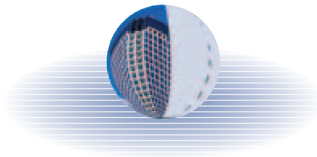
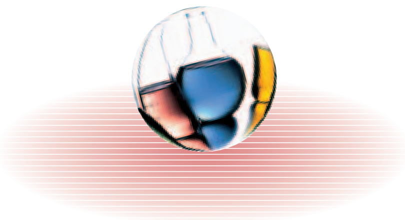
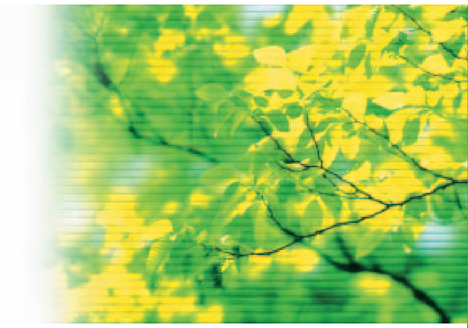




MERGING TECHNOLOGY AND A CHALLENGING SPIRIT



DENKA

DENKI KAGAKU KOGYO KABUSHIKI KAISHA

Annual Report 2004

For the fiscal year ended March 31, 2004

Financial Highlights

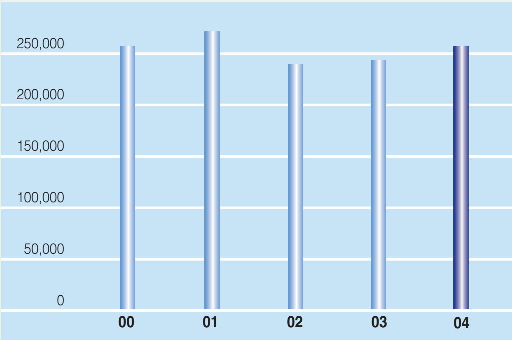
Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31, 2004 and 2003	**2004**	**2003**	**2004**
Net Sales	**¥ 251,116**	¥ 243,825	**$ 2,377,318**
Operating Income	**21,452**	18,018	**203,086**
Income before Income Taxes	**17,607**	10,049	**166,690**
Net Income	**10,554**	4,774	**99,915**
Total Assets	**315,743**	313,561	**2,989,141**
Total Shareholders' Equity	**114,965**	102,105	**1,088,369**
Net Income per Share (in Yen and U.S. Dollars)	**21.70**	9.99	**0.205**
Shareholders' Equity per Share (in Yen and U.S. Dollars)	**283.13**	211.45	**2.680**

Note: Yen amounts are translated into dollars at a rate of ¥105.63=U.S.$1.

Net Sales

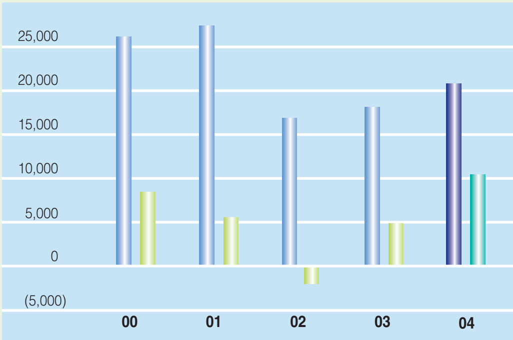
Millions of Yen



Operating Income and Net Income (Loss)

Millions of Yen

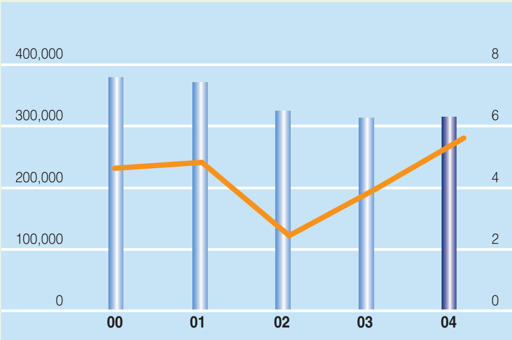
Operating Income
Net Income (Loss)



