Annual Report 2001

MERGING TECHNOLOGY AND A CHALLENGING SPIRIT

DENKA

DENKI KAGAKU KOGYO KABUSHIKI KAISHA

DENKA Group Overview

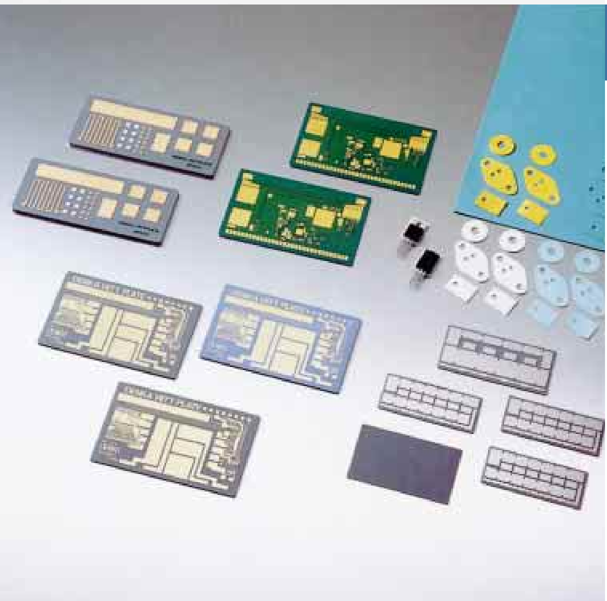
The business of the DENKA Group, which consists of DENKI KAGAKU KOGYO KABUSIKI KAISYA, its 55 subsidiaries and 56 affiliated companies, has developed in 4 major divisions: petrochemical products, specialized chemical products, cement and construction materials, and pharmaceutical and other products. The share of total sales of these divisions in the current term have been as follows: petrochemicals: 31.2%; specialized chemical products: 38.9%; cement and construction materials: 14.1%; and pharmaceutical and other products: 15.8%.

Petrochemical Products Division

In this division with the product categories of styrene and ABS, resins, synthesized chemical products and functional resins, major products include polystyrene, ABS resins, styrene monomers, CLEAREN, transparent resins, acetic acid, vinyl acetate, and POVAL.
We have been working to improve our international competitiveness in the general-purpose resin sector through drastic cost reductions and strategic alliances. In the functional resins sector, which includes transparent resins and CLEAREN, etc., our competitive strength has been enhanced in the aspect of quality through enhanced functionality based on application of our original technologies, with the result that this product is positioned as one of our focused growing market areas (3 focused businesses).

Subsidiaries and affiliated companies

Chiba Styrene Monomer Limited Company, DENKA Singapore Private Limited, TOYO STYRENE CO., LTD., and 6 other companies

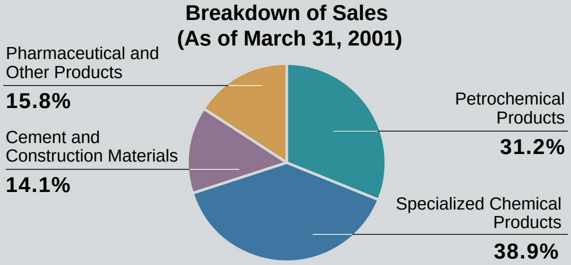


Specialized Chemical Products Division

The product categories in this division include resin finishing products, fertilizers and inorganic products, organic chemical products, and electronic and functional materials. Major products include electronics packaging products, food packaging products, fertilizers, carbide, refractory materials, chloroprene rubber, acetylene black, fused silica filler, electronic circuit boards, fine ceramics, etc.
Among these products, the resin finishing products sector, which includes electronics packaging products for electronic parts such as carrier tape materials and food packaging products, as well as the thermal management business in the electronic and functional materials sector, which answers the requirements for thermal countermeasures with such products as fused silica filler, used as a sealing material for increasingly high performance semiconductors, electronic circuit boards and fine ceramics, are positioned among the 3 focused businesses.

Subsidiaries and affiliated companies

Toyo Chemical Co., Ltd., DENKA POLYMER Co., Ltd., DENKA Singapore Private Limited, DENKA Advantech Private Limited, HINODE KAGAKU KOGYO KABUSHIKI KAISHA, NISHI NIHON KOUATUGAS CO., LTD., and other 19 companies



Cement and Construction Materials Division

This division, which includes cement and special cement additives products, provides, in addition to cement materials, special cement additives such as expansibility additives, high-strength additives, and quick-setting and quick-hardening additives, as well as implementation technologies for concrete rehabilitation.
Various additives as well as rehabilitation and protection systems for concrete have been drawing more and more attention in response to the increased demand for repair and reinforcement of concrete structures in recent years, making this special cement additives sector one of our 3 focused businesses.

Subsidiaries and affiliated companies

DENKA Ready-Mixed Concrete Takayama Co., Ltd. and other 49 companies

Pharmaceutical and Other Products Division

Major products in the pharmaceutical products division include vaccines, diagnostic chemicals and veterinary medicines, etc. This division also operates plant engineering and securities businesses.
The pharmaceutical products division commercialized a new drug called SUVENYL in August, 2000, which improves joint function (using high molecular weight hyaluronic acid). Demand for SUVENYL is expanding, and we are working to promote and strengthen sales to make it a new pillar of our pharmaceutical business.

Subsidiaries and affiliated companies

DENKA Seiken Co., Ltd., Denka Pharmaceutical Co., Ltd., YAMATOMI Trading Co., Ltd., DENKA CONSULTANT & ENGINEERING CO., LTD., The Naruse Securities Co., Ltd., and 23 other companies

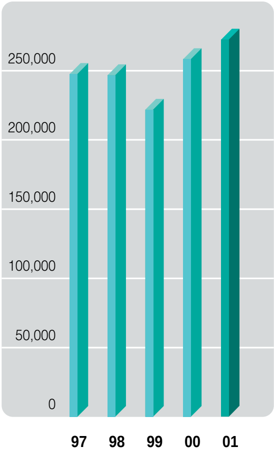
Financial Highlights

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
Years ended 31 March, 2001 and 2000	2001	2000	2001
Net Sales	**¥ 272,274**	¥ 256,273	**$ 2,197,530**
Operating Income	**27,319**	25,998	**220,492**
Income before Income Taxes	**11,098**	13,828	**89,572**
Net Income	**5,636**	8,319	**45,488**
Total Assets	**369,029**	379,293	**2,978,442**
Total Shareholders' Equity	**92,523**	90,195	**746,755**
Net Income (Loss) per Share (in Yen and U.S. Dollars)	**12.27**	17.87	**0.10**
Shareholders' Equity per Share (in Yen and U.S. Dollars)	**201.39**	196.33	**1.63**

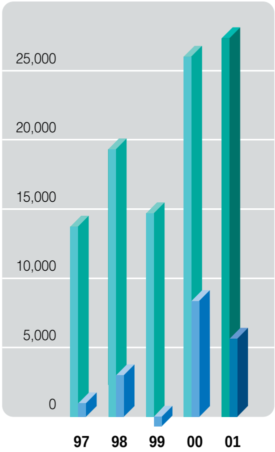
Note : Yen amounts are translated into dollars at a rate of ¥123.90=U.S.$1.

Net Sales
Millions of Yen



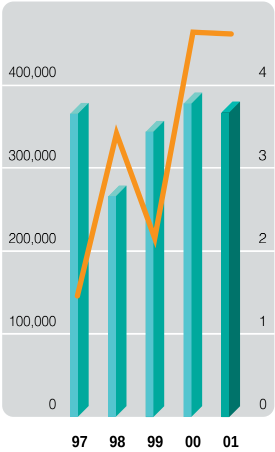
Operationg Income and Net Income (Loss)
Millions of Yen

Operationg Income
Net Income (Loss)



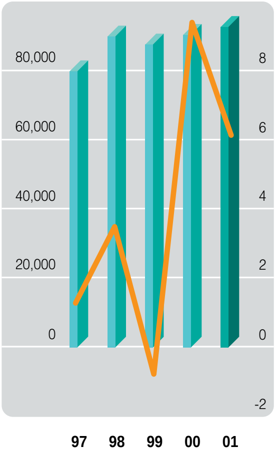
Total Assets and Return on Assets
Millions of Yen

Total Assets
Return on Assets (%)



Shareholders' Equity and Return on Equity
Millions of Yen

Shareholders' Equity
Return on Equity (%)



To Our Shareholders

In the current term, in addition to all the members of our group dedicating their efforts to expanding our business capacities and revising the selling prices of our products, we have aimed at improving our profitability still further and expanding our enterprise value. This has involved additional measures, begun in years past, to reduce costs to the furthest extent possible, to reallocate our management resources in the 3 focused businesses, “Functional Resins and Resin Processing Products,” “Electronic and Functional Materials” and “Special Cement Additives” and to incorporate positive improvements into our business portfolio.

As a result, the consolidated sales of our group in the current term were ¥272,274 million (US$2,198million), up 6.2% compared to the previous year, and the consolidated operating income was ¥27,319 million (US$220million), an increase of 5.1% compared to the previous year. This means that the ratio of sales to operating income was 10.0%.

The current term has, generally speaking, seen the Japanese economy slowly getting back on the recovery track, helped by private capital investments which are focused mainly in IT-related fields, and by an increase in exports as a result of the recovering Asian economy. Personal consumption expenditures, however, have not reached the full-fledged recovery stage yet, while the slowdown in the U.S. economy since the autumn of 2000 has exacerbated the adverse effects of the protracted slump on the economy. There are even growing signs that the economy will remain stalled up to the end of the term. Although production levels have remained high in the chemical industry due to a recovery of domestic demand and increased exports, the costs of crude oil and naphtha have remained high, causing a drastic rise in raw material costs that further weighs on corporate profit margins.

We believe our achievements in the current term under such harsh business conditions have been due to expanded growth in the focused business areas that has exceeded our expectations. In addition, existing product areas, such as chloroprene and electric furnaces, have performed better than anticipated, and have added multiplier effects to the other factors contributing to the heightened business results.

As one of the earlier companies in the industry, Denka has been making efforts to achieve more efficient, streamlined management aimed at recovery and enhancement of our corporate structure. We have restructured unprofitable divisions, including those in affiliated companies, such as real estate, securities, and food packaging operations. The general-purpose resins sector, with such products as vinyl chloride and polystyrene, has been enhanced by alliances with other companies in the industry. Management resources have also been reorganized to concentrate on the 3 focused businesses mentioned above in order to improve profitability.

