders Information

(As of 31 March, 2000)

Total Number of Authorized Shares
1,584,070,000

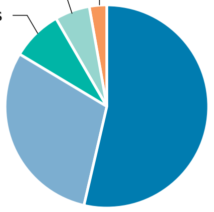
Shares of Common Stock Issued
459,419,390

Shareholders
63,782

Major Shareholders	Number of shares held (thousands)	Ratio of total shares out standing (%)
The Sumitomo Trust&Banking Co.,Ltd.*	36,233	7.88
The Dai-Ichi Kangyo Bank, Limited	22,967	4.99
Mitsui Mutual Life Insurance, Co.	16,842	3.66
The Sakura BANK,LIMITED	14,820	3.22
The Daiwa Bank, Limited.*	11,261	2.45
The Mitsubishi Trust and Banking Corporation*	10,988	2.39
The Norinchukin Bank	10,689	2.32
The Chuo Mitui Trust and Banking Company, Limited	10,131	2.20
Mitsui Marine & Fire Insurance Co., Ltd.	9,777	2.12
The Dai-ichi Kangyo Fuji Trust & Banking Co., Ltd.*	8,182	1.78

*Shares held by these four companies are those relate to fiduciary business.

Breakdown of Shareholders
(thousands)



Breakdown of Shareholders by Size