MERGING TECHNOLOGY AND A CHALLENGING SPIRIT

DENKA

DENKI KAGAKU KOGYO KABUSHIKI KAISHA

Annual Report 2003

For the fiscal year ended March 31, 2003

Financial Highlights

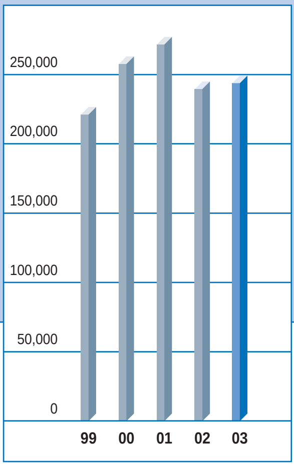
Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
Years ended 31 March, 2003 and 2002	2003	2002	2003
Net Sales	**¥ 243,825**	¥ 240,678	**$ 2,028,492**
Operating Income	**18,018**	16,733	**149,899**
Income (Loss) before Income Taxes	**10,049**	(61)	**83,604**
Net Income (Loss)	**4,774**	(1,978)	**39,717**
Total Assets	**313,561**	322,808	**2,608,659**
Total Shareholders' Equity	**102,105**	93,099	**849,461**
Net Income (Loss) per Share (in Yen and U.S. Dollars)	**9.99**	(4.31)	**0.083**
Shareholders' Equity per Share (in Yen and U.S. Dollars)	**211.45**	202.67	**1.759**

Note : Yen amounts are translated into dollars at a rate of ¥120.20=U.S.$1.

Net Sales

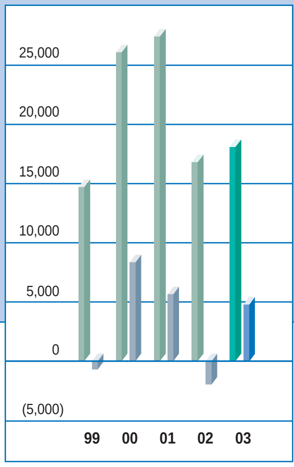
Millions of Yen



Operating Income and Net Income (Loss)

Millions of Yen

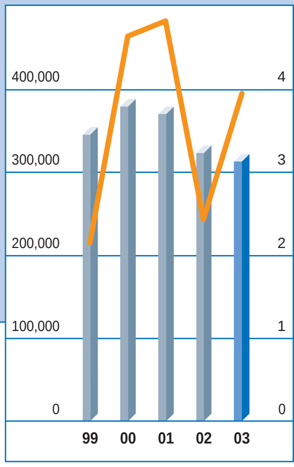
Operating Income
Net Income (Loss)



Total Assets and Return on Assets

Millions of Yen

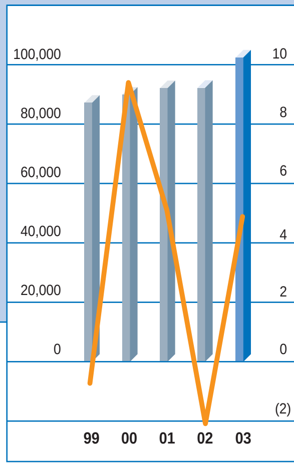
Total Assets
Return on Assets (%)



Total Shareholders' Equity and Return on Equity

Millions of Yen

Total Shareholders' Equity
Return on Equity (%)



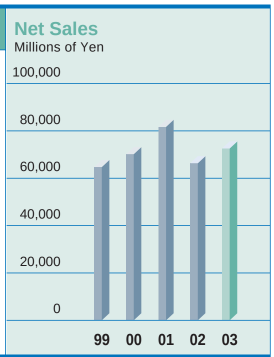
Contents

Denka at a Glance

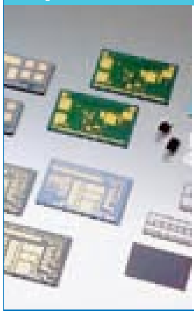
Petrochemical Products Division

Leading sectors of the petrochemicals division are styrene and ABS, resins and synthesized chemical products, and functional resins. Among the key products are polystyrene, ABS resins, styrene monomer, CLEAREN, transparent resins, acetic acid, vinyl acetate and POVAL.

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

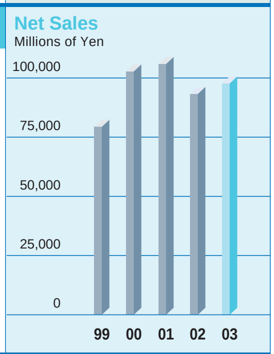


Specialized Chemical Products Division



This division's categories include resin finishers, fertilizers and inorganic substances, organic chemicals, and electronic and functional materials. Among the key products are electronic packaging, food packaging, fertilizers, carbide, refractory materials, chloroprene rubber, acetylene black, fused silica filler, electronic circuit boards and fine ceramics.

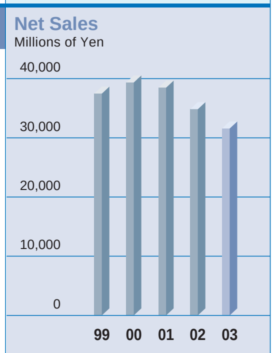
DENKA POLYMER Co., Ltd., DENKA KAKO Co., Ltd., DENKA Advantech Private Limited, HINODE KAGAKU KOGYO KABUSHIKI KAISHA, NISHI NIHON KOUATUGAS CO., LTD., DENAL SILANE K.K. and other companies



Cement and Construction Materials Division

This division produces cement and special cement additives, such as additives for expansibility, strengthening and acceleration of setting and hardening. The division also provides implementation technologies for concrete reinforcement.

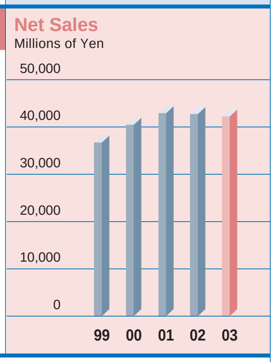
DENKA RENOTEC CO., LTD. and other companies



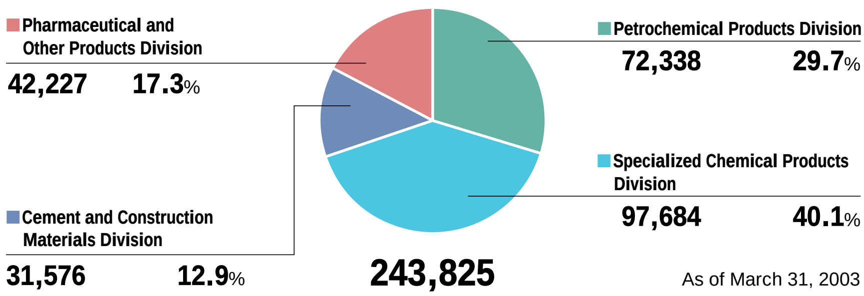
Pharmaceutical and Other Products Division

Key products of the pharmaceutical and other products division include vaccines, diagnostic chemicals, veterinary medicines, and others. Also under this division are plant engineering and a securities brokerage firm.

DENKA Seiken Co., Ltd., YAMATOMI Trading Co., Ltd., DENKA CONSULTANT & ENGINEERING CO., LTD., DENKA REAL-ESTATE MANAGEMENT CO., LTD. and other companies



Sales by Product Category
(Millions of Yen)



As of March 31, 2003

To Our Shareholders

In the fiscal year under review, the Denka Group posted consolidated net sales of ¥243,825 million, up 1.3% from the previous year, and operating income of 18,018 million, up 7.7%, with net income at ¥4,774 million, up ¥6,752 million from a year earlier. We declared a year-end dividend of ¥3 per share, up ¥0.5 (resulting in an annual payout of ¥6 per share).

The operating income ratio rose by 0.4 percentage points, year on year, to 7.4%, exceeding that of competitors.

Ahead of peer companies, we proceeded with the disposal of non-performing assets to liquidate loss-making operations. In recent years, we have promoted various proactive policies, aiming to select and concentrate on specific business domains. As a result, extraordinary losses are not to be expected unless unexpected circumstances arise. Along with the above-mentioned improvement in the operating income ratio, we believe the foundation for a stable earnings base is being established in the Group as a whole.

However, the business climate is getting harsher, due to growing risks, uncertainties and volatile factors in the domestic as well as the global political/economic scene, such as the serious situation in Iraq, the worldwide stagnation of stock prices, the persistent deflationary trend in Japan and misgivings about the employment/finance markets. Under such circumstances, while we could achieve the expected business results in the fiscal year, we concurrently face various problems that should be addressed by the respective business divisions. We will continue doing our utmost to steadily improve our corporate value, never complacent with the status quo or overly optimistic about the future.

We earnestly solicit and deeply appreciate the continued support of our shareholders, investors and other stakeholders.

Left: Toshio Hiruma, President
Right: Tsuneo Yano, Chairman

Business Environment and Results of the Fiscal Year under Review

During the fiscal year under review, domestic consumer spending and public investment remained sluggish, though there were some signs of recovery in the Japanese economy, including the rises in production primarily in the IT and automotive sectors, as well as sharp increases in exports to other parts of Asia. With stock prices stagnating around the world and the uncertainties regarding the grave situation in Iraq, the business climate worsened.

Though demand generally tended to pick up in the chemical industry, crude oil and naphtha prices, which had been rising sharply since the spring 2002 owing to the precarious situation in the Middle East, have further climbed up since the end of 2002, squeezing corporate earnings yet again. As a result, the adjustment of prices for related products has become a critical corporate issue.