Toshio Hiruma, President Tsuneo Yano, Chairman

Our efforts resulted in increased revenues and operating profits for three consecutive terms, both in consolidated and non-consolidated bases, as well as in dramatic improvement in the break-even point. This leads us to conclude that we have acquired sufficient strength to make our company fairly resistant to recession, though we still face the critical issue of improving our financial standing. We consider the present time as an opportune stage for new growth, and we are determined to refocus our management away from a defensive to an offensive stance, aiming at new development and growth. While continuing our efforts toward rationalization and enhancement of our financial standing, we will also be actively implementing various measures for spurring the company’s growth.

We hope to continue to enjoy your full and enthusiastic support as we advance during the coming year.

June 2001

Tsuneo Yano
Chairman

Toshio Hiruma
President

Tsuneo Yano
Chairman

Management resources have been concentrated on 3 focused businesses. Please give the details of the current term's performance in each of these divisions.

Although the sales ratios are balanced among the focused businesses at present, with the petrochemical division, the specialized chemical products division and the cement and construction materials division each taking up one third of sales, the focused divisions account for more than 60% of operating income in the current term.

In the current term, transparent resins and heat-resistant resins in the functional resins and resin finishing products sector, one of the 3 focused businesses, have performed well. Our production capacity has also been increased by about 60% through the utilization of old styrene manufacturing facilities and other measures beginning in June. As for CLEAREN, meanwhile, the production capacity was enhanced by about 50% in March, 2001, and augmented by a further 20% in August.

In the electronic and functional materials sector, sales of spherical-shaped fused silica are expanding, pushed by the fairly strong demand for IT-related equipment such as personal PC's and mobile telephones. We have completed production capacity enhancement at the Omuta Plant and in Singapore, and have restructured production to achieve the optimum production conditions between these 2 bases.

As for the businesses in the special cement additives sector, quick-setting NATMIC for tunnel construction on highways has performed well. Our Denka Technocrete System, which is a new method for dechlorination and re-alkalization used in repairs of existing concrete structures, has been the object of highly favorable evaluations by our customers.

The above operations have been successful to the extent that there was a resulting increase of 10.0% in the consolidated operating profit margin in the current term over last year in addition to our success in achieving higher efficiency and rationalization of our business.

What advances have been made in the financial structure, and what are the prospects for improvement?

Reduction of interest-bearing liabilities is one of the most urgent issues in our attempts to improve the company's financial structure. As of the end of the term, these liabilities still totaled ¥164 billion in the consolidated account. This figure represents a reduction of more than ¥96 billion compared to its peak. We consider, however, that this is still excessive. Our target is to reduce it to less than ¥150 billion by the end of March, 2002.

Nevertheless, active investment and R&D in growing markets are also essential if we are aiming for new development in the future.

In order to successfully manage both improvement of the financial structure and new development, we will be actively working to secure periodic income, and endeavor to make more efficient use of our assets by reducing the outstanding stocks, etc., as well as using capital more efficiently through careful selection of our capital investments.

Please describe SUVENYL, the new drug that was put on the market in August, 2000, and its prospects.

Development of SUVENYL was begun in 1970 at the Research Center through the use of biotechnology. It is an agent that acts to improve joint function, which was developed jointly with Aventis Pharma, Ltd. and Chugai Pharmaceutical Co., Ltd. SUVENYL is made from high molecular weight hyaluronic acid through a fermentation method originally developed by our company, and its properties make it effective for treatment of chronic rheumatoid arthritis. Since it was put on the market, the expansion of demand for this product has exceeded our expectations. We intend to increase our output by 20% to 30% in the fall of 2001 as it becomes one of the pillars of our company's pharmaceutical business. It is possible that sales of this drug will increase by 100% within the next 2 years. In addition, we will extend our efforts to related areas by the development of new applications for hyaluronic acid as a medicine for relieving various other conditions.

Toshio Hiruma
President

Q What direction will Denka's focused businesses take in the future, and what are the prospects for these businesses for the next term?

In the functional resins sector, we are planning to double our production of CLEAREN to 45,000 tons at the end of 2002. Our policy in the resin finishing products sector is to enhance our immediate response to customers' needs, based on our efforts to set up an intensive and reinforced group development structure by establishment of a processing technology institute in October, 2000.

In the electronic and functional materials sector, since the capital investments for fused silica have been completed for the time being, we intend to continue our efforts to optimize production between the different manufacturing bases and achieve higher performance while at the same time promoting the thermal management business as another business pillar alongside of fused silica.

In the special cement additives sector, we will endeavor to establish regular business arrangements for repair and reinforcement work on concrete structures.

Viewing the present economic climate overseas, the deteriorating U.S. economy is affecting countries in Southeast Asia, putting the brakes on exports from Japan. In addition, it seems inevitable that the integration of Mitsui Chemicals, Inc. and Sumitomo Chemical Co., Ltd., lowering of customs duties in the year 2004 and bilateral trade liberalization with Singapore, as well as other measures, will have a great effect on petrochemical-related industries here in Japan. From the financial results and other achievements in the current term, we understand that the business conditions at our company and at all the companies in the entire group are generally moving favorably. For the next term, although the possibility cannot be denied that the demand for fused silica, semiconductors, electronic parts and other related businesses may not even reach the levels of 1999 due to the doldrums in the IT-related businesses, existing businesses, such as fertilizers, inorganic and organic chemical products, cements, etc., are performing well. Furthermore, in addition to the growth of demand for SUVENYL and the favorable progress in sales of functional resins such as CLEAREN, the markets for existing special cement additives products and various large-scale projects are reaching their peak, all of which helps to shore up profits, leads us to expect some increase in profits in these areas.

Q Please tell us your basic policies on dividend payments.

We think it is important in business management to maintain good performance for as long a period and in as stable a manner as possible, and we understand that the increase in our enterprise value will in the long run result in larger profits for our shareholders. While we consider dividend payments to our shareholders to be one of the most important matters, we also desire to enhance the internal reserves which are necessary to provide for future business developments.

We are determined that our basic policy will include further efforts to pay meaningful dividends to our shareholders which are backed by solid company performance.

Attention to Environmental Problems

Denka has declared "protecting the environment and assuring safety as the foundation of management" to be one of our management policies, and we are endeavoring to disseminate this concept and make it real to each and every employee.

Responsible Care (RC) Activities

Corporate self-management activities for taking care of the environment and safety through the whole life cycle of products

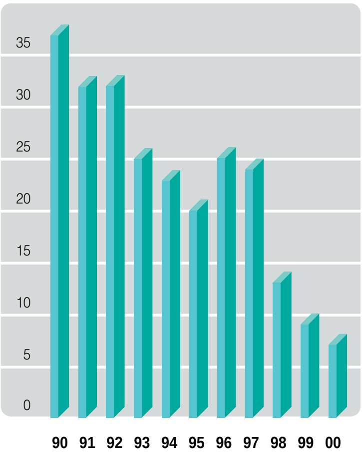
Our company is actively promoting "responsible care" (RC) activities, which are corporate self-management activities. The aim is to maintain a good environment and assure safety by recognizing the necessity for environmental conservation and safety assurance as important management issues, and by paying attention to the effects of chemical products on the environment and their safety throughout their entire life cycle, from development to manufacturing, distribution, use and final consumption and disposal. We conduct these activities with a constant awareness of the need for "guarding the safety of users and the neighborhood," which slogan has become our motto. With a view toward the steady promotion of this movement, we have acquired ISO14001 certification, which is an internationally recognized standard governing environmental management systems, at all our plants.

In the summer of 2000, we issued an environment and safety report, "DENKA RC Report 2000". We are also preparing a report on the results so far this year from the viewpoints of efforts to reduce the environmental load, energy savings, and product safety.

As the outcome of our RC activities, reductions in chemicals discharged into the environment and significant reductions in the volume of final wastes disposed of by our plants can be cited. Particularly from the viewpoint of effectively utilizing resources, we would like to make a contribution to society by recycling of wastes from our cement kilns and other wastes from both inside and outside the company. This will be mentioned in greater detail in the following section.

Volume of final wastes disposed

Thousand of ton



Our company has reduced waste by 75% so far compared to the year 1990. (The target for the chemical industry as a whole is a 40% reduction in 2010 compared to 1990.)

Cement plant recycling system

The ratio of recycled material to cement raw materials is 20%.

Our Omi Plant, which is Denka's key cement plant, has willingly accepted wastes and by-products from inside and outside the company, and began efforts to recycle these resources before other companies. These wastes and by-products are effectively recycled as raw materials in the cement production processes and as fuels for manufacturing. We are contributing to the formation of a society that is committed to recycling of resources, while paying careful attention to the environmental load after the wastes are recycled. At present, about 20% of the raw materials used in DENKA cements are recycled materials.