Total Assets and Return on Assets

Millions of Yen

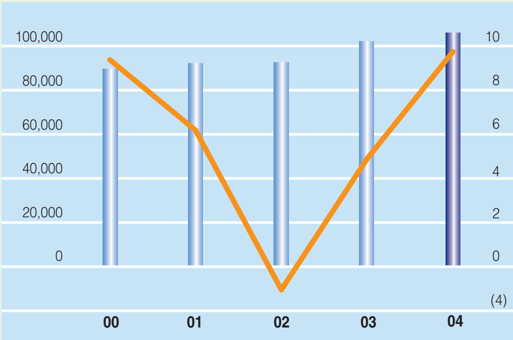
Total Assets
Return on Assets (%)



Total Shareholders' Equity and Return on Equity

Millions of Yen

Total Shareholders' Equity
Return on Equity (%)



Note: Return on Assets = Ordinary Income / Average of Opening and Closing Total Assets×100

DENKA Overview

The Denka Group, which consists of Denki Kagaku Kogyo Kabushiki Kaisha, its 50 subsidiaries and 52 affiliated companies, is conducting business through four major divisions (i.e. Resin and Chemical Products, Organic and Inorganic Chemicals, Functional Materials and Processed Products, as well as Cement and Construction Materials), etc.

We have given priority to five key areas of growth (resin processing, functional resins, electronic materials, special additives and pharmaceutical products) and on strong revenue generators. We are further lowering costs while reinforcing global competitiveness in these five areas. Furthermore, we will step up research as well as capital investments to promote proactive business development for the future.

Resin and Chemical Products Division

Styrene commodity resins, functional resins and chemical products

Denki Kagaku Kogyo Kabushiki Kaisha, Chiba Styrene Monomer Limited Company, DENKA Singapore P.L., TOYO STYRENE CO., LTD. and 4 other companies

Functional Materials and Processed Products Division

Electronic and functional materials, resin-processed products and pharmaceutical products

Denki Kagaku Kogyo Kabushiki Kaisha, DENKA POLYMER Co., Ltd., DENKA Advantech P.L., DENKA Seiken Co., Ltd. and 12 other companies

Organic and Inorganic Chemicals Division

Organic chemical products, fertilizer and inorganic chemical products

Denki Kagaku Kogyo Kabushiki Kaisha, DENKA Singapore P.L., HINODE KAGAKU KOGYO KABUSHIKI KAISHA, NISHI NIHON KOUATUGAS CO., LTD., DENKA Azumin Co., Ltd. and 9 other companies

Cement and Construction Materials Division

Cement and special additives

Denki Kagaku Kogyo Kabushiki Kaisha, Denka Namakon Takayama Kabushiki Kaisha and 46 other companies

Other Products Division

Services and engineering

Yamatomi Syoji Co., Ltd., DENKA Engineering Co., Ltd. and 19 other companies

Contents

President's Message

The Denka Group aims to carve out a new stage in the chemical field while establishing a higher level of profitability and a stronger financial base.

Q Please explain about your business performance for the fiscal year ended March 31, 2004.

A The year under review was the concluding year of our group-wide business reform campaign "Reform 22" which had started in the fiscal year 2002. The noteworthy activities during the year were as follows: in April 2003, we merged with Toyo Chemical Co., Ltd., a core company of the Group's resin-processing business, to consolidate the R&D departments and integrate other various departments of the head office; also in July 2003, we began operations in the fertilizer business with "Azumin" (humic acid magnesium fertilizer) taken over from Japan Metals & Chemicals Co., Ltd., further reorganizing and reinforcing various businesses within the Group.

During the year, we also made capital investments in the businesses of resin-processing, functional resins, electronic materials, special additives and pharmaceutical products (which were designated in the "Reform 22" campaign as the five key growth areas), and enhanced our growth products through proper allocation of resources to meet market demand.

The Company continued its efforts to improve its financial standings by further reducing interest-bearing debts and prompt disposal of high-risk assets that would not contribute to its earnings.