Against this backdrop, we launched the “Reform 22” management plan in April 2002 as a group-wide reform campaign, thereby driving forward with various reforms and devoting ourselves to expanding business domains to secure earnings.

Through such efforts, we posted consolidated net sales of ¥243,825 million (up ¥3,147 million, or 1.3%, from the previous year). However, if we exclude the effects of changes in the sales channels for vinyl chloride monomer to Taiyo Vinyl Co., Ltd. since October 2001, and those of divestment of Naruse Securities Co., Ltd. and Denka Pharmaceutical Co., Ltd. to be excluded from consolidation, the increase will be ¥9,990 million (up 4.3%).

We recorded an operating income of ¥18,018 million (up ¥1,285 million, or 7.7%, year on year), with an operating income ratio at 7.4% (up 0.4 percentage point from the previous year), as we made efforts to adjust product prices, reduce fixed and other costs, as well as expand sales volume in order to cope with increased prices of raw materials. In a bid to further strengthen our financial base, we also made a profit on sale of fixed assets such as real estate holdings, including company housing properties (as we had done in the previous year). After all, net income stood at ¥4,774 million (up ¥6,752 million from a year earlier) as we posted valuation losses on investment securities and golf course memberships as extraordinary losses.

Advancements in “Reform 22”

We are now working on the “Reform 22,” a group-wide business reform campaign, lasting from fiscal 2002 to 2003. The campaign focuses on the “enhancement of the Denka Group’s consolidated management and review of business portfolio,” as well as “business reforms for efficient management,” raising the awareness for critical issues within the Denka Group, and strengthening the corporate structure for stable profitability and possible further growth, regardless of the market climate. Furthermore, in order to concentrate management resources on important operations, and to maintain and improve profitability in core businesses, we are flexibly reviewing and implementing

Business Topics

March 2002

In order to streamline its business operations, the Denka Group sold shares of a consolidated subsidiary of Naruse Securities Co., Ltd., operating the securities brokerage business, to Phillip Brokerage Pte. Ltd., headquartered in Singapore.

April 2002

DENKA POLYMER Co., Ltd., a consolidated subsidiary engaged in food package processing, started construction for an OPS food container molding plant (with its completion slated for October), with a view to boosting the molding capacity by 50%.

To Our Shareholders

various measures, such as full-scale review of the corporate framework.

As specific measures to improve the consolidated management of the Denka Group, we pushed forward with selection of businesses and concentration on specific areas during the fiscal year (as described below). We sold shares of Naruse Securities Co., Ltd. in March 2002, as well as those of Denka Pharmaceutical Co., Ltd., a consolidated subsidiary handling veterinary medicine, in June 2002, in order to streamline our pharmaceutical business division.

In the resin processing business, one of the most important operations of the Denka Group, an equity-swap agreement was concluded on May 2, 2002 with Toyo Chemical Co., Ltd., a consolidated subsidiary listed on the Tokyo Stock Exchange. It became a wholly owned subsidiary on October 1, 2002 and was fully integrated into the Company on April 1, 2003, so as to boost our profit margins by establishing joint strategies and improving efficiency throughout the Group. By consolidating management resources in the resin processing business (fostered by both Denka and Toyo Chemical) for united and efficient operations, we realize synergies to expand the resin processing business of the Denka Group.

Toshio Hiruma
President

We signed a basic agreement with Japan Metal & Chemicals Co., Ltd. in October 2002 to take over a part of its fertilizer business (humic acid magnesium fertilizer Azumin and others) in a bid to enhance our fertilizer business, which steadily yielded a profit as a key carbide-based operation. Currently, we are preparing for starting the new business, so as to quickly obtain marketing synergy and positive effects by utilizing staff and resources on a Group level.

In order to realize efficient management, we fundamentally reviewed the whole management system, including the review of in-house divisions and organizations and the establishment of an in-house profit center system to clarify the profit responsibility for each division and affiliate, so that we will be able to achieve speedy and timely decision-making and policy implementation in response to drastic changes in the external market conditions. We will certainly implement such policies and continue to reform management systems and business processes in all stages from a point of new perspective, free of conventional constraints and practices.

Corporate Governance Policies

Denka and the Denka Group are strengthening the business base by improving profitability and business domains to satisfy expectations and trust of those concerned, including customers, shareholders, local communities and employees. Concurrently, we are

April 2002

We launched Denka Thermo Sheet EC-AP, a new conductive sheet, into market as part of measures to enhance the electronic packaging material business.

April 2002

We concluded a memorandum on equity swaps with Toyo Chemical Co., Ltd., a consolidated subsidiary engaged in resin processing, as a core company of the Denka Group, to convert it into a wholly owned subsidiary.

May 2002

We sold all shares of our wholly owned subsidiary Denka Pharmaceutical Co., Ltd. to Kyoritsu Seiyaku Corporation in a bid to concentrate our management resources on the core businesses.

October 2002

We converted Toyo Chemical Co., Ltd. into a wholly owned subsidiary.

striving to improve our corporate value, so that we will continue to gain trust and understanding from the public. Regarding corporate governance as the foundation for achieving our goal, we are doing our utmost to mobilize the board of directors, enhance the audit system, streamline the management framework and improve the compliance system.

We reduced the number of directors from 20 to 16 in June 2002 to encourage debates among the directors. Additionally, in principle, all four auditors are to attend the board of directors' meetings to oversee how directors execute their duties. The board of auditors comprises four auditors (including two outside auditors). At the monthly meeting of the board of auditors, each auditor reports on the auditing results, which are then discussed. Further, meetings of the board of standing auditors are held from time to time to inspect the conditions of the business operations.

We established a management committee in July 2002, replacing the former board of managing directors. Meetings of the management committee are held once a month to facilitate and expedite discussions on crucial corporate issues. We also have various company-wide committees set up according to functions, such as an ethics committee, a capital investment committee, an RC committee, a PL committee, a security management committee and a crisis management committee. Each committee is proactively functioning in line with relevant in-house rules. We set a code of conduct for Denka Group corporations in December 2002 and made it known to all members of the Denka Group.

Concluding Year of "Reform 22"

Tsuneo Yano
Chairman

Fiscal 2003 is the year to complete "Reform 22."

Fortunately, the business constitution of the Denka Group has improved. However, there is no guarantee that it will remain unaffected by today's harsh business climate.

Uncertainty over the future of the economy will further mount due to strict precautions against the deceleration of the U.S. economy, a stalled structural improvement in the Japanese economy and persistent deflationary trends due to declines in real estate and stock prices. Though it is expected to take some time for the Japanese economy to fully recover under such circumstances, we will concentrate our energies on the achievement of our objectives by pushing forward with the expansion of business domains, cost reductions and "Reform 22" initiative.

June 2003

Tsuneo Yano
Chairman

Toshio Hiruma
President

October 2002

In a bid to enhance our fertilizer business, we signed a basic agreement on the acquisition of the business of Japan Metals & Chemicals Co., Ltd., which was rehabilitating its management.

October 2002

The facility to manufacture Denka Thermo Film ALSATA, a semiconductor/electronic parts packaging material, was completed and became fully operational.

October 2002

In order to strengthen the acetylene black business, our manufacturing facility for granular acetylene black (constructed by our wholly owned subsidiary Denka Singapore Pte Ltd). was completed. It started it's operations in November 2002.

January 2003

We decided to merge with Toyo Chemical Co., Ltd., a wholly owned subsidiary, on April 1, 2003.

Review of Operations

Petrochemical Products Division

Sales of the Petrochemical Products Division stood at ¥72,338 million (US$602 million), up ¥2,374 million (US$20 million), or 3.4%, from a year earlier. However, the year-on-year increase in net sales would be ¥5,240 million (US$44 million), or 7.8%, if the adverse effects of changes in the sales channels of vinyl chloride monomer were excluded.

Sales of styrene monomer increased as prices rose sharply both at home and abroad due to a sudden increase in raw materials' cost, although the sales volume slightly declined because of regular maintenance carried out during the fiscal year under review. Though the selling prices of PS resin of Denka Singapore P.L., a subsidiary based in Singapore, dropped, the sales volume increased. While the sales volume of AS resin grew both in Japan and abroad with increased market prices, the sales volume of general-use ABS resin fell slightly as we gave higher priority to the production of functional resins.

The sales volume of heat-resistant ABS (functional resin, primarily for use in automobiles and cellular phones) increased sharply both at home and abroad, while that of transparent polymer (functional resin, mainly for use in optical lenses and game consoles) also grew significantly both in Japan and abroad. Sales of our CLEAREN, special resin, also rose slightly. As a result, overall sales of functional resins soared markedly.

While the domestic sales volume of acetic acid declined, sales volume of vinyl acetate rose. Sales of POVAL increased thanks to the rise in sales volume, though its market prices decreased slightly both at home and abroad. Both the domestic sales volume and export volume of HARDLOC structural adhesives grew, primarily for those used in speakers installed in vehicles. The sales volume of HARDLOC OP/UV ultra-violet curable adhesive, used in optical lenses and liquid crystal projector components, also jumped.

Specialized Chemical Products Division

Sales of the Specialized Chemical Products Division were ¥97,684 million (US$813 million), an increase of ¥4,626 million (US$38 million), or 5.0%, from the previous year.