Details of the cement plant recycling system

—Material recycling

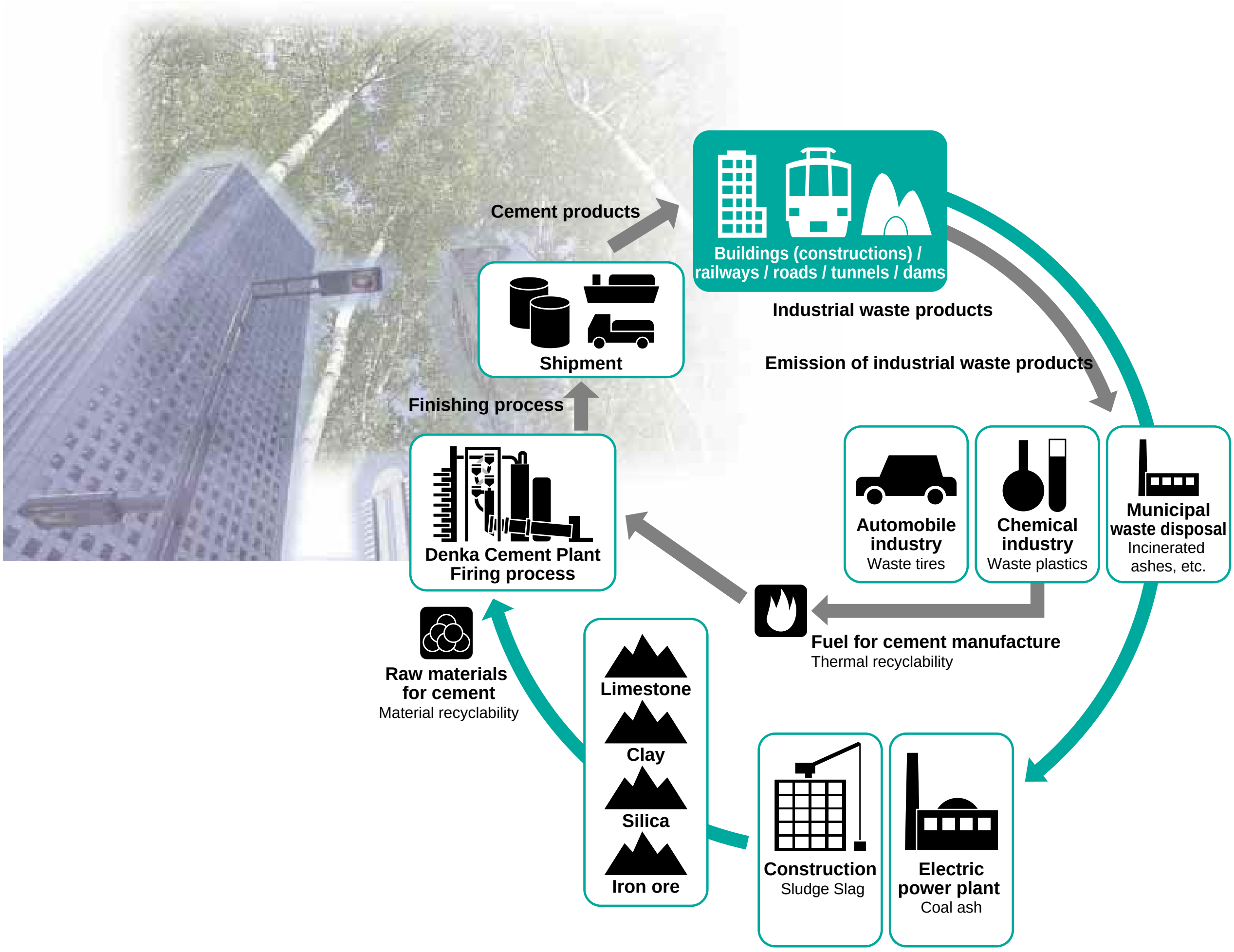
Wastes and by-products are recycled as raw materials for cement. Coal ash, sludge, burnt ash, slag, etc., contain valuable raw materials that can be used for cement, namely, limestone, clay, silica and ferrous materials, etc.

—Thermal recycling

These materials are recycled as fuels for manufacturing cement. Discarded tires, oils and plastics that burn with a high calorific heat are used as fuels for the cement kilns.

Cement Plant Recycling System

Waste products and by-products are recycled in the ways shown below.



Petrochemical Products Division

Performance

In the current term, styrene monomer and polystyrene resin in Singapore underwent price adjustments (up) due to soaring raw material costs. The production volume of AS resin has increased greatly since the new plant completed in June, 1999 began full operation. And sales of the ethylene/vinyl acetate copolymer emulsion EVA and the structural adhesive HARDLOC have recovered. All of these changes have resulted in increased revenues.

In the functional resins sector, which is one of the focused businesses, transparent polymer, used mainly for consumer electronics, and the special resin CLEAREN, used mainly for PET bottles and films, have enjoyed increased demand. Demand for heat-resistant resins has expanded mainly for audio products overseas, bringing in a significant increase in revenues.

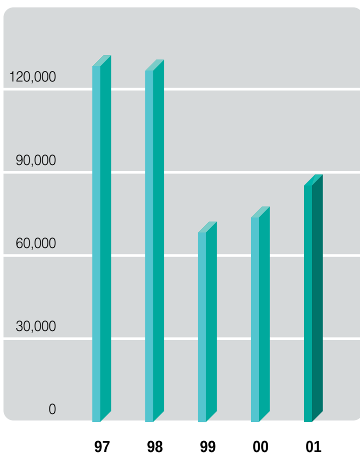
As a result of all the above, sales in this division amounted to ¥85,075 million (US$687million), which means an increase in profits of 15.2%, or ¥11,217 million, compared to the previous year.

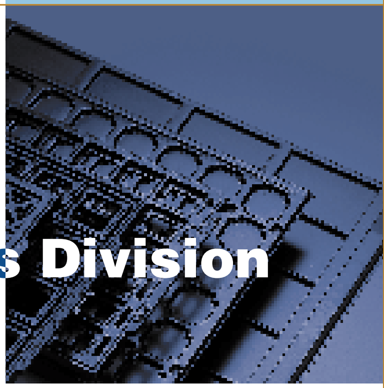
Future developments

In the functional resins sector, we will be promoting further quality enhancements and additional functionality. This will help to improve our competitiveness by enabling us to shift resources away from production of general-use resins. Since both transparent resins and CLEAREN have been performing well, we are planning to reinforce the production system for these products, including making improvements in our existing plants.

Net Sales

Millions of Yen

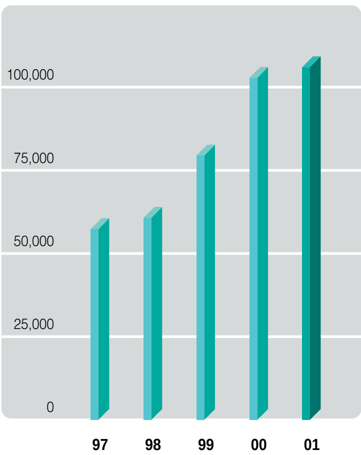




Specialized Chemical Products Division

Performance

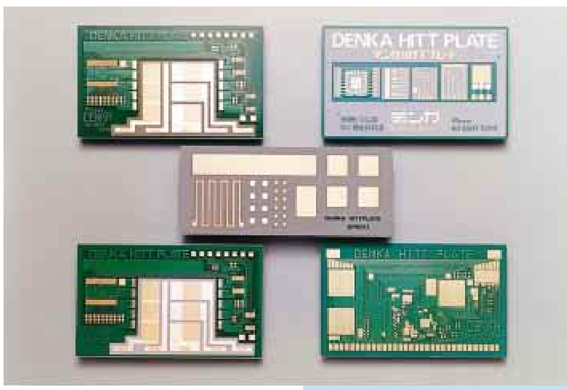
In the electronic and functional materials sector, the market for spherical-shaped fused silica for semiconductor sealing materials has grown notably, both in exports and in sales from Singapore. The demand for electronic circuit boards and products used as countermeasures against heat such as heat-radiating sheets for insulation has expanded, with sales focused mainly in the consumer electronics and industrial equipment industries.
Fertilizers such as nitrolime and carbide have suffered a small decrease in revenues. On the other hand, revenues from Sulfex and Firelen for steel-related applications have increased. The sales volume of Chloroprene has been almost flat both domestically and overseas, but price adjustment and the benefits of the Yen's depreciation coincided to produce a revenue increase. Revenues from Acetylene black have suffered decreases both from domestic sales and from exports.
In the resin finishing products sector, which is one of the focused businesses, demand has risen in the information and telecommunications sector, leading successively to considerable revenue increases in conductive sheets for carrier materials of electronic parts such as semiconductors, plastic sheets such as CLEAREN carrier sheets, and electronics packaging products such as films for carrier materials, adhesive tapes and cover tapes for securing semiconductors. Revenues from sales of slots for optical fibers have also shown a big increase. Exports of synthetic fibers for wigs have grown, and in the area of environmental materials, the sales volumes of corrugated pipes for draining rainwater on highways and duct systems for information boxes have steadily increased, while the sales volumes of construction products such as gutters and of food packaging materials, such as lunch packages, have decreased, since the markets for these products have stalled.
As a result, the sales of this division were ¥105,842 million (US$854million), representing a revenue increase of 3.2%, or ¥3,245 million, as compared with the previous year.

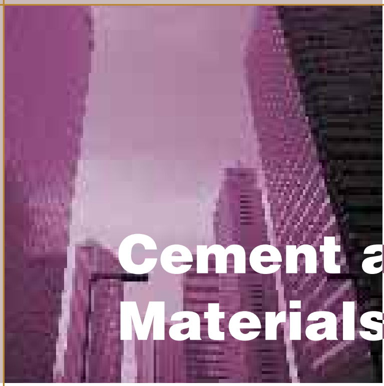


Net Sales
Millions of Yen

Future developments

In the resin finishing products sector, after having reviewed the company's R&D structure, a processing technology institute was established in October, 2000 for electronics packaging materials, a field in which demand is growing rapidly. Based on this increasing demand, we intend to enhance development of new areas other than electronics packaging and food packaging products, and our entire group will endeavor to accomplish far more efficient and speedier development.
In the electronic and functional materials sector, we have been extending production lines in Singapore for fused silica filler used as a semiconductor sealing material. With a view toward enhancement of various electronic circuit boards and groups of products used for heat countermeasures, including heat radiating sheets for insulation, our manufacturing and sales divisions will work unitedly as we make efforts to gain a more precise understanding of customers' needs, and implement quick feedback in order to develop and apply the suitable technologies for meeting those needs.





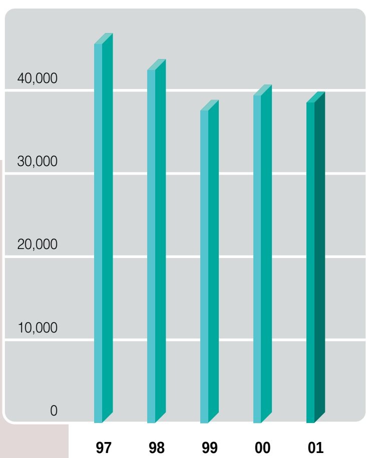
Cement and Construction Materials Division

Performance

Although the sales volume of cement has increased partly due to an increase in production under contract with other companies, a slight lowering of the sales prices has resulted in decreased revenue.
In the special cement additives sector, sales of the quick-setting cement additive for shotcrete, NATMIC, used for tunnel construction on highways, etc., and of the non-shrink additive for grout, PRESTACON, used for anti-seismic reinforcement, have expanded successfully, while sales of expansive and strengthening additives have decreased. The concrete rehabilitation business using the Technocrete System, which is a new method for dechlorination and realkalization of the concrete in existing structures, has steadily increased its sales, and the demand for the acrylic additive HARDLOC II has increased, since it has been well received as a reinforcing material for tunnels and bridges.
As a result, sales in this division were ¥38,350 million (US$310million), representing a decrease of 2.2%, or ¥869 million, compared with the previous year.