As for electronic and functional materials, demand started growing rapidly in the spring of the previous year thanks to further inventory adjustments for IT products, resulting in increased shipments of related materials. As a result, the sales volume of fused silica fillers (used for semiconductor sealing agent) climbed sharply both in Japan and for Denka Advantech P.L. in Singapore. However, market prices declined due to intensifying competition. The sales volume of thermally resistant products, such as electronic circuit boards and heat-dissipating sheets, increased drastically due to steady advancements in the development of new uses for automobiles and railway vehicles, in addition to the sales recovery for the use in industrial machinery. The sales volume of mono-silane gas at Denal Silane Co., Ltd. also increased significantly.

Though sales of nitrolime and fused phosphate fertilizers declined, the sales volume of high silicate fertilizer Toretaro, which was launched last year, grew favorably. While sales of carbide contracted, sales of Firelen increased thanks to the expansion of the sales volume although their domestic and overseas market prices both fell. Sales of alumina cement dropped despite a slight rise in the sales volume, as market prices fell due in part to intensified competition caused by increasing imports.

The sales volume of chloroprene rubber, primarily for use in automobiles and adhesives, increased both at home and abroad. Also, the sales volume of ER Rubber, a special synthetic rubber excellent in oil and thermal resistance, grew sharply for use in automobile hoses and such. The sales volume of acetylene black surged thanks to the completion of the granular acetylene black production framework at Denka Singapore P.L., a subsidiary based in Singapore, as well as due to the recovery of demand both in Japan and abroad.

Sales of resin-processed products grew due to sharp increases in the sales volume of conductive sheets, used to convey chips and other electronic parts, and electronic packaging materials such as CLEAREN Carrier Sheet. Sales of food packaging materials, including OPS (biaxial orientation polystyrene sheet), also climbed up despite declines in market prices, since the sales volumes generally increased. DENKA POLYMER Co., Ltd. saw its revenues fall because of drops in product prices as well as sluggish demand for trays and lunch containers. Toyo Chemical Co., Ltd. (which became a wholly owned subsidiary as of October 1, 2002 through equity swaps) also suffered decreased sales despite the rise in the sales volume of electronic packaging materials, such as chip carrier tapes used to convey chips and Elegrip Tape, an adhesive tape for fixing chips, since the sales volumes of construction materials, including roof rain gutters and fiber-optic slots, declined with their decreased market prices.

Cement and Construction Materials Division

Sales of the Cement and Construction Materials Division amounted to ¥31,576 million (US$263 million), a year-on-year decline of ¥3,336 million (US$28 million), or 9.6%.

Ready-mixed concrete manufacturing/marketing subsidiaries also suffered significant declines in sales, since public works projects continued to fall sharply and the average market price of cement in the fiscal year dropped despite efforts to raise product prices from the latter half of the fiscal year.

The sales volume of Denka's NATMIC specialty mixing material grew markedly on brisk exports for use of HST (High Speed Trains) in Taiwan. Also, sales for the concrete renovation business, DENKA SPREED concrete renovation spray, and HARDLOC II acrylic adhesive, grew thanks to sales for the reinforcement work of existing concrete structures of the Sanyo Shinkansen line in Japan. However, the domestic sales volumes of NATMIC hardening-accelerator that is used for concrete gunning, and a material used in repair by injection into cracks in tunnels, as well as anti-shrinkage agent for grout DENKA PRETASKON, fell due to decreased demand for their use in large projects, such as the New Tomei Expressway, and seismic reinforcement work, in addition to the decline in the overall volume of construction work for public works projects. We included Denka Renotec Co., Ltd., which was established as a wholly-owned subsidiary in July 2001 to engage in repair of existing concrete structures, as of this fiscal year.

Pharmaceutical and Other Products Division

Sales of the Pharmaceutical Products Division stood at ¥15,023 million (US$125 million), up ¥2,236 million (US$19 million), or 17.5%, from a year earlier.

The Pharmaceutical Products Division was removed from the Pharmaceutical and Other Products Division to become an independent division from the fiscal year under review.

Sales of SUVENYL, the joint function enhancer (high molecular weight hyaluronic acid), increased thanks to the completion of the first phase of an output-capacity expansion project.

After increasing its production capacity, DENKA Seiken Co., Ltd. also posted a substantial sales increase by boosting the sales volume of influenza vaccines, whose demand is growing due to rediscovery of their effectiveness and the revisions in legislation on vaccination, as well as sales increase of the "influ A-B Quick Seiken" influenza virus reagent, which was launched in November 2001.

The Other Products Division

Sales of the Other Products Division were ¥27,204 million (US$226 million), a year-on-year drop of ¥2,753 million (US$23 million), or 9.2%.

Though Denka Consultant & Engineering Co., Ltd. saw its sales growth, sales at Yamatomi Trading Co., Ltd. declined. Naruse Securities Co., Ltd. and Denka Pharmaceutical Co., Ltd. were excluded from consolidated subsidiaries from the fiscal year under review, as the Company divested itself of the brokerage house in March 2002 and the pharmaceutical subsidiary in June 2002.

Research and Development

1. Fundamental Role and Basic Policy

The Denka Group has been proactively promoting research and development efforts, by strategically applying our R&D resources to the key business areas with high profit potential. Our R&D activities firmly anchor in our core technologies, securing our advantages over our competitors, and to distinguish Denka products from the rest of the market. As a continuously growing corporation whose progress is fueled by research and development, we shall continue our R&D efforts, harnessing them to improve customer satisfaction, so R&D will always be an essential factor in Denka Group's business growth.

2. Results for the Current Fiscal Year

Research and development expenditures of the entire Denka Group for the fiscal year under review were ¥8,691 million (US$72 million). In the current accounting period, a total of 436 patents were laid open and 185 patents (including utility model rights) were registered in Japan.

The following is an outline of Denka's research and development activities and its key achievements by division:

(1) Petrochemical Products Division

Denka's research and development of high value-added functional resins is focused on constant improvement of manufacturing processes, innovation of new varieties and continual upgrading of the present products such as transparent resins, heat-resistant resins, CLEAREN, functional polymer alloy, resin quality modifiers, functional adhesives, etc. In the area of general-use products, we are striving to reduce production costs and improve quality to enhance our competitive edge to set Denka apart from the competitors in international market.

(2) Specialized Chemical Products Division

In the semiconductor and electronic materials sector, we are reinforcing the R&D system and promoting the development of new, as well as higher grade products to meet increasingly diversified market demands, focusing on functional ceramics in the materials sector, and heat-dissipating components such as base plates, heat sinks, etc., in the components sector.

In the resin processed products sector, we are promoting the development of new and higher grade products, concentrating on innovative packaging products for the electronic and IT sectors, as well as for food processing. We merged with Toyo Chemical Co., Ltd. on April 1, 2003, and are accelerating the development of products, such as new construction, industrial and environmental material to meet market needs.

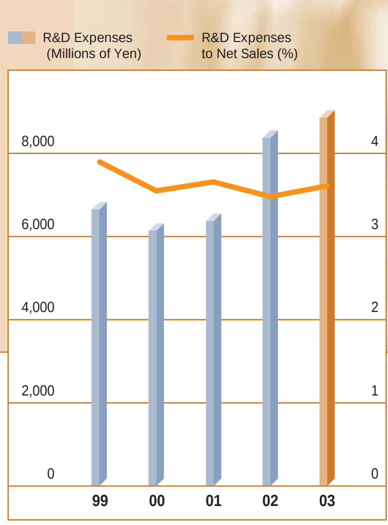
(3) Cement and Construction Materials Division

In the special cement additives sector, we are reducing production costs and refining key products. In particular, we are leveraging key Denka market advantages with our newly developed products and methods in anti-earthquake reinforcement and tunnel construction. In the area of concrete repair, which is deemed to have strong market potential, in addition to the development of our conventional inorganic materials, we have been promoting our new material development by integrating our organic/inorganic material know-how to popularize innovative methodologies.

(4) Pharmaceutical and Other Products Division

In the pharmaceutical products sector, Denka successfully developed and marketed a new drug to improve functioning of joints by topical application of hyaluronic acid, prepared with our original fermentation technologies. In view of the additional potential of hyaluronic acid, work continues on the development of other pharmaceutical applications utilizing its beneficial functions. DENKA Seiken Co., Ltd. is actively promoting continued development of safe, effective vaccines of impeccable quality.

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



Measures for Environmental Issues

Chemical companies have been proactively involved in decreasing environmental impact of various chemical compounds in atmosphere/effective utilization of waste as their vision includes care and responsibility (RC) towards society to ensure sustainable and effective use of resources, while maintaining a clean environment.

We already reported about the Company promoting the RC activities as all our production facilities have attained the ISO-14001 certification. Our Company's activities towards effective use of new/clean energy resources, decrease of the PRTR substance emissions and waste recycling, are introduced as below.

Using new/clean energy sources

During the early to mid-1920s, the Company installed hydro-electric generators in 15 locations of our own electric power grid as well as those of the utility companies. In fiscal 2002, the total power output of hydro-electric generators was equivalent to that of generated from 160,000 kl crude oil, or 110,000 tons of coal, so that CO_2 emissions were reduced. Regarding new energy sources, we installed natural gas co-generators at our Chiba factory in 2001. A biomass boiler, making effective use of the construction material waste from neighboring areas, went online at the Omi factory in 2002. Smooth operation of both installations enabled the Company to increase the share of clean energy sources in the Company's total power output to 40%.

Measures to decrease the PRTR substance emissions in the atmosphere

With Japan being a party to the international PRTR treaty, all manufacturers in the country are monitored and informed of their respective share of chemical waste. In 2001, the Company was responsible for 448 tons of such substances, comprising 0.1% of the country's total. In 2002, this value has dropped to 401 tons, showing a 63% decrease in over 5 years (Refer to chart 1 for details). We are determined to cut the current emissions by half over the next 3 years (as prescribed in the mid-term environmental plan).

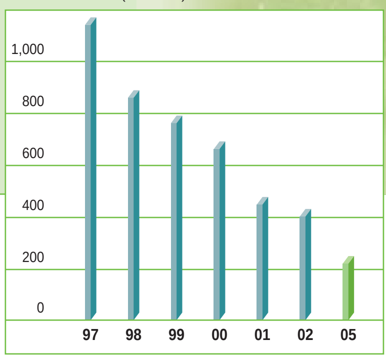
Effective use of waste

For some time now, the Company has been accepting by-products and waste from cement production for recycling. Such materials come from external as well as internal sources; effective use is made by employing these as production materials (material recycling), as well as for energy sources (thermal recycling). Accepting the inquiries of nearby city authorities to recycle incinerated waste and bone meal has brought recycling to 630,000 tons in 2002, with such by-products/waste comprising about 40% of all materials used by Denka. In addition, employing the above biomass boiler shall enable the Company to expand such recycling operations even further.

Proactively following the 3R principles (reduce, re-use, recycle) with regard to waste at all our factories has enabled Denka to reduce the volume of final waste for disposal to 25% over the past 5 years (refer to chart 2 for details). Our mid-term environmental planning promotes further decrease of such final waste disposal volume.

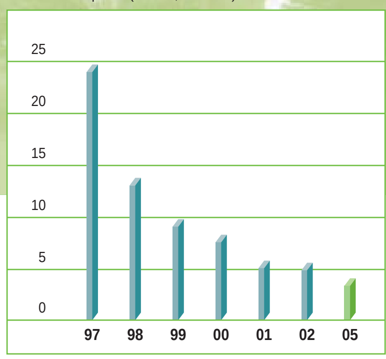
Changes in volume of release according to PRTR

Volume of release (Unit: Ton)



Changes in volume of final wastes

Volume of disposal (Unit: 1,000 tons)



Note: Figures for 2005 are estimates.

Financial Review

Business Environment

During the fiscal year under review, domestic consumer spending and public investment remained sluggish, though there were some signs of recovery in the Japanese economy, including rises in production, primarily in the IT and automotive sectors, as well as sharp increases in exports to other parts of Asia. With the stock prices stagnating around the world and the uncertainties owing to the grave situation in Iraq, the market climate in Japan gradually became harsher.

Though demand generally tended to pick up in the chemical industry, crude oil and naphtha prices, which had been rising since spring 2002, have climbed further since the end of 2002 due in part to the military tensions in the Middle East, thereby squeezing corporate earnings yet again. As a result, the adjustment of prices for related products has become an urgent corporate issue.

Operating Results

1. Net Sales

In the face of these severe economic conditions, Denka endeavored to expand its business domains and to secure profits. Through such efforts, net sales grew ¥3,147 million (US$26 million), or 1.3%, from the preceding fiscal year, to ¥243,825 million (US$2,028 million). However, if we exclude the effects of changes in the sales channels for vinyl chloride monomer to Taiyo Vinyl Co., Ltd. since October 2001, and of the divestment of Naruse Securities Co., Ltd. as well as Denka Pharmaceutical Co., Ltd. to be excluded from consolidation, the increase will be ¥9,990 million (US$83 million), or 4.3%, year on year.

The segment summary report is as presented in the “Review of Operations.”

2. Operating Income

In order to cope with increasing prices of raw materials, we did our utmost to adjust product prices, including those for exports, and slash such costs as fixed expenses. In addition, as we boosted the sales volume, operating income soared ¥1,285 million (US$11 million), or 7.7%, year on year, to ¥18,018 million (US$150 million). The operating income ratio stood at 7.4%, up 0.4 percentage point from the previous year.

3. Net Income (Loss)

Though there were valuation losses on investment under the equity-method, the reduction of interest-bearing liabilities continued to lower interest expenses, and the effect of costs associated with manufacturing facility shutdowns became nil. Gains from the sale of fixed assets were posted as a result of our continued efforts since the preceding year to sell real estate properties, including company housing, to further enhance our financial position. However, extraordinary losses, such as valuation losses on investment securities owing to plunges in stock prices (including the stock of some banks with which we traded) and on golf course memberships due to bankruptcies of some golf-course operators, were recorded. As a result, net income stood at ¥4,774 million (US$40 million), a year-on-year improvement of ¥6,752 million (US$56 million).

Financial Position

1. Total Assets

Total assets at the end of year under review were ¥313,561 million (US$2,609 million), a decline of ¥9,247 million (US$77 million) since the preceding fiscal year.

Current assets fell ¥5,283 million (US$44 million) to ¥98,147 million (US$817 million) due in part to decreases in

Five-Years Summary

	Millions of Yen					Thousands of U.S. Dollars
	2003	2002	2001	2000	1999	**2003**
Net Sales	**¥ 243,825**	¥ 240,678	¥ 272,274	¥ 256,273	¥ 221,546	**$ 2,028,492**
Net Income (Loss)	**4,774**	(1,978)	5,636	8,319	(699)	**39,717**
Shareholders’ Equity	**102,105**	93,099	92,523	90,195	87,526	**849,461**
Total Assets	**313,561**	322,808	369,029	379,293	345,083	**2,608,659**

Note: Yen amounts are translated into dollars at a rate of ¥120.20=U.S.$1.

trade receivables as the collection period became shorter.

Fixed assets decreased ¥3,642 million (US$30 million), partly because the value of investment securities declined due to valuation losses following falling market prices.

Deferred assets dropped ¥322 million (US$3 million), due to completed amortization of R&D expense at the end of the year under review.

2. Total Liabilities

Total liabilities at the end of year stood at ¥206,791 million (US$1,720 million), down ¥10,659 million (US$89 million) from a year earlier as a result of our strenuous efforts to repay interest-bearing liabilities to improve the financial position.

3. Minority Interest

Minority interest in consolidated subsidiaries declined by ¥7,594 million (US$63 million) to ¥4,665 million (US$39 million), partly because Toyo Chemical Co., Ltd., a core subsidiary engaged in resin processing, became a wholly owned subsidiary in October 2002 through equity swap.

4. Total Shareholders' Equity

Total shareholders' equity grew by ¥9,006 million (US$75 million) compared to the previous year to ¥102,105 million (US$849 million), as an equity swap with Toyo Chemical Co., Ltd. boosted capital surplus and net income for the year was further recorded. Total shareholders' equity ratio also rose 3.8 percentage points to 32.6%.

Cash Flows

Net cash provided by operating activities was ¥29,499 million (US$245 million), up ¥6,347 million (US$53 million) from the preceding fiscal year, mainly thanks to earnings recovery, declines in interest payment and continued efforts to reduce accounts receivable.

Net cash used in investing activities marked a net outflow of ¥19,842 million (US$165 million) due to proactive capital spending for mission-critical growth businesses to achieve new growth, mainly in such large-scale construction works as for expansion of the CLEAREN specialty-resin production facility, for OPS (biaxial orientation polystyrene sheet) related facility and for the second phase of the project to boost the output of SUVENYL. As a result, total free cash flow amounted to ¥9,657 million (US$80 million), a decline of ¥7,432 million (US$62 million) from the previous year.

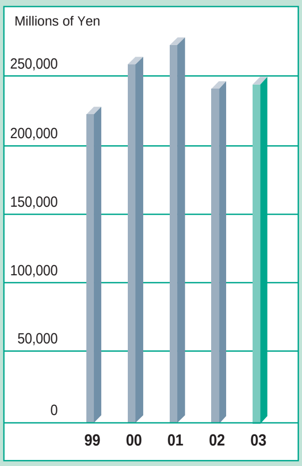
Net cash used in financing activities included the dividend payment of ¥2,731 million (US$23 million) and repayment of interest-bearing liabilities of ¥8,636 million (US$72 million), aimed at strengthening our financial position.

As a result, cash and cash equivalents at the end of the year decreased by ¥1,933 million (US$16 million) to ¥4,883 million (US$41 million).

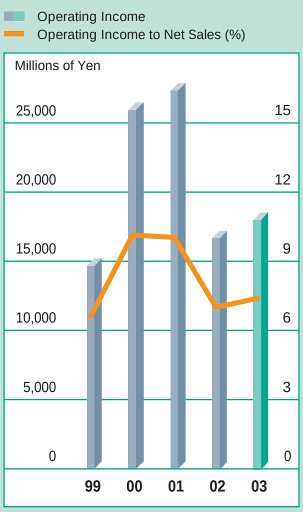
Dividends

We paid a year-end dividend of ¥3 (US$0.025) per share in June 2003, up ¥0.5 (US$0.004) per share, as we posted net profits in the fiscal year. We also paid an interim dividend of ¥3 (US$0.025) per share in December 2002, bringing an annual dividend for the year to ¥6 (US$0.050) per share, up ¥1 (US$0.008) per share.