Net Sales

Millions of Yen



Future developments

Recent accidents caused by concrete peeling off the walls of Shinkansen tunnels have provided an occasion for drawing the attention of society to the need for repair and reinforcement of many aging concrete structures. We intend to enhance the business arrangements for making available effective protection and rehabilitation systems for deteriorating concrete, which is the core of this business. At the same time, we are planning to widen the variety of goods we offer, such as for applications which require structural adhesives and other repair materials utilizing the technological strengths of a chemical maker.

Pharmaceutical and Other Products Division

Performance

As for pharmaceuticals, we succeeded in the commercialization of SUVENYL, a drug that improves joint function (the active ingredient is high molecular weight hyaluronic acid, which is effective in the treatment of rheumatism), in August last year, and the demand for this product is steadily expanding. The efficacy of vaccines for fighting influenza was also reconfirmed, and vaccination was expanded. This has resulted in a substantial revenue increase from sales of our influenza vaccines, while sales of vaccine for Japanese encephalitis and triple vaccines have suffered decreases due to severe competition resulting from the decline in the number of people being vaccinated.

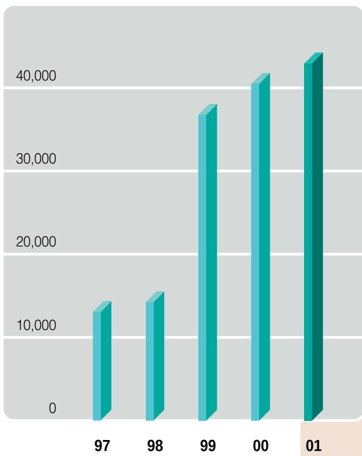
Domestic sales of reagents for examinations have brought increased revenues from the increased sales of newly marketed reagents for Type-A influenza and for MRSA, while exports ended the period showing a decline in revenues due to adjustments in inventory of some products.
As for other businesses, the engineering business has achieved an increase in revenues as a result of the recovery of private capital investments. The securities business has suffered considerable revenue decreases due to the doldrums of the stock market.
As a result, the sales of this division were ¥43,007 million (US$347million) representing a 5.9% increase, or ¥2,409 million, compared to the previous year.

Future developments

In addition to the manufacturing and sales of vaccines and examination reagents at one of our subsidiaries, Denka Seiken Co., we will try to expand the market for SUVENYL as one of the pillars of our business. While we will be taking all the measures possible to improve quality control in our manufacturing processes, we intend to expand our manufacturing capacity to respond correctly to expanding demand, and thus assure a stable supply of our products to all our customers.

Net Sales

Millions of Yen



Reserch and Development

R & D in our group is organized by a research base at each plant with the Research Center in Machida, Tokyo as the core. The research and development costs of the entire group in the current term have been approximately ¥817 million, and with the research staff of about 610 people, and selective allocation and efficient use of research resources, we are making efforts so that the research activities will lead to positive results in the near future.
The main topics of the current term in each of the divisions are as follows:

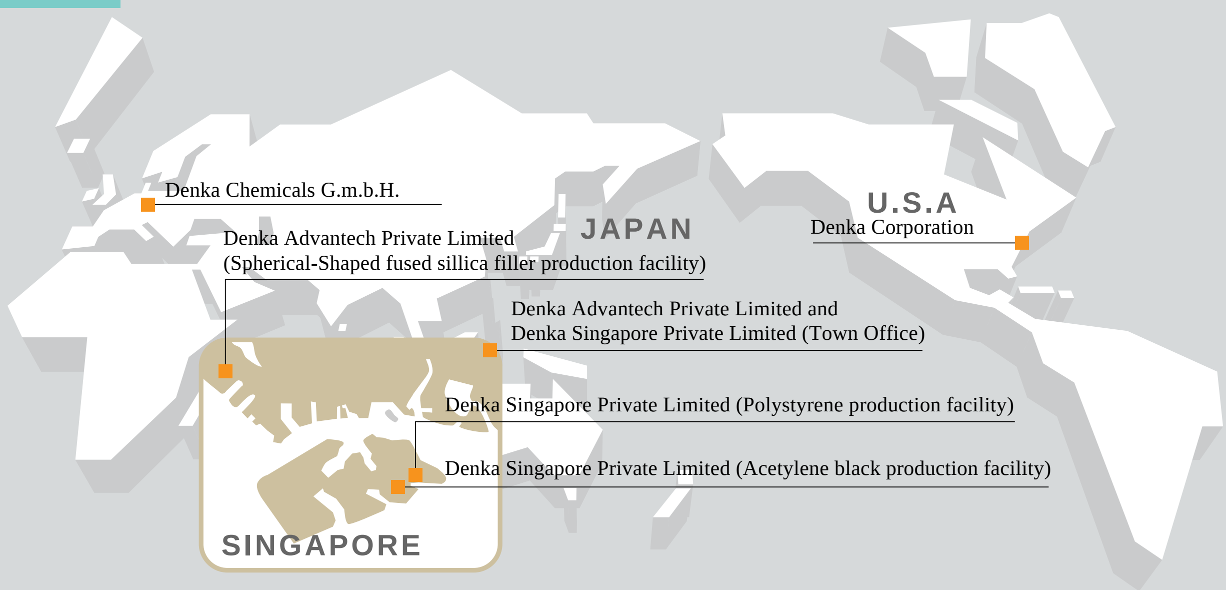
Petrochemical Products Division

In the current term, research and development is selectively promoted for the functional resins sector, an area in which new products can have high added values. Study is being focused on manufacturing processes, development of new varieties, and quality improvements for transparent resins, CLEAREN, functional adhesives, etc., contributing to expanding these products' sales. As for general-use products, we have lowered our production costs to make these products more competitive internationally, while at the same time improving quality.
The research and development costs related to this division in the current term were ¥1,923 million (US$16million).

Specialized Chemical Products Division

In the current term, we have enhanced the business structure for chloroprene, alumina cement, and organic and inorganic chemical products such as fertilizers, and we have promoted the development of new products that meet market needs.
In the electronic and functional materials sector, we have enhanced the research system for fused silica, which is a semiconductor sealing material filler, as well as for various ceramics and metal boards. In addition, we have promoted development of new products and new grades that respond in a timely manner to diverse market needs in our efforts to improve the competitiveness of related businesses and to exploit peripheral sectors.
In the resin finishing products sector, we have newly established a processing technology institute for higher efficiency in processed resin products R & D together with Toyo Chemical Co., Ltd. and DENKA POLYMER Co., Ltd., and for acceleration of business expansion measures. Based on this, we intend to develop new products and establish processing technologies which emphasize the electronic and information sector and the food packaging products sector.
In addition, led by Toyo Chemical Co., Ltd., which specializes in plastic molded products and processing, we are working on the development of new products that meet market needs, such as adhesive tapes and construction materials, industrial materials, and environmental materials based on profile extrusion technologies.
The research and development costs related to this division in the current term were ¥4,345 million (US$35million).

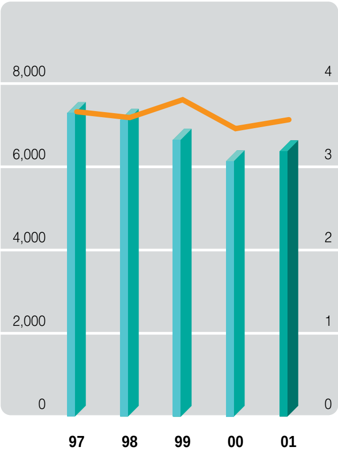
Overseas Operations



Cement and Construction Materials Division

In the special cement additives sector, we have promoted lower costs and higher quality of key products, including NATMIC and Tascon, while developing new products and new methods in the anti-seismic reinforcement and new tunnel construction method sector. We have popularized new methods such as the Denka Technocrete System in the concrete rehabilitation sector, and have developed an acrylic adhesive HARDLOC II in the civil engineering sector to tap the market for applications such as curing by adhesives and repair by injection of adhesive into cracks.
The research and development costs related to this division in the current term were ¥1,082 million (US$9million).

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



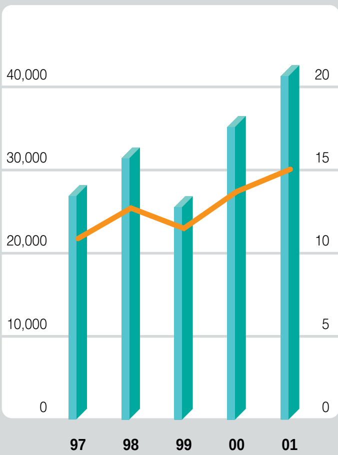
Pharmaceuticals and Other Products Division

In the pharmaceuticals-related sector, we have produced hyaluronic acid through a culturing method that is a spin-off from our original fermentation technologies, and inaugurated sales of this substance in the form of a drug which improves joint functions (as a medicine used in the treatment of rheumatism) in the current term. We are continuing to work on the development of new applications whereby the properties of this hyaluronic acid can be utilized in other types of medicine.
Denka Seiken Co. is actively promoting the development of safe, effective, high-quality vaccines, while working on the development of reagents for bacteria and virus examinations, clinical biochemical examinations and immunity examinations. Denka Pharmaceutical Co., Ltd. is promoting research and development with an emphasis on veterinary medicine.
In other businesses, DENKA CONSULTANT & ENGINEERING CO., LTD. is working on the development of technologies for efficient air transportation equipment for difficult-to-carry powdered substances. This company is also engaged in research and development of waste water treatment and deodorization equipment.
The research and development costs related to this division in the current term were ¥756 million (US$6million).

We intend to deepen our study of peripheral applications for existing businesses and products, and extend our product range step by step. We will allocate our capacity in a balanced way not only for applied studies but also for basic studies. Recognizing the importance of speed in the flow from R & D to production, and on to promotion and sales, we will establish a structure that is capable of responding to market needs quickly, and will also work on the development of new products in anticipation of new needs.

Overseas sales in the current term have been ¥41,167 million (US$332million), an increase of ¥6,004 million, which is a 17.0% increase over the previous year.
Two of our wholly owned subsidiaries, DENKA Singapore Private Limited, which produces acetylene black and polystyrene, and DENKA Advantech Private Limited, which produces fused silica fillers, are located in Singapore, which is the overseas production base of our group. The sales of these two companies have reached over ¥11 billion at the present time.
In the current term, we reinforced the production plants making spherical-shaped fused silica filler at DENKA Advantech Private Limited in December, 2000 in response to the needs of the semiconductor industry due to the progress of the IT industry. As for DENKA Singapore Private Limited, we are considering increases in its production capacity to as much as 83,000 tons for polystyrene, as well as exploitation of new businesses with prospects for growth.
We believe that Singapore is going to develop steadily as a core area for Southeast Asian countries with a promise for further growth. Although we have been suffering from the sluggish demand for acetylene black, fused silica and polystyrene since January, 2001, we judge this is only temporary.
We are targeting for ¥15 billion in sales in a few years by achieving cost reductions and expanding the applications of acetylene black, by bringing about thorough cost reductions for polystyrene, and by efficient operations in the manufacture of fused silica.

Overseas Sales and Overseas Sales to Net Sales (Non-Consolidated)



Financial Review

Summary of Operating Performance

Due to the recovery in capital investments in the private sector, focused primarily in the information technology related sectors, and increased exports stimulated by the recovery of the Asian economies, economic conditions during the fiscal year showed a mild overall recovery. However, that being said, the personal consumption level still has not shown any sign of recovery and with the continuing deceleration of the American economy which began last fall, signs of stagnation in the domestic economy have become increasingly prevalent.

In the chemical industry, production levels were at a high level due to the recovery in domestic demand and the increased level of exports. However, the prices of crude oil and naphtha, which have been increasing rapidly since 1999 and finally stabilized, although at a high level, and the major increase in the cost of raw materials, have both placed increasing pressure on corporate profits.

Faced with these economic conditions, the Denka Group is reallocating management resources to high-growth business groups, such as "resin finishing products," "electronics-related materials" and "special cement additives," in addition to its measures to expand the business base and normalize pricing levels, to further improve profitability and enhance corporate value. The Group is also aggressively realigning its business portfolio in addition to continuing cost reduction measures. Denka also introduced SUVENYL, a new drug that improves joint function, in August 2000, and is endeavoring to expand the market to make this a major new business for the Company.

As a result, net sales showed a 6.2% increase, to ¥272,274 million (US $2,198 million), but net income was ¥5,636 million (US $45 million) due to a temporary loss resulting from changes in the accounting rules.

Sales

Net sales were ¥272,274 million (US $2,198 million), which was an increase of ¥16,001 million (US $129 million). The segment summary is as presented in the "Business Review."

Cost of Sales

Cost of sales was ¥193,266 million (US $1,560 million), an increase of ¥15,793 million (US $127 million), or 8.9%, which was greater than the 6.2% increase in net sales. This was mainly attributable to expanded sales volume, but was also due to extensive increases in raw material prices.

Selling, General and Administrative Expenses

With increased selectivity in research and development expenditures and a reduction in sales expenses, selling, general and administrative expenses declined ¥1,113 million (US $9 million) to ¥51,689 million (US $417 million).

Operating Income

Operating income increased by ¥1,321 million (US $11 million), to ¥27,319million (US $220 million). This had the effect of keeping the operating income to net sales ratio stable at virtually the same level as the previous year, 10.0%.

Net Income

In spite of the increase in operating income, after recognizing other expenses including the amortization of the retirement benefit payment expenses as a result of the changes in the accounting standard, which was initiated this fiscal year and the valuation losses from investment securities, net income declined by ¥ 2,683 million ((US$ 22 million) from previous year to ¥ 5,636 million (US$ 45 million).

Five-Year Summary

	Millions of Yen					Thousands of U.S. Dollars
Years ended March 31	1997	1998	1999	2000	2001	2001
Net Sales	¥247,590	¥246,624	¥221,546	¥256,273	**¥ 272,274**	**$ 2,197,530**
Net Income	1,009	3,020	(699)	8,319	**5,636**	**45,488**
Shareholders' Equity	80,201	90,035	87,526	90,195	**92,523**	**746,755**
Total Assets	367,780	367,031	345,083	379,293	**369,029**	**2,978,442**

Note: Yen amounts are translated into dollars at a rate of ¥123.90=U.S.$1.

Dividends

Dividends for fiscal year 2000 were ¥5 (US $0.04) per share. Of this, ¥2.5 was an interim dividend paid in December 2000. The year-end dividend was ¥2.5 (US $0.02), paid in June 2001.

Assets and Liabilities · Shareholders' Equity

Total assets, at the end of fiscal year 2000, had declined by ¥10,264 million (US $83 million) as compared with the end of fiscal year 1999. The reduction was due to measures taken to improve asset efficiency, including the selling of shares held as cross-holdings and increased selectivity in concentrating capital investments in high priority areas, in addition to reductions from devaluation of investment securities in accordance with changes in the accounting rules.

Total current assets declined by ¥33,540 million (US $271 million) to ¥118,103 million (US $953 million).

Inventories increased ¥3,904 million (US $32 million) to ¥33,565 million (US $271 million), primarily as a result of a large rise in the raw material costs. But with the application of “Accounting Standards for Financial Products” starting this year, ¥34,679 million (US $ 280 million) of marketable securities were reclassified as investment securities (in the category of fixed assets) resulting in a reduction of ¥34,995 million (US $282 million), to ¥771 million (US $6 million).

Fixed assets, on the other hand, increased by ¥35,898 million (US $290 million) to ¥224,893 million (US $1,815 million). In this category, tangible fixed assets increased by ¥10,264 million (US $83 million) to ¥172,432 million (US $1,392 million) as a result of concentrating investments in high growth businesses. Investment securities increased by ¥27,224 million (US $220 million), to ¥42,576 million (US $344 million) as a result of reclassification of marketable securities, as has been noted above. However, an actual reduction of ¥7,455 million (US $60 million) was recorded as a result of selling cross-held shares and devaluation of investment securities.

Assets of the securities company subsidiary declined ¥10,366 million (US $84 million), to ¥24,943 million (US $201 million) due to the stagnation of the stock markets.

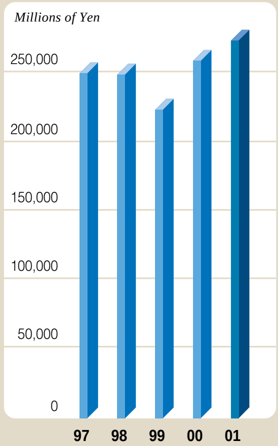
The total of current liabilities and fixed liabilities was ¥263,516 million (US $2,127 million), a reduction of ¥13,176 million (US $106 million) from the previous year. Interest-bearing liabilities, which includes short-term bank loans, long-term debt, outstanding bonds and convertible bonds, was reduced as a result of improved operating cash flow and the implementation of financial measures, including the selling of cross-held shares, by ¥16,089 million (US $130 million), to ¥164,336 million (US $1,326 million). In addition, the liabilities of the securities company subsidiary declined by ¥10,424 million (US $84 million), to ¥21,315 million (US $172 million).

Total shareholders' equity increased by ¥2,328 million (US $19 million), to ¥92,523 million (US $747 million) as a result of reductions due to the payment of an interim dividend in the net income figures.

Cash Flow

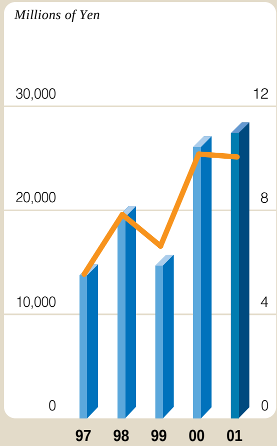
Net cash provided by operating activities was ¥37,190 million (US $300 million), an increase of ¥5,136 million (US $41 million) over the previous year. Net cash used in investment activities showed net expenditures of ¥16,831 million (US $136 million) due to increased capital investments, which was offset in part by recovery of loans. As a result, the combined free cash flow improved by ¥1,237 million (US $10 million) over the previous year, to ¥20,359 million (US $164 million). Net cash used in financing activities included ¥2,526 million (US $20 million) in dividend payments and ¥16,838 million (US $136 million) in repayment of interest-bearing debt. As a result, cash and cash equivalents at the end of the year increased by ¥785 million (US $6 million), to ¥7,131 million (US $58 million).

Net Sales



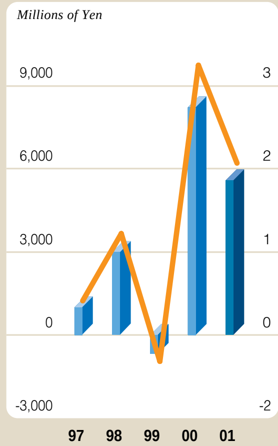
Operating Income and Operating Income to Net Sales

Operating Income
Operating Income to Net Sales (%)

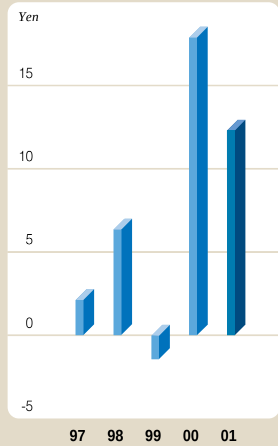


Net Income (Loss) and Net Income (Loss) to Net Sales

Net Income (Loss)
Net Income (Loss) to Net Sales (%)