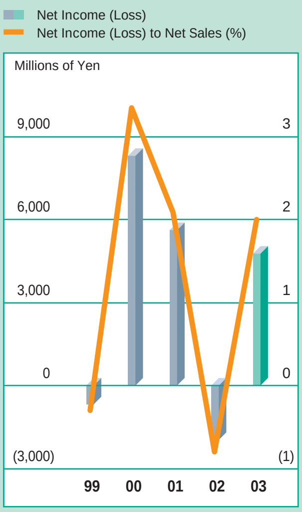
Net Sales



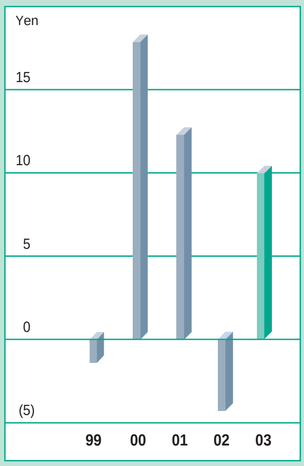
Operating Income and Operating Income to Net Sales



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



Net Income (Loss) 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	**2003**	**2002**	**2003**
Current assets:			
Cash and time deposit	**¥ 4,931**	¥ 6,816	**$ 41,023**
Notes and accounts receivable, trade (Note 3)	**52,938**	59,829	**440,417**
Marketable securities	**372**	372	**3,094**
Inventories (Note 6)	**29,741**	29,672	**247,430**
Deferred tax asset (Note 9)	**3,705**	1,565	**30,826**
Prepaid expenses and other current assets (Note 3)	**6,880**	5,947	**57,230**
Allowance for doubtful accounts	**(420)**	(771)	**(3,491)**
Total current assets	**98,147**	103,430	**816,529**
Property, plant and equipment (Note 7)**:**			
Buildings and structures	**102,616**	99,930	**853,712**
Machinery and equipment	**271,122**	269,249	**2,255,581**
Land (Note 16)	**66,983**	59,121	**557,267**
Construction in progress	**3,782**	3,686	**31,464**
	444,503	431,986	**3,698,024**
Accumulated depreciation	**(266,188)**	(259,880)	**(2,214,539)**
Total property, plant and equipment	**178,315**	172,106	**1,483,485**
Intangible fixed assets	**474**	268	**3,946**
Investments and other assets:			
Investment securities (Notes 3 and 4)	**27,902**	32,608	**232,132**
Long-term loans receivable (Note 4)	**996**	1,221	**8,282**
Other	**6,629**	8,135	**55,150**
Deferred tax asset (Note 10)	**1,592**	5,066	**13,245**
Allowance for doubtful accounts	**(573)**	(427)	**(4,766)**
Total investments and other assets	**36,546**	46,603	**304,043**
Deferred charges:			
Research and development (Note 12)	**—**	332	**—**
Other	**79**	69	**656**
Total deferred charges	**79**	401	**656**
Total assets	**¥ 313,561**	¥ 322,808	**$ 2,608,659**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2003	Millions of Yen 2002	Thousands of U.S. Dollars (Note 1) 2003
Current liabilities:			
Notes and accounts payable (Note 3)	¥ 34,635	¥ 32,888	$ 288,148
Short-term bank loans (Note 7)	57,908	60,411	481,761
Commercial paper	6,000	8,000	49,917
Current portion of long-term debt (Note 7)	13,471	18,431	112,075
Accrued taxes on income and other (Note 9)	1,811	4,578	15,063
Accrued bonus	2,128	2,260	17,701
Other current liabilities (Note 3)	19,794	20,200	164,676
Total current liabilities	135,747	146,768	1,129,341
Long-term liabilities:			
Long-term debt (Note 7)	62,627	62,824	521,027
Deferred tax liability (Note 9)	970	975	8,068
Deferred tax liability on write-up of land (Note 16)	2,925	2,070	24,334
Accrued retirement benefits (Note 12)			
—for employees	3,786	3,582	31,497
—for directors and statutory auditors	484	766	4,025
Other long-term liabilities	252	465	2,095
Total long-term liabilities	71,044	70,682	591,046
Total liabilities	206,791	217,450	1,720,387
Contingent liabilities (Note 19)			
Minority interest in consolidated subsidiaries	4,665	12,259	38,811
Shareholders' equity:			
Common stock: (Note 15)			
Authorized: 1,584,070,000 shares			
Issued: 483,066,899 shares	35,303	35,303	293,699
Capital surplus	39,857	32,069	331,586
Unrealized gains on revaluation of land (Note 16)	4,418	2,980	36,753
Retained earnings (Notes 8 and 15)	22,538	21,667	187,509
Unrealized gains on investment securities	1,013	1,782	8,432
Foreign currency translation adjustments	(883)	(689)	(7,346)
Treasury stock (Note 14)	(141)	(13)	(1,172)
Total shareholders' equity	102,105	93,099	849,461
Total liabilities and shareholders' equity	¥ 313,561	¥ 322,808	$ 2,608,659

Consolidated Statements of Income

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
Net sales	¥ 243,825	¥ 240,678	$ 2,028,492
Cost of sales	177,200	173,896	1,474,206
Gross profit	66,625	66,782	554,286
Selling, general and administrative expenses (Notes 10 and 11)	48,607	50,049	404,387
Operating income	18,018	16,733	149,899
Other income:			
Interest and dividend income	491	484	4,081
Gain on sale of investment securities	81	—	676
Gain on sale of land and buildings	866	3,968	7,202
Other, net (Note 3)	1,076	501	8,955
	2,514	4,953	20,914
Other expenses:			
Interest expenses	1,713	2,672	14,249
Loss on disposal of property, plant and equipment	1,184	877	9,848
Amortization of deferred research and development costs	332	680	2,763
Devaluation of investment securities	3,346	11,418	27,836
Devaluation of golf memberships	160	—	1,334
Unrecognized transition amount	1,224	1,281	10,183
Equity in deficit of unconsolidated subsidiaries and affiliates	262	271	2,178
Cost during the suspension of plant operation	227	1,035	1,887
Loss on sale of investment securities	—	542	—
Loss on disposal of product lines	—	487	—
Other, net	2,035	2,484	16,931
	10,483	21,747	87,209
Income (loss) before income taxes	10,049	(61)	83,604
Income taxes (Note 9)**:**			
Current	(1,969)	(6,329)	(16,381)
Deferred	(2,640)	5,098	(21,968)
	(4,609)	(1,231)	(38,349)
Income before minority interest	5,440	(1,292)	45,255
Minority interest in losses of consolidated subsidiaries	(666)	(686)	(5,538)
Net income (loss)	¥ 4,774	¥ (1,978)	$ 39,717

	Yen		U.S. Dollars (Note 1)
	2003	2002	2003
Per share:			
Net income (loss)	¥ 9.99	¥ (4.31)	$ 0.083

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Years Ended March 31	Thousands	Millions of Yen		
	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2001	**459,419**	**¥ 35,303**	**¥ 32,069**	**¥ 26,026**
Net loss	—	—	—	(1,978)
Increase in retained earnings resulting from exclusion of an affiliate	—	—	—	172
Increase in retained earnings resulting from the merger of an affiliate with a previously unaffiliated company	—	—	—	159
Decrease in retained earnings resulting from exclusion of subsidiaries	—	—	—	(310)
Cash dividends	—	—	—	(2,297)
Bonuses to directors and statutory auditors	—	—	—	(105)
Balance at March 31, 2002	**459,419**	**¥ 35,303**	**¥ 32,069**	**¥ 21,667**
Net income	—	—	—	4,774
Increase in Capital surplus from allotment of new shares resulting from exchange of shares	23,648	—	7,788	—
Increase in retained earnings resulting from inclusion of a subsidiary	—	—	—	1
Cash dividends	—	—	—	(2,526)
Bonuses to directors and statutory auditors	—	—	—	(25)
Reversal of land revaluation gain	—	—	—	(1,353)
Balance at March 31, 2003	**483,067**	**¥ 35,303**	**¥ 39,857**	**¥ 22,538**

	Thousands	Thousands of U.S. Dollars (Note 1)		
	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2002	**459,419**	**$ 293,699**	**$ 266,803**	**$180,256**
Net income	—	—	—	39,717
Increase in Capital surplus from allotment of new shares resulting from exchange of shares	23,648	—	64,783	—
Increase in retained earnings resulting from inclusion of a subsidiary	—	—	—	8
Cash dividends	—	—	—	(21,017)
Bonuses to directors and statutory auditors	—	—	—	(208)
Reversal of land revaluation gain	—	—	—	(11,247)
Balance at March 31, 2003	**483,067**	**$ 293,699**	**$ 331,586**	**$187,509**

Consolidated Statements of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	**2002**	**2003**
Cash flows from operating activities:			
Income before income taxes	**¥ 10,049**	¥ (61)	**$ 83,604**
Adjustments —			
Depreciation	**14,742**	15,011	**122,643**
Amortization of deferred charges	**411**	748	**3,416**
Devaluation of golf membership	**160**	—	**1,334**
Provision for doubtful accounts	**(185)**	(111)	**(1,537)**
Interest and dividend income	**(491)**	(484)	**(4,081)**
Interest expenses	**1,713**	2,672	**14,249**
Devaluation of investment securities	**3,346**	11,418	**27,836**
Gain on sale of investment securities	**(81)**	542	**(676)**
Equity losses of affiliated companies	**263**	271	**2,185**
Loss on sales of property, plant and equipment, net	**33**	(3,090)	**280**
Other	**309**	(114)	**2,671**
Changes in assets and liabilities:			
Receivables	**5,541**	11,001	**46,001**
Inventories	**(825)**	3,959	**(6,861)**
Notes and accounts payable	**2,500**	(8,924)	**20,797**
Other, net	**(2,207)**	(1,585)	**(18,366)**
Sub-total	**35,278**	31,253	**293,495**
Interest and dividend received	**500**	488	**4,167**
Interest paid	**(1,807)**	(3,084)	**(15,034)**
Income taxes paid	**(4,472)**	(5,505)	**(37,208)**
Net cash provided by operating activities	**29,499**	23,152	**245,420**
Cash flows from investing activities:			
Purchase of marketable securities	**(372)**	(372)	**(3,093)**
Sales of marketable securities	**372**	372	**3,093**
Purchases of property, plant and equipment	**(24,333)**	(13,912)	**(202,435)**
Sales of property, plant and equipment	**3,551**	5,616	**29,542**
Purchase of investment securities	**(1,592)**	(1,819)	**(13,248)**
Sales of investment securities	**1,483**	2,760	**12,338**
Sales of investment securities of a subsidiary which resulted in exclusion from consolidation	**487**	1,178	**4,052**
Other, net	**562**	114	**4,675**
Net cash used in investing activities	**(19,842)**	(6,063)	**(165,074)**
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	**(3,811)**	4,494	**(31,712)**
Proceeds from long-term debt	**14,064**	25,641	**117,001**
Repayment of long-term debt	**(18,889)**	(45,029)	**(157,143)**
Cash dividends	**(2,731)**	(2,520)	**(22,722)**
Purchase of treasury stock	**(129)**	(12)	**(1,062)**
Net cash used in financing activities	**(11,496)**	(17,426)	**(95,638)**
Effect of exchange rate changes on cash and cash equivalent	**(19)**	24	**(162)**
Net increase (decrease) in cash and cash equivalents	**(1,858)**	(313)	**(15,454)**
Cash and cash equivalents at the beginning of the year	**6,816**	7,131	**56,705**
Decrease of cash and cash equivalents resulting from inclusion and exclusion of subsidiaries from consolidation	**(75)**	(2)	**(631)**
Cash and cash equivalents at the end of the year (Note 17)	**¥ 4,883**	¥ 6,816	**$ 40,620**

Notes to Consolidated Financial Statements

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

1. Basis of 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 that have been prepared in accordance with accounting principles and practices generally accepted in Japan and filed with the Director of the Kanto Local Finance Bureau.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form that is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information that 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 ¥120.20 = US$1, the approximate rate of exchange as at March 31, 2003 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 the exception of those that are not material, those of its 27 majority and wholly owned subsidiaries. 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 using the equity method. These unconsolidated subsidiaries and affiliated companies for which the equity method is applied total 18 at March 31, 2003 and 2002, 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.

Twelve subsidiaries (twelve subsidiaries in 2002) were consolidated on the basis of their fiscal years ended at December 31, 2002 and 2001. The year-end data of one subsidiary was November 30, 2002 and 2001. Therefore, the subsidiary tentatively closed its account at January 31, 2003 and 2002 for consolidation purposes. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted in consolidation.

(2) Marketable securities and investments in securities —

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

Unrealized holding gains and losses for investment securities for which market quotations are available are excluded from earnings and are, net of taxes, accounted for as a component of shareholders' equity. The cost of securities is determined using the average-cost method.

(3) Inventories —

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

(4) Property, plant and equipment —

Property, plant and equipment, including significant renewals and improvements, are carried at cost less depreciation. Maintenance and repairs including minor renewals and betterments are charged to income as incurred. Depreciation is computed primarily on the straight-line method at rates based on the estimated useful lives of the assets, which are prescribed by 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.

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

The unrecognized transition amount arising from adopting the new standard of ¥12,305 million ($102,371 thousand) 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.

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 —

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(7) Other material matters for preparing the accompanying consolidated financial statements —

(a) Accounting for treasury stock and reversal of legal reserves

From the year ended March 31, 2003, the Company adopted the new Japanese accounting standard for treasury stock and reversal of legal reserves in compliance with the change in the Statement of Financial Accounting for Treasury Stock and Reversal of Legal Reserves effective from April 1, 2002. The effect of the change on net income for the year ended March 31, 2003 was immaterial.

(b) Net income per share

From the year ended March 31, 2003, the Company adopted the new Japanese accounting standard for net income per share in compliance with the change in the Statement of Financial Accounting for income per net share effective from April 1, 2002. The effect in the change on net income per share was immaterial.

(8) Changes in presentation —

(Consolidated income statement)

The company has been supplying utilities such as electricity and industrial water and leasing properties and providing related services to its affiliated companies. Until the last year, the revenue and the related costs arising from these transactions were stated as “others” in other income and as “others” in other expenses.

From this year, the Company has changed the method of presentation to stating net amount between revenue and related costs as “other” in other income. As a result of the change, “others” in other income and “others” in other expense for the year ended March 31, 2003, have each decreased by 2,423 million yen. There was no effect of the change on net income for the year ended March 31, 2003.

(9) 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 asset and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and those as reported in the consolidated financial statements.

(10) Appropriation of retained earnings —

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

(11) Cash and cash equivalents —

Cash and cash equivalents in the consolidated statements 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 fluctuation in value.

(12) Net income per share —

The computation of net income per share is based on the average number of shares outstanding during each year.

(13) Re-classification —

Certain reclassifications of the financial statements for the year ended March 31, 2002 have been made to conform to the presentation for the year ended March 31, 2003.

3. Accounts balances and transactions with affiliated companies:

Account 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
	2003	2002	2003
Notes and accounts receivable, trade	**¥ 8,638**	¥ 7,711	**$ 71,867**
Short-term loans receivable	**425**	668	**3,539**
Other current assets	**338**	400	**2,813**
Investment securities	**9,819**	10,429	**81,689**
Long-term loans receivable	**331**	387	**2,756**
Notes and accounts payable, trade	**2,502**	2,701	**20,819**
Other current liabilities	**433**	279	**3,605**

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
	2003	2002	2003
Other income — other	**¥ 184**	¥ 1,273	**$ 1,528**

4. Investment securities:

The aggregate cost and market value of investment securities for which market quotations were available as of March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investment securities			
Market value	**¥ 12,145**	¥ 17,568	**$101,040**
Carrying amount	**10,279**	14,523	**85,516**
Unrealized gain	**¥ 1,866**	¥ 3,045	**$ 15,524**

5. Derivative financial instruments:

The Company enters into derivative financial instruments of foreign exchange forward contracts and interest rate swap. The Company does not hold or issue derivatives for trading purposes 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.

6. Inventories:

Inventories at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Finished products	**¥ 15,997**	¥ 15,384	**$ 113,087**
Semi-finished products	**6,030**	6,415	**50,166**
Work in process	**1,815**	2,084	**15,100**
Raw materials	**3,900**	3,790	**32,446**
Supplies	**1,999**	1,999	**16,631**
	¥ 29,741	¥ 29,672	**$ 247,430**

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
	2003	2002	2003
Bank overdrafts with interest ranging from 0.712% to 6.50% per annum	¥ 940	¥ 1,303	$ 7,820
Short-term bank loans with interest ranging from 0.464% to 3.10% per annum represented by short-term notes maturing at various dates within one year	56,967	59,108	473,941
	¥ 57,907	¥ 60,411	$ 481,761

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans, principally from banks and insurance companies, maturing serially to 2010 with interest ranging from 0% to 6.935% per annum :			
Secured	¥ 36	¥ 1,795	$ 300
Unsecured	33,072	26,460	275,142
2.20% bonds due 2002	—	5,000	—
2.275% bonds due 2002	—	5,000	—
2.40% bonds due 2003	5,000	5,000	41,598
1.59% bonds due 2004	10,000	10,000	83,196
0% Convertible bonds due 2004	—	3,000	—
1.12% bonds due 2006	5,000	5,000	41,598
1.83% bonds due 2007	10,000	10,000	83,196
1.30% bonds due 2008	10,000	10,000	83,196
0% bonds with warrant attached due 2004	2,990	—	24,876
	76,098	81,255	633,102
Less-current portion of long-term debt	13,471	18,431	112,075
	¥ 62,627	¥ 62,824	$ 521,027

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
	2003	2002	2003
Property, plant and equipment — at book value	¥ 87,377	¥ 86,032	$ 726,930

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2004	¥ 13,471	$ 112,075
2005	17,560	146,090
2006	10,683	88,877
2007	7,664	63,762
2008	14,146	117,689
2009 and thereafter	12,574	104,609
	¥ 76,098	$ 633,102

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 a legal reserve until capital and legal 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, 2003, which was approved on June 27, 2003, at the general shareholders' meeting is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends at ¥3.00 per share	¥ 1,447	$ 12,038

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 approximately 41.0 percent for the years ended March 31, 2003 and 2002. However due to the change in the computation method of enterprise tax effective from April, 2004, a statutory tax rate will change to approximately 40.0 percent and thus from the year ended March 31, 2003, the Company used this rate for the computation of long-term deferred tax assets and liabilities.

By this tax-rates change, the deferred tax asset, the deferred tax liability and the deferred tax liability on write-up of land decrease by ¥29 million ($241 thousand) , by ¥35 million ($291 thousand) and by ¥86 million ($715 thousand) and the deferred income tax increases by ¥11 million.