Shareholders' Equity Per Share



Consolidated Balance Sheets

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2001**	**2000**	**2001**
Current assets:			
Cash and time deposit	¥ **6,731**	¥ 5,745	$ **54,326**
Notes and accounts receivable, trade (Note 3)	**70,776**	72,254	**571,235**
Marketable securities (Note 4)	**771**	35,766	**6,222**
Inventories (Note 6)	**33,565**	29,661	**270,904**
Deferred tax asset	**1,321**	1,720	**10,662**
Prepaid expenses and other current assets (Note 3)	**5,736**	7,422	**46,295**
Allowance for doubtful accounts	**(797)**	(925)	**(6,432)**
Total current assets	**118,103**	151,643	**953,212**
Property, plant and equipment (Note 7) :			
Buildings and structures	**99,151**	96,166	**800,250**
Machinery and equipment	**266,654**	268,673	**2,152,171**
Land	**54,546**	45,311	**440,242**
Construction in progress	**6,649**	3,331	**53,664**
	427,000	413,481	**3,446,327**
Accumulated depreciation	**(254,568)**	(251,313)	**(2,054,624)**
Total property, plant and equipment	**172,432**	162,168	**1,391,703**
Intangible fixed assets	**412**	551	**3,325**
Investments and other assets			
Investment securities (Notes 3 and 4)	**42,576**	15,352	**343,632**
Long-term loans receivable (Note 3)	**1,350**	1,785	**10,896**
Other	**7,277**	8,996	**58,733**
Deferred tax asset	**1,357**	500	**10,952**
Allowance for doubtful accounts	**(511)**	(357)	**(4,124)**
Total investments and other assets	**52,049**	26,276	**420,089**
Deferred charges			
Research and development	**1,012**	2,025	**8,168**
Other	**78**	71	**629**
Total deferred charges	**1,090**	2,096	**8,797**
Assets of consolidated securities company (Notes 7 and 14)	**24,943**	35,309	**201,316**
Foreign currency translation adjustments	**-**	1,250	**-**
Total assets	¥ **369,029**	¥ 379,293	$ **2,978,442**

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	**2001**	**2000**	**2001**
Current liabilities			
Notes and accounts payable (Note 3)	¥ **41,770**	¥ 33,781	$ **337,127**
Short-term bank loans (Note 7)	**63,817**	71,799	**515,068**
Current portion of long-term debt (Note 7)	**44,888**	26,115	**362,292**
Accrued taxes on income and other (Note 9)	**3,224**	5,124	**26,021**
Accrued bonus	**2,352**	2,258	**18,983**
Other current liabilities (Note 3)	**24,963**	17,671	**201,477**
Total current liabilities	**181,014**	156,748	**1,460,968**
Long-term liabilities			
Long-term debt (Note 7)	**55,631**	82,511	**448,999**
Deferred tax liability	**872**	1,052	**7,038**
Accrued retirement benefits (Note 12)			
- for employees	**3,499**	3,452	**28,241**
- for directors and statutory auditors	**700**	692	**5,650**
Other long-term liabilities	**485**	498	**3,914**
Total long-term liabilities	**61,187**	88,205	**493,842**
Liabilities of consolidated securities company (Note 14)	**21,315**	31,739	**172,034**
Total liabilities	**263,516**	276,692	**2,126,844**
Contingent liabilities (Note 17)			
Minority interest in consolidated subsidiaries	**12,990**	12,406	**104,843**
Shareholders' equity			
Common stock: ¥50 par value per share			
Authorized: 1,584,070,000 shares			
Issued: 459,419,390 shares	**35,303**	35,303	**284,931**
Capital surplus	**32,069**	32,069	**258,830**
Retained earnings (Notes 8 and 13)	**26,026**	22,824	**210,056**
Foreign currency translation adjustments	**(874)**	-	**(7,054)**
Treasury stock	**(1)**	(1)	**(8)**
Total shareholders' equity	**92,523**	90,195	**746,755**
Total liabilities and shareholders' equity	¥ **369,029**	¥ 379,293	$ **2,978,442**

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)
	2001	2000	2001
Net sales	¥ 272,274	¥ 256,273	$ 2,197,530
Cost of sales	193,266	177,473	1,559,855
Gross profit	79,008	78,800	637,675
Selling general and administrative expenses (Note 10)	51,689	52,802	417,183
Operating income	27,319	25,998	220,492
Other income			
Interest and dividend income	670	596	5,408
Gain on sale of marketable securities	-	447	-
Gain on sale of investment securities	167	1,056	1,348
Gain on sale of land	440	-	3,551
Reversal of the exercise rights of warrants	291	-	2,349
Other, net (Note 3)	1,100	852	8,878
	2,668	2,951	21,534
Other expenses			
Interest expenses	3,487	4,194	28,144
Loss on disposal of property, plant and equipment	652	643	5,262
Amortization of deferred research and development costs	1,013	1,391	8,176
Amortization of prior service cost	-	1,597	-
Loss on liquidation of affiliates	-	899	-
Devaluation of marketable and investment securities	5,908	1,064	47,684
Devaluation of golf memberships	1,890	-	15,254
Unrecognized transition amount	1,559	-	12,583
Equity in deficit of unconsolidated subsidiaries and affiliates	125	506	1,008
Other, net	4,255	4,827	34,343
	18,889	15,121	152,454
Income before income taxes	11,098	13,828	89,572
Income taxes (Note 9)			
Current	(5,249)	(5,028)	(42,364)
Deferred	633	509	5,108
	(4,616)	(4,519)	(37,256)
Income before minority interests	6,482	9,309	52,316
Minority interest in losses of consolidated subsidiaries	(846)	(990)	(6,828)
Net income	¥ 5,636	¥ 8,319	$ 45,488

	Yen		U.S. Dollars (Note 1)
	2001	2000	2001
Per share			
Net income	¥ 12.27	¥ 17.87	$ 0.100

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Thousands Common stock Number of shares	Millions of Yen Common stock Amount	Capital surplus	Retained earnings
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**
Net income	-	-	-	5,636
Increase in retained earnings resulting from exclusion of an affiliate	-	-	-	48
Decrease in retained earnings resulting from exclusion of a subsidiary	-	-	-	(54)
Decrease in retained earnings resulting from inclusion of an affiliate	-	-	-	(7)
Decrease in retained earnings resulting from exclusion of an affiliate	-	-	-	(7)
Cash dividends	-	-	-	(2,297)
Bonuses to directors and statutory auditors	-	-	-	(117)
Balance at March 31, 2001	**459,419**	**¥ 35,303**	**¥ 32,069**	**¥ 26,026**

Year Ended March 31	Thousands Common stock Number of shares	Thousands of U.S. dollars (Note 1) Common stock Amount	Capital surplus	Retained earnings
Balance at March 31, 2000	**459,419**	**$ 284,931**	**$ 258,830**	**$ 184,213**
Net income	-	-	-	45,488
Increase in retained earnings resulting from exclusion of an affiliate	-	-	-	388
Decrease in retained earnings resulting from exclusion of a subsidiary	-	-	-	(436)
Decreases in retained earnings resulting from inclusion of an affiliate	-	-	-	(57)
Decreases in retained earnings resulting from exclusion of an affiliate	-	-	-	(57)
Cash dividends	-	-	-	(18,539)
Bonuses to directors and statutory auditors	-	-	-	(944)
Balance at March 31, 2001	**459,419**	**$ 284,931**	**$ 258,830**	**$ 210,056**

Consolidated Statements of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	**2000**	**2001**
Cash flows from operating activities:			
Income before income taxes	¥ **11,098**	¥ 13,828	$ **89,572**
Adjustments -			
Depreciation	**15,047**	15,106	**121,445**
Amortization of deferred charges	**1,191**	1,808	**9,613**
Devaluation of golf membership	**1,890**	-	**15,254**
Provision for doubtful accounts	**26**	182	**209**
Interest and dividend income	**(670)**	(596)	**(5,407)**
Interest expenses	**3,487**	4,194	**28,144**
Devaluation of marketable and investment securities	**5,907**	1,064	**47,676**
Gain on sale of marketable and investment securities	**(167)**	(1,502)	**(1,348)**
Equity losses of affiliated companies	**125**	506	**1,008**
Loss on sales of property, plant and equipment, net	**211**	1,044	**1,702**
Other	**134**	318	**1,082**
Changes in assets and liabilities:			
Receivables	**1,578**	(5,005)	**12,736**
Inventories	**(3,921)**	3,835	**(31,646)**
Notes and accounts payable	**8,225**	4,920	**66,384**
Other, net	**2,033**	(1,614)	**16,408**
Sub-total	**46,194**	38,088	**372,833**
Interest and dividend received	**739**	670	**5,964**
Interest paid	**(3,547)**	(4,176)	**(28,628)**
Income taxes paid	**(6,196)**	(2,528)	**(50,008)**
Net cash provided by operating activities	**37,190**	32,054	**300,161**
Cash flows from investment activities:			
Purchase of marketable securities	**-**	(3,782)	**-**
Sales of marketable securities	**113**	6,891	**912**
Purchases of property, plant and equipment	**(22,816)**	(16,343)	**(184,148)**
Sales of property, plant and equipment	**2,129**	3,818	**17,183**
Purchase of investment securities	**(586)**	(3,591)	**(4,729)**
Sales of investment securities	**2,447**	1,385	**19,750**
Other, net	**1,882**	(1,310)	**15,189**
Net cash used in investment activities	**(16,831)**	(12,932)	**(135,843)**
Cash flows from financing activities:			
Decrease in short-term borrowings	**(8,181)**	(3,919)	**(66,029)**
Proceeds from long-term debt	**17,976**	11,609	**145,084**
Repayment of long-term debt	**(26,633)**	(20,813)	**(214,955)**
Cash dividends	**(2,526)**	(3,648)	**(20,387)**
Capital stock subscription	**-**	1,036	**-**
Purchase of treasury stock	**-**	(3,197)	**-**
Other	**0**	(2)	**0**
Net cash used in financing activities	**(19,364)**	(18,934)	**(156,287)**
Effect of exchange rate changes on cash and cash equivalent	**45**	(67)	**363**
Net increase in cash and cash equivalent	**1,040**	121	**8,394**
Cash and cash equivalent at the beginning of the year	**6,346**	4,979	**51,218**
Increase of cash and cash equivalent resulting from inclusion and exclusion of subsidiaries in the consolidation	**(255)**	1,246	**(2,058)**
Cash and cash equivalent at the end of the year	¥ **7,131**	¥ 6,346	$ **57,554**

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 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 accompanying financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 ¥ 123.90 = US$1, the approximate rate of exchange as at March 31, 2001 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 29 majority and wholly-owned subsidiaries (30 subsidiaries in 2000). 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 19 and 20 at March 31, 2001 and 2000, 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 (eight subsidiaries in 2000) were consolidated on the basis of their fiscal years ended at December 31, 2001 and 2000. The year end data of a subsidiary were November 30, 2001 and 2000. Therefore, the subsidiary tentatively closed it's account at January 31, 2001 and 2000 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) Financial instruments –

Until the year ended March 31, 2000, marketable securities (current) and investments in securities (non- current) are stated at cost.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adoption of the new standard, income before income taxes for the year ended March 31, 2001 has no material impact, as compared with the amount which would have been reported if the previous standard had been applied consistently.