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets			
Net operating loss carry forward	¥ 2,677	¥ —	$ 22,271
Allowance for doubtful accounts	281	320	2,338
Enterprise income taxes	104	329	865
Accrued severance cost for directors and statutory auditors	194	315	1,614
Accrued severance and pension costs for employees	1,065	607	8,860
Accrued bonus	729	625	6,065
Inter-company profit on inventories and fixed assets	832	835	6,922
Devaluation of investment securities	520	5,039	4,326
Devaluation of golf memberships	668	746	5,557
Other	445	636	3,703
Gross deferred tax asset	7,515	9,452	62,521
Deferred tax liabilities:			
Unrealized gains on investment securities	750	1,234	6,240
Retained earnings appropriated for special reserve (Note 12)	2,375	2,473	19,759
Other	65	89	540
Gross deferred tax liabilities	3,190	3,796	26,539
Net deferred tax asset	¥ 4,325	¥ 5,656	$ 35,982

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

	Year ended March 31, 2003	Year ended March 31, 2002
Statutory tax rate	**41.0%**	(41.0)%
Increase (reduction) in taxes resulting from:		
Loss on sale of securities	**—**	764.1 %
Reversal of affiliated company stock devaluation	**—**	(222.1)%
Unrecognized deferred taxes for net loss carryforwards of subsidiaries	**—**	640.6 %
Non deductible expenses	**3.0%**	636.6 %
Non taxable income	**—**	(148.9)%
Inhabitant taxes (Per capita levy)	**—**	203.0 %
Equity in deficit of unconsolidated subsidiaries and affiliates	**—**	192.8 %
Other	**1.9%**	1.4 %
Effective income tax rate	**45.9%**	2,026.5 %

10. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended March 31, 2003 and 2002 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2002**	**2003**
Selling expenses:			
Carriage and shipping	**¥ 15,368**	¥ 15,840	**$ 127,854**
Sales commission	**5,115**	5,175	**42,554**
Other	**2,828**	3,134	**23,529**
	23,311	24,149	**193,937**
General and administrative expenses:			
Salaries and remuneration	**11,270**	11,323	**93,760**
Employees' welfare	**295**	331	**2,454**
Research and development	**5,194**	4,498	**43,211**
Other	**8,537**	9,748	**71,025**
	25,296	25,900	**210,450**
	¥ 48,607	¥ 50,049	**$ 404,387**

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, 2003 and 2002, approximated ¥8,691 million ($72,304 thousands) and ¥8,214 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, 2003 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2002**	**2003**
Projected benefit obligations	**¥ 27,574**	¥ 28,562	**$ 229,401**
Plan assets	**11,672**	12,787	**97,105**
Net unreserved projected benefit obligations	**15,902**	15,775	**132,296**
Unrecognized transition obligations	**8,403**	9,715	**69,908**
Unrecognized actuarial losses	**3,713**	2,478	**30,891**
Accrued retirement benefit	**¥ 3,786**	¥ 3,582	**$ 31,497**

(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, 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2002**	**2003**
Service cost	**¥ 1,244**	¥ 1,272	**$ 10,349**
Interest cost	**541**	577	**4,501**
Expected return on plan assets	**(258)**	(293)	**(2,146)**
Amortization of transition obligations	**1,250**	1,281	**10,399**
Amortization of actuarial losses	**411**	202	**3,419**
Net pension and severance cost	**¥ 3,188**	¥ 3,039	**$ 26,522**

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

	Year ended March 31, 2003
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. Number of outstanding shares

The number of shares of common stock outstanding at March 31, 2003 were 483,066,899 shares.

14. Number of treasury stock held by the Company at March 31, 2003:

There were 521,795 shares of treasury stock as at March 31 2003.

15. 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, 2003 and 2002 were ¥3,633 million ($30,223 thousand), and ¥3,599 million, respectively.

16. Land revaluation:

Under the Land Revaluation Low promulgated on March 31,1998, the Company elected a one-time revaluation of its own-use land based on real estate appraisal information as of March 31 2002. The resulting land revaluation gain represents unrealized revaluation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statement of income.

17. Cash and cash equivalents:

	Millions of Yen		Thousands of U.S. Dollars
	2003	**2002**	**2003**
Cash and cash equivalents as of March 31 consist of:			
Cash and bank deposits	**¥ 4,931**	¥ 6,816	**$ 41,023**
Long-term deposits over three months	**(48)**	—	**(403)**
	¥ 4,883	¥ 6,816	**$ 40,620**

18. Main assets and liabilities of the Company excluded from the consolidated subsidiaries resulting from the sale of shares:

As a result of the sale of the shares of Denka Pharmaceutical K.K. (Denka) in the year ended March 31, 2003, Denka was excluded from the consolidated subsidiaries.

The followings are the main assets and liabilities of Denka at the time when its shares were sold and the effect on the consolidated cash flow statement and the amount of proceeds and gain from the sale of the shares.

	Millions of Yen	Thousands of U.S. Dollars
Assets	¥ 2,657	$ 22,105
Liabilities	(2,122)	(17,654)
Minority interest	(26)	(216)
Unrealized gain on investment securities	(3)	(25)
Gain on sale of securities	80	666
Sales price of security of Denka pharmaceutical Co.,Ltd.	586	4,876
Cash and cash equivalents of Denka pharmaceutical Co.,Ltd.	(99)	(824)
Sales revenue	¥ 487	$ 4,052

19. Leases:

1) Finance Lease

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases.

(1) Leased assets under finance leases, if capitalized, at March 31, 2003 and 2002 comprise the following:

March 31, 2003	Millions of Yen		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and structures	¥ 1,519	¥ 270	¥ 1,249
Machinery and equipment	7,929	3,938	3,991
Vehicles and delivery equipment	318	186	132
Tools, furniture and fixtures	1,714	1,089	625
Intangible assets	29	23	6
	¥ 11,509	¥ 5,506	¥ 6,003

March 31, 2002	Millions of Yen		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and structures	¥ 708	¥ 142	¥ 566
Machinery and equipment	5,336	3,540	1,796
Vehicles and delivery equipment	335	171	164
Tools, furniture and fixtures	2,108	1,407	701
Intangible assets	45	36	9
	¥ 8,532	¥ 5,296	¥ 3,236

March 31, 2003	Thousands of U.S. Dollars		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and structures	$ 12,637	$ 2,246	$ 10,391
Machinery and equipment	65,965	32,762	33,203
Vehicles and delivery equipment	2,645	1,547	1,098
Tools, furniture and fixtures	14,259	9,059	5,200
Intangible assets	241	191	50
	$ 95,747	$ 45,805	$ 49,942

Depreciation expenses of those leased assets for the year ended March 31, 2003 and 2002 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 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Future lease payments			
Within one year	¥ 1,631	¥ 1,166	$ 13,569
Over one year	4,372	2,070	36,372
	¥ 6,003	¥ 3,236	$ 49,941

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

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Lease rental expenses	¥ 1,352	¥ 1,348	$ 11,247
Depreciation cost corresponding amounts	1,352	1,348	11,247

2) Operating Lease

Operating leases are accounted for as rental transactions.

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

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Future lease payments:		
Within one year	¥ 565	$ 4,700
	¥ 565	$ 4,700

20. Contingent liabilities:

Contingent liabilities at March 31, 2003 and 2002 for notes receivable discounted and endorsed and loans guaranteed were approximately ¥1,440 million ($11,980 thousand) and ¥2,826 million, respectively.

21. Business Segment Information:

The Companies are primarily engaged in the manufacture and sale of products in the five major segments of Petrochemical Products Division, Specialized chemical Products Division, Cement and Construction Materials Division and Pharmaceutical Division and Other Products Division.

Information by business segment for the years ended March 31, 2003 and 2002 is summarized as follows:

Year ended March 31, 2003 — Millions of Yen

	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 72,338	¥ 97,684	¥ 31,576	¥ 15,023	¥ 27,204	¥ 243,825	¥ —	¥ 243,825
Inter-segment	4,704	5,177	2,416	1	3,945	16,243	(16,243)	—
Total	77,042	102,861	33,992	15,024	31,149	260,068	(16,243)	243,825
Operating costs and expenses	75,120	91,839	32,405	11,962	30,854	242,180	(16,373)	225,807
Operating income	¥ 1,922	¥ 11,022	¥ 1,587	¥ 3,062	¥ 295	¥ 17,888	¥ 130	¥ 18,018
Assets	¥ 62,436	¥ 103,544	¥ 41,706	¥ 19,572	¥ 14,032	¥ 241,290	¥ 72,270	¥ 313,560
Depreciation cost	4,841	5,975	2,820	1,070	50	14,756	(15)	14,741
Capital expenditure	3,150	10,240	2,648	2,233	77	18,348	5,593	23,941

Year ended March 31, 2002 — 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	¥ 69,964	¥ 93,058	¥ 34,912	¥ 42,744	¥ 240,678	¥ —	¥ 240,678
Inter-segment	4,011	4,376	2,350	4,401	15,138	(15,138)	—
Total	73,975	97,434	37,262	47,145	255,816	(15,138)	240,678
Operating costs and expenses	73,634	87,213	34,097	44,270	239,214	(15,269)	223,945
Operating income	¥ 341	¥ 10,221	¥ 3,165	¥ 2,875	¥ 16,602	¥ 131	¥ 16,733
Assets	¥ 63,407	¥ 104,592	¥ 43,663	¥ 35,246	¥ 246,908	¥ 75,900	¥ 322,808
Depreciation cost	5,014	5,905	2,916	1,196	15,031	(20)	15,011
Capital expenditure	2,135	6,011	2,226	1,569	11,941	(34)	11,907

(Change in classification of business)

Until the last fiscal year, the Company classified its businesses into four divisions, petrochemical products division, specialized chemical products division, cement and construction division and pharmaceutical and other products division. From this year, as pharmaceutical business has expanded, the Company decided to classify its businesses into five divisions by separating pharmaceutical business from pharmaceutical and other products division.

The following is the segment information of the last fiscal year prepared according to the classification applied from this year.

Year ended March 31, 2002 — Millions of Yen

	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 69,964	¥ 93,058	¥ 34,912	¥ 12,787	¥ 29,957	¥ 240,678		¥ 240,678
Inter-segment	4,011	4,376	2,350	8	4,393	15,138	¥ (15,138)	—
Total	73,975	97,434	37,262	12,795	34,350	255,816	(15,138)	240,678
Operating costs and expenses	73,634	87,213	34,097	10,194	34,076	239,214	(15,269)	223,945
Operating income	¥ 341	¥ 10,221	¥ 3,165	¥ 2,601	¥ 274	¥ 16,602	¥ 131	¥ 16,733
Assets	¥ 63,407	¥ 104,592	¥ 43,663	¥ 17,203	¥ 18,043	¥ 246,908	¥ 75,900	¥ 322,808
Depreciation cost	5,014	5,905	2,916	1,096	100	15,031	(20)	15,011
Capital expenditure	2,135	6,011	2,226	1,380	189	11,941	(34)	11,907

Year ended March 31, 2003 — Thousands of U.S. Dollars

	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	$ 601,818	$ 812,681	$ 262,699	$ 124,982	$ 226,312	$ 2,028,492	—	$ 2,028,492
Inter-segment	39,136	43,071	20,114	12	32,820	135,153	$ (135,153)	—
Total	640,954	855,752	282,813	124,994	259,132	2,163,645	(135,153)	2,028,492
Operating costs and expenses	624,963	764,052	269,600	99,519	256,689	2,014,823	(136,230)	1,878,593
Operating income	$ 15,991	$ 91,700	$ 13,213	$ 25,475	$ 2,443	$ 148,822	$ 1,077	$ 149,899
Assets	$ 519,432	$ 861,430	$ 346,974	$ 162,832	$ 116,737	$ 2,007,405	$ 601,254	$ 2,608,659
Depreciation cost	40,278	49,710	23,461	8,902	415	122,766	(123)	122,643
Capital expenditure	26,208	85,188	22,032	18,579	643	152,650	46,533	199,183

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	Pharmaceutical	Vaccines, Joint Function Improvement Agent SUVENYL, Diagnostic Chemicals
Other Products Division	Engineering Business and Other Products	Engineering Business, and other

22. Overseas Sales Information:

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2003			2002			2003		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	**¥ 31,249**	**¥ 11,650**	**¥ 42,899**	¥ 28,852	¥ 9,395	¥ 38,247	**$ 259,647**	**$ 97,367**	**$ 357,014**
Consolidated sales	**—**	**—**	**¥ 243,825**	—	—	¥ 240,678	**—**	**—**	**$ 2,028,492**
Percentage of overseas sales over consolidated sales	**12.8%**	**4.8%**	**17.6 %**	12.0%	3.9%	15.9%	**12.8%**	**4.8%**	**17.6%**

23. Related Party Transactions:

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2003 and 2002 were as follows:

Millions of Yen

Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Transactions: Description of the Company's Transactions	Transactions: Year ended March 31, 2003	Transactions: Year ended March 31, 2002	Resulting Accounting Balance: Account	Resulting Accounting Balance: March 31, 2003	Resulting Accounting Balance: March 31, 2002
TOYO STYRENE CO., LTD.	¥ 5,000	Produce and Sale of Polystyrene	50%	Sales	¥ 10,416	¥ 9,411	Accounts receivable, trade	¥ 4,084	¥ 3,496
				Supply of utility	—	¥ 596	Accounts receivable, other	—	¥ 412

Thousands of U.S. Dollars

Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Transactions: Description of the Company's Transactions	Transactions: Year ended March 31, 2003	Resulting Accounting Balance: Account	Resulting Accounting Balance: March 31, 2003
TOYO STYRENE CO., LTD.	$ 37,523	Produce and Sale of Polystyrene	50%	Sales	$ 86,656	Accounts receivable, trade	$ 33,977
				Supply of utility	—	Accounts receivable, other	—

The terms and conditions of the above transactions are on an arm's-length basis.

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS

Kasumigaseki Bldg. 32nd Floor
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Tokyo 100-6088, Japan

Report of Independent Auditors

To the Board of Directors and Shareholders 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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As described in Note 21 Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries changed the method of classification of the business segment information.

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

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Tokyo, Japan
June 27, 2003

Notice to Readers:

The accompanying consolidated financial statements are not intended to present the consolidated financial positions and results of operations and 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
May 1, 1915

Paid-in Capital
¥35,303 million (US$294 million)

Employees
2,847

Directory
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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, Hiroshima,
Takamatsu, Kagoshima, Akita, Hachinohe,
Omi, Ageo, Kanazawa, Chiba
Production Facilities —
Omi (Niigata), Omuta (Fukuoka), Chiba,
Shibukawa (Gunma), Ofuna (Kanagawa)

Overseas Subsidiaries

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E-mail: toshio-imai@denka.co.jp

Board of Directors and Corporate Auditors

(As of June 27, 2003)

Chairman
Tsuneo Yano*

President
Toshio Hiruma*

Senior Managing Director
Takeshi Furuya*

Managing Directors
Michio Otake
Higashi Ito
Seiki Kawabata
Yoshiaki Mikami
Shunichi Hayashi
Kenichi Tsuchigame
Hisao Wakuri
Keisuke Takagi
Shinichiro Asai
Kei Hayashi

Directors
Hideki Matsumura
Akira Kobayashi
Koji Minai

Standing Corporate Auditors
Takakazu Koyama
Yukinori Totake
Hideo Kitahara

Corporate Auditor
Kenji Fujinuma

*Representative Director

Shareholder Information

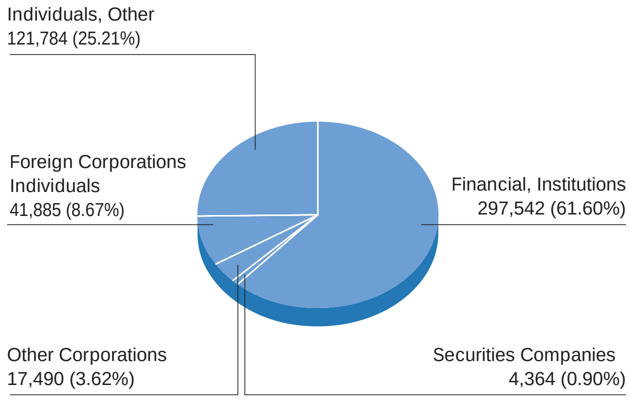
(As of March 31, 2003)

Total Number of Authorized Shares	1,584,070,000
Shares of Common Stock Issued	483,066,899
Shareholders	58,743

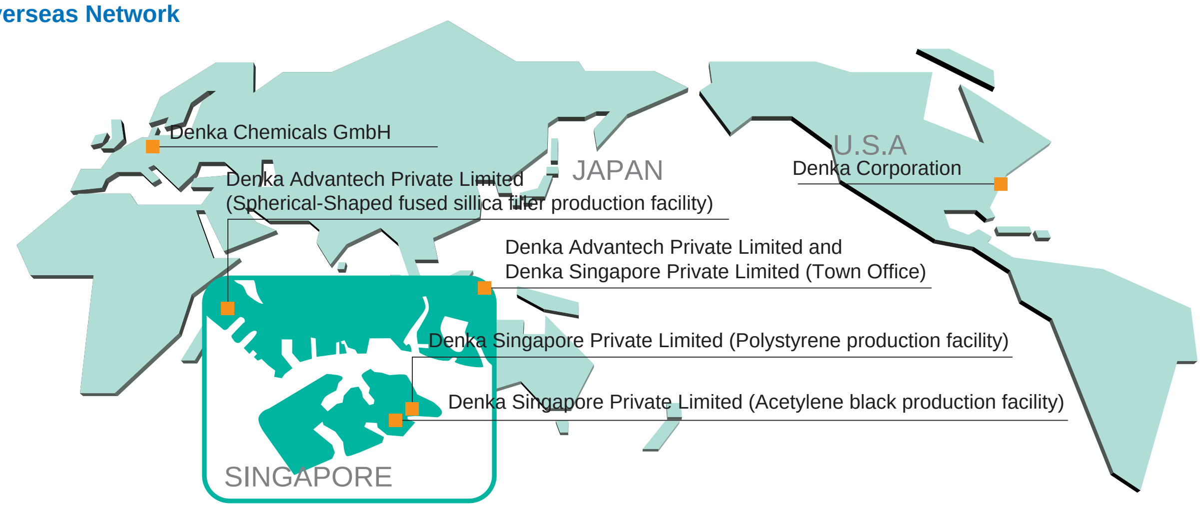
Major Shareholders

	Number of shares held (thousands)	Ratio of total shares outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	97,271	20.39
The Master Trust Bank of Japan, Ltd. (Trust Account)	27,557	5.77
Mitsui Mutual Life Insurance, Co.	17,012	3.56
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	15,275	3.20
The Sumitomo Trust & Banking Co., Ltd.	10,496	2.20
Japan Trustee Services Bank, Ltd. (The Chuo Mitsui Trust and Banking Company, Limited Retirement Benefit Trust Account)	10,100	2.11
Mitsui Marine and Fire Insurance Co., Ltd.	9,926	2.08
The Norinchukin Bank	8,518	1.78
Sumitomo Mitsui Banking Corporation	7,409	1.55
Nikko Citi Trust and Banking Corporation (Investment Trust Account)	7,392	1.54

Breakdown of Shareholders (thousands)



Overseas Network



DENKA

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