Securities held by the Company and its subsidiaries are, under the new standard, classified into two categories;

"Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates" are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.

"Other securities" are stated at cost, as stated in the paragraph below.

Held-to-maturity debt securities, that the Company and its subsidiaries have intent to hold to maturity, are stated at cost after accounting for premium or discount on acquisition, which are amortized over the period to maturity.

Under the new standard, other securities which have characteristics of cash equivalents are presented as marketable securities (current) and all the other securities are presented as investments in securities (non-current). The securities held by the Company and its subsidiaries have been reclassified as of April 1, 2000 (the beginning of year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥ 34,679 million ($279,895 thousand) and the securities in the non-current portfolio have increased by the same amount.

(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) Accrued retirement benefits –

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 of its consolidated subsidiaries have qualified pension plans to cover part of their employees' severance indemnities.

Until the year ended March 31, 2000, the Company and certain consolidated subsidiaries 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.

Pension costs comprise current service costs, amortization (on the declining balance method) of past service costs and interest on the unfunded portion of past services costs, which determined based on the funding policy, and were changed to income when paid.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the accrued retirement benefits as of March 31, 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized transition amount arising from adopting the new standard of ¥ 12,554 million ($101,324 thousand) at April 1, 2000 (the beginning of year) is amortized on a straight-line basis over 10 years, and the unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise. As a result of adopting the new standard, net pension and severance costs for the year ended March 31, 2001 has increased by ¥ 1,092 million ($8,814 thousand) and income before income taxes has decreased by ¥ 1,050 million ($8,475) as compared with the amounts which would have been reported if the previous standard had been applied consistently.

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. Payment of directors' severance indemnities is subject to shareholders' approval.

(6) 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.

(7) Translation of foreign currency accounts –

Until the year ended March 31, 2000, current foreign currency receivables and payables were 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 were translated at the forward exchanged rates. Resulting exchange gains or losses were credited or changed to income. Non-current foreign currency receivables and payables were generally translated at historical rates.

Foreign currency financial statements were 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 were deferred and were reflected in the accompanying consolidated balance sheets as "Foreign currency translation adjustments".

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation, which is effective for periods beginning on or after April 1, 2000. Under the new standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period. The adoption of the new method had no material impact on the accompanying consolidated financial statements.

The new standard also amended the method of translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity. The effect of adopting the new accounting standard on the accompanying consolidated financial statements was immaterial.

(8) Income taxes –

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

Income taxes are determined using the assets and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

(9) 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.

(10) 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.

(11) 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
	2001	2000	2001
Notes and accounts receivable, trade	¥ 12,822	¥ 12,321	$ 103,486
Short-term loans receivable	346	951	2,792
Other current assets	1,030	1,033	8,313
Investment securities	11,139	10,441	89,903
Long-term loans receivable	443	560	3,575
Notes and accounts payable, trade	4,812	4,299	38,837
Other current liabilities	488	504	3,938

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Other income—other	¥ 3,322	¥ 1,629	$ 26,811

4. Marketable and investment securities –

The aggregate cost and market value of investment securities for which market quotations are available as of March 31, 2001 composed of the following:

	Millions of Yen	Thousands of U.S. Dollars
Investment securities		
Market value	¥ 25,388	$ 204,907
Carrying amount	27,793	224,318
Unrealized loss	¥ 2,405	$ 19,411

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.

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts. The related hedging items are foreign currency receivables and payables.

The company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related items from the commencement of the hedges.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Forward exchange contracts:			
Carrying amount	¥ -	¥ 14	$ -
Estimated fair value	-	10	-
Unrealized loss	-	4	-

6. Inventories –

Inventories at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Finished products	¥ 17,869	¥ 15,312	$ 144,221
Semi-finished products	7,121	6,009	57,474
Work in process	1,880	1,778	15,173
Raw materials	4,684	4,703	37,805
Supplies	2,011	1,859	16,231
	¥ 33,565	¥ 29,661	$ 270,904

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
	2001	2000	2001
Bank overdrafts with interest ranging from 0.612% to 7.44% per annum	¥ 11,185	¥ 9,694	$ 90,274
Short-term bank loans with interest ranging from 0.50288% to 7.51% per annum represented by short-term notes maturing at various dates within one year	52,632	62,105	424,794
	¥ 63,817	¥ 71,799	$ 515,068

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans, principally from banks and insurance companies, maturing serially to 2010 with interest ranging from 0% to 7.4138% per annum :			
Secured	¥ 1,833	¥ 2,324	$ 14,795
Unsecured	25,686	33,754	207,313
1.00% bonds with warrant due 2000	-	2,547	-
2.65% bonds due 2000	-	10,000	-
2.00% bonds due 2001	10,000	10,000	80,710
2.35% bonds due 2001	-	5,000	-
2.95% bonds due 2001	10,000	10,000	80,710
2.10% bonds due 2002	10,000	10,000	80,710
2.20% bonds due 2002	5,000	5,000	40,355
2.275%bonds due 2002	5,000	5,000	40,355
2.40% bonds due 2003	5,000	5,000	40,355
1.59% bonds due 2004	10,000	10,000	80,710
0% Convertible bonds due 2004	3,000	-	24,213
1.12% bonds due 2006	5,000	-	40,355
1.83% bonds due 2007	10,000	-	80,710
	100,519	108,626	811,291
Less-current portion of long-term debt	44,888	26,115	362,292
	¥ 55,631	¥ 82,511	$ 448,999

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Property, plant and equipment – at book value	¥ 87,146	¥ 86,699	$ 703,357
Assets of consolidated securities company	2,581	5,328	20,831

The aggregate annual maturities of long-term debt subsequent to March 31, 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2002	¥ 44,888	$ 362,292
2003	17,590	141,969
2004	6,682	53,931
2005	13,884	112,058
2006	5,405	43,624
2007 and thereafter	12,070	97,417
	¥ 100,519	$ 811,291

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, 2001, which was approved on June 28, 2001, at the general shareholders' meeting is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Legal reserve	¥ 120	$ 968
Cash dividends at ¥ 2.50 per share	1,149	9,274
Directors' and statutory auditors' bonus	60	484
Provision for special reserve	260	2,098
	¥ 1,589	$ 12,824

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 41.0 percent for the years ended March 31, 2001 and 2000.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets			
Allowance for doubtful accounts	¥ 314	¥ 929	$ 2,534
Enterprise income taxes	265	355	2,139
Accrued severance cost for directors and statutory auditors	288	290	2,324
Accrued severance and pension costs for employees	442	390	3,567
Accrued bonus	490	317	3,955
Inter-company profit of inventories and fixed assets	840	893	6,780
Devaluation of investment securities	422	-	3,406
Devaluation of golf memberships	785	-	6,336
Other	522	390	4,213
Gross deferred tax assets	4,368	3,568	35,254
Deferred tax liabilities:			
Retained earnings appropriated for special reserve (Note 13)	2,488	2,319	20,081
Other	74	80	597
Gross deferred tax liabilities	2,562	2,399	20,678
Net deferred tax assets	¥ 1,806	¥ 1,168	$ 14,576

Reconciliations of the differences between the statutory tax rate and the effective income tax rate are as follows:

	Year ended March 31,2001	Year ended March 31,2000
Statutory tax rate		
Increase (reduction) in taxes resulting from:	41.0 %	41.0 %
Changes in valuation allowance for affiliated companies	- %	-11.4 %
Other	0.5 %	3.1 %
Effective income tax rate	41.5 %	32.7 %

10. Selling, general and administrative expenses–

Selling, general and administrative expenses for the years ended March 31, 2001 and 2000 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Selling expenses			
Carriage and shipping	¥ 17,447	¥ 18,034	$ 140,815
Sales commission	5,245	5,441	42,333
Other	3,076	2,743	24,826
	25,768	26,218	207,974
General and administrative expenses:	11,411	10,843	92,099
Salaries and remuneration	329	384	2,655
Employees' welfare	4,404	4,305	35,545
Research and development	9,777	11,052	78,910
Other	25,921	26,583	209,209
	¥ 51,689	¥ 52,802	$ 417,183

11. Research and development expenses–

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the year ended March 31, 2001 and 2000, approximated ¥ 8,107 million ($65,431 thousands) and ¥ 7,581 million, respectively.

12. Retirement and severance benefits –

The Company and its domestic subsidiaries have defined benefit retirement plans and qualified pension plans covering substantially all employees. Some domestic subsidiaries have entered into a small-enterprise mutual aid system for retirement fund contract with the Small-Enterprise Mutual Aid System for Retirement Fund Corporation to fund retirement payments for employees.
The accrued retirement benefits as of March 31, 2001 is analyzed as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligations	¥ 30,848	$ 248,975
Plan assets	14,937	120,557
Net unreserved projected benefit obligations	15,911	128,418
Unrecognized transition obligations	10,996	88,749
Unrecognized actuarial losses	1,416	11,428
Accrued retirement benefits	¥ 3,499	$ 28,241

(Notes : Some domestic subsidiaries adopted the simple method for retirement benefits.)

Net pension and severance cost related to the retirement benefit plan for the year ended March 31, 2001 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 1,278	$ 10,315
Interest cost	628	5,068
Expected return on plan assets	(296)	(2,389)
Amortization of transition obligations	1,558	12,575
Amortization of actuarial losses	223	1,800
Net pension and severance cost	¥ 3,391	$ 27,369

Assumptions used in calculation of the above information were as follows:

	Year ended March 31,2001
Method of attributing the projected benefits to periods of services	straight- line basis
Discount rate	1.7 %
Expected rate of return on plan assets	1.7 %
Amortization of unrecognized actuarial gains and losses	10 years
Amortization of transition obligations	10 years

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, 2001 and 2000 were ¥ 3,369million ($27,189 thousand), and ¥ 3,398 million, respectively.

14. Analysis of assets and liabilities of securities company –

An analysis of assets and liabilities at March 31, 2001 and 2000 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 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Current assets:			
Cash and deposits	¥ 3,519	¥ 1,797	$ 28,402
Margin transaction account	4,721	13,465	38,103
Securities under the company's custody	11,848	18,827	95,626
Other	4,483	649	36,182
	24,571	34,738	198,313
Non-current assets	372	571	3,002
Total assets	¥ 24,943	¥ 35,309	$ 201,315
Current liabilities:			
Short-term loans	¥ 1,010	¥ 1,130	$ 8,152
Margin transaction account	3,017	8,872	24,350
Guarantee money	246	956	1,985
Securities received in lieu of Guarantee money	8,398	12,657	67,781
Other	8,476	8,038	68,410
	21,147	31,653	170,678
Non-current liabilities	113	32	912
Reserves	55	54	443
Total liabilities	¥ 21,315	¥ 31,739	$ 172,033

Net sales for the two years ended March 31, 2001 and 2000 include operating revenue (including financial revenue) of the securities subsidiary amounting to ¥ 1,833 million ($ 14,794 thousand) and ¥ 3,683 million and selling, general and administrative expenses for the two years ended 31 March 2001 and 2000 include operating expenses (including financial expenses) of the securities subsidiary amounting to ¥ 1,365 million ($ 11,017 thousand) and ¥ 1,849 million, respectively.

15. Cash and cash equivalents –

	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Cash and cash equivalents as of March 31 consist of :			
Cash and bank deposits	¥ 6,731	¥ 5,745	$ 54,326
Marketable securities	400	601	3,228
	¥ 7,131	¥ 6,346	$ 57,554

16. Leases –

1) Finance Lease

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, 2001 and 2000 comprise the followings:

At March 31,2001 — Millions of Yen

	Acquisition Cost	Accumulated depreciation	Net book Value
Buildings and Structures	¥ 707	¥ -	¥ 707
Machine and equipment	5,520	3,482	2,038
Vehicles and delivery equipment	342	163	179
Tools, furniture and fixtures	2,401	1,532	869
Intangible assets	43	28	15
	¥ 9,013	¥ 5,205	¥ 3,808

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 31,2001 — Thousands of U.S. Dollars

	Acquisition Cost	Accumulated depreciation	Net book Value
Buildings and Structures	$ 5,706	$ -	$ 5,706
Machine and equipment	44,552	28,103	16,449
Vehicles and delivery equipment	2,760	1,316	1,445
Tools, furniture and fixtures	19,379	12,365	7,014
Intangible assets	347	226	121
	$ 72,744	$ 42,010	$ 30,735

Depreciation expenses of those leased assets for the year ended March 31,2001 and 2000 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 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Future lease payments			
Within one year	¥ 1,223	¥ 1,320	$ 9,871
Over one year	2,585	2,362	20,864
	¥ 3,808	¥ 3,682	$ 30,735

(3) Lease rental expenses on such finance lease contracts for the years ended March 31, 2001 and 2000 are as follows:

	Millions of Yen 2001	Millions of Yen 2000	Thousands of U.S. Dollars 2001
Lease rental expenses	¥ 1,434	¥ 1,501	$ 11,574
Depreciation cost corresponding amounts	1,434	1,501	11,574

2) Operating Lease

Operating leases are accounted for as rental transaction.

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

	Millions of Yen 2001	Thousands of U.S. Dollars 2001
Future lease payments		
Within one year	¥ 591	$ 4,770
Over one year	1,112	8,975
	¥ 1,703	$ 13,745

17. Contingent liabilities –

Contingent liabilities at March 31, 2001 and 2000 for notes receivable discounted and endorsed and loans guaranteed were approximately
¥1,919million ($15,488 thousand) and ¥2,759million, 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, 2001 and 2000 is summarized as follows:

Year ended Mach 31 , 2001 — 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	¥ 85,075	¥ 105,842	¥ 38,350	¥ 43,007	¥ 272,274	-	¥ 272,274
Inter-segment	5,147	5,275	2,594	4,960	17,976	¥ (17,976)	-
Total	90,222	111,117	40,944	47,967	290,250	(17,976)	272,274
Operating costs and expenses	86,536	95,059	36,348	45,137	263,080	(18,125)	244,955
Operating income	¥ 3,686	¥ 16,058	¥ 4,596	¥ 2,830	¥ 27,170	¥ 149	¥ 27,319
Assets	¥ 74,856	¥ 110,614	¥ 47,850	¥ 60,204	¥ 293,524	¥ 75,505	¥ 369,029
Depreciation cost	4,986	6,291	2,819	966	15,062	(16)	15,046
Capital expenditure	2,948	8,279	4,652	1,326	17,205	9,833	27,038

Year ended Mach 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	¥ 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 Mach 31 , 2001 — 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	$ 686,642	$ 854,253	$ 309,524	$ 347,111	$ 2,197,530	-	$ 2,197,530
Inter-segment	41,542	42,575	20,936	40,032	145,085	$ (145,085)	-
Total	728,184	896,828	330,460	387,143	2,342,615	(145,085)	2,197,530
Operating costs and expenses	698,434	767,223	293,366	364,302	2,123,325	(146,287)	1,977,038
Operating income	$ 29,750	$ 129,605	$ 37,094	$ 22,841	$ 219,290	$ 1,202	$ 220,492
Assets	$ 604,165	$ 892,768	$ 386,199	$ 485,908	$ 2,369,040	$ 609,402	$ 2,978,442
Depreciation cost	40,242	50,775	22,752	7,796	121,565	(129)	121,436
Capital expenditure	23,793	66,820	37,547	10,702	138,862	79,362	218,224

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

19. Overseas Sales Information –

Overseas sales of the Companies (export sales of the Company and domestjc subsidiaries) for the years ended March 31, 2001 and 2000 are summarized as follows:

Millions of yen

	2001			2000		
	Asia	Others	Total	Asia	Others	Total
Overseas sales	$ 32,768	$ 8,399	$ 41,167	$ 26,524	$ 8,639	$ 35,163
Consolidated sales	-	-	$ 272,274	-	-	$ 256,273
Percentage of overseas sales over consolidated sales	12.6%	3.1%	15.1%	10.3%	3.4%	13.7%

Thousands of U.S. Dollars

	2001		
	Asia	Others	Total
Overseas sales	$ 264,471	$ 67,788	$ 332,259
Consolidated sales	-	-	$ 2,197,530
Percentage of overseas sales over consolidated sales	12.0%	3.1%	15.1%

20. Event subsequent to March 31, 2001–

On June 19, 2001, the company issued ¥ 10,000 million of debentures due 2008. The annual interest rate is 1.3% and the issue price was 100% of the face value of the debenture.

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, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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, 2001 and 2000, and the consolidated results of their operations and their cash flows for the two years in the period ended March 31, 2001 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, 2001, Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries have adopted new Japanese accounting standards for financial instruments, accrued retirement benefits, and translation of foreign currency accounts.

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 28, 2001

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.

Corporate Data

Established
1st May, 1915

Paid-in Capital
¥35,303 million (US$284.9 million)

Employees
3,033

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, Morioka,
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, D-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: 65-224-1305
Facsimile: 65-224-3840
E-mail: toshio-imai@denka.co.jp

Board of Directors and Auditors
(As of 28 June, 2001)

Chairman
Tsuneo Yano*

President
Toshio Hiruma*

Senior Managing Directors
Takashi Matsukami*
Takeshi Furuya*

Exective Directors
Mitsuru Nakashima
Tadashi Ozawa

Managing Directors
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, 2001)

Total Number of Authorized Shares

1,584,070,000

Shares of Common Stock Issued

459,419,390

Shareholders

59,699

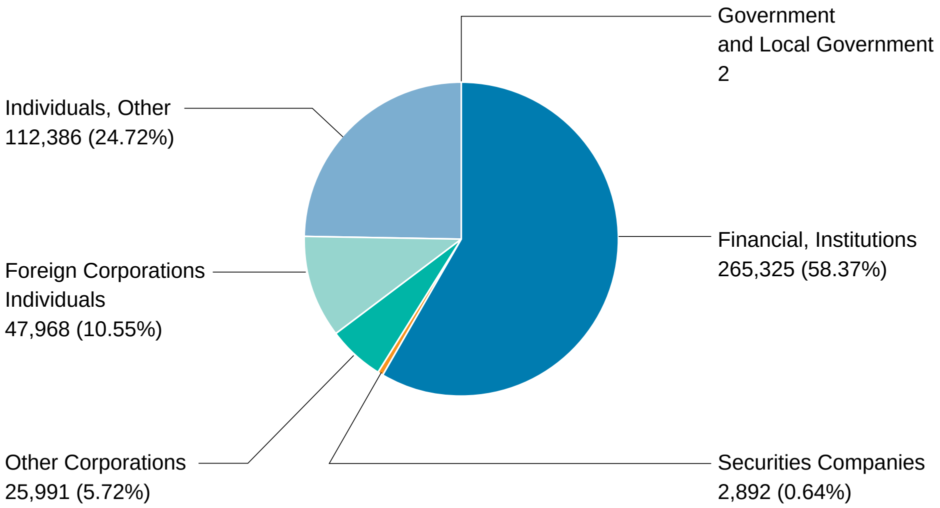
Major Shareholders

	Number of shares held (thousands)	Ratio of total shares out standing (%)
Japan Trustee Services Bank, Ltd.*	65,180	14.18
Mitsui Mutual Life Insurance, Co.	16,840	3.66
The Dai-Ichi Kangyo Bank, Limited	16,567	3.60
The Mitsubishi Trust and Banking Corporation*	16,271	3.54
The Sakura BANK,LIMITED	10,380	2.25
Blanket Trust Trustee Sakura Trust and Banking Co., Ltd. (Trustor: Chuo Mitsui Trust and Banking Co., Ltd.)	10,100	2.19
Mitsui Marine & Fire Insurance Co., Ltd.	9,777	2.12
The Sumitomo Trust&Banking Co.,Ltd.*	9,713	2.11
The Norinchukin Bank	8,175	1.77
Specified Unit Trust Trustee Chuo Mitsui Trust and Banking Co., Ltd. Accpount A	7,750	1.68

*Shares held by the institutions noted with an asterisk are shares held in its fiduciary capacity as trustee.

Breakdown of Shareholders

(thousands)



DENKI KAGAKU KOGYO KABUSHIKI KAISHA

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