As a result, in the fiscal year under review, the Group posted consolidated net sales of ¥251,116 million, an increase of ¥7,291 million, or up 3.0%, from the previous year. On the other hand, although we saw declining factors in earnings such as a sharp rise in raw material prices, sales of high value-added products including IT-related materials and functional resins grew. Hence, consolidated operating income substantially increased ¥3,433 million, or 19.1%, from a year earlier to ¥21,452 million. Net income soared to a record high of ¥10,554 million, a rise of ¥5,780 million, or up 121.1% year on year, thus, marked the second consecutive year of increase in net sales and earnings. Since we have almost finished resolving urgent issues, the groundwork is now considered to be laid for a further leap forward.

As for the Company's dividend, we declare a year-end dividend of ¥3 per share, resulting in an annual payout of ¥6 per share (including the interim dividend of ¥3 per share paid last year).

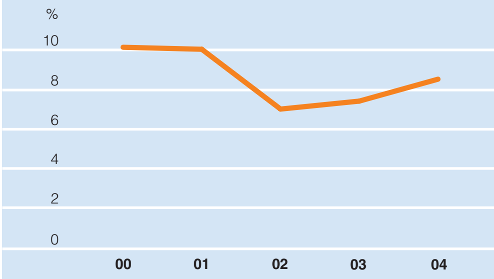
Please summarize the "Reform 22" campaign over two years since 2002.

The Denka Group has been promoting the "Reform 22" campaign since April 2002 in a bid to secure stable profits and build a corporate structure enabling its further growth.

The fundamental aspects to be addressed were "enhancement of the Denka Group's consolidated management and review of business portfolio" as well as "business reforms for efficient management." Under these principles, we decided to concentrate management resources on priority businesses for growth as well as to improve and maintain the earnings structure of its matured core businesses. Furthermore, we planned to drastically improve the Company's financial standings focusing on a reduction in its interest-bearing debts. Our target was set at a considerable high level at that time with an operating profit margin of at least 10% and a reduction of consolidated interest-bearing debts to ¥120,000 million or less.

Reviewing this campaign in the last two years, we feel the first stage of selection and concentration of our business has been completed and the framework for securing stable profitability has been established. We also nearly achieved our numerical targets as planned. Operating profit margin for the year under review considerably improved to 8.5% and interest-bearing debts were reduced to ¥120,448 million at the fiscal year-end, which was about half of their peak value of ¥260,800 million in fiscal 1992. As for the five priority businesses of growth, our Chiba plant showed remarkable growth in such product lines as ABS and functional resins, while the Omuta plant's shift to fine ceramic products paid off and the Shibukawa plant marked record growth for electronic component materials in recent years.

Operating Profit Margin (Operating Income to Net Sales)



Additionally, active attitudes among employees to improve the Company through the "Reform 22" campaign are some of its outcomes. The decisions by top management and the spirit of participation by employees are united to drive this campaign.

Although the "Reform 22" campaign resulted in such noteworthy achievements, I myself should not be totally satisfied with the results. We did achieve strong performance for two straight years, but an easy satisfaction might ultimately lead to regression under the rapidly changing economic climate. We may not make any further progress if we feel complacent with the status quo.

How do you perceive the business environment for the year under review and onwards?

Although the Japanese economy in the year under review could not completely break free of deflation, a trend of economic recovery was seen in the latter half of the year as exports increased substantially on the back of the strong US economy and buoyant economic growth in China. Also, corporate capital spending was on the rise centering on digital products. The economy as a whole has been on a recovery trend, though the degree of recovery varies if we compare urban and rural areas, large and small businesses, manufacturers and non-manufacturers, etc. At the beginning of the year, the chemical industry suffered a temporary economic setback in Southeast Asia as the SARS epidemic spread. Thereafter, however, exports developed steadily and demand expanded around IT-related products. Chemical companies improved their business performance in general, but raw material prices increased due to the rise in crude oil and naphtha prices, causing downward pressure on corporate earnings.

President's Message

As for business forecast for the fiscal year 2004, export-led economic recovery will basically continue supported by the robust US and Chinese economies.

In the domestic economy, however, a full-fledged economic recovery led by domestic demand can not yet be seen because of the high unemployment rate, little growth in income and ongoing deflation, as well as cutbacks in public works. A cause of concern is the sustainability of the global economy, which has served as an engine of the economic recovery here, especially fears of a US economic slowdown, the durability of capital investments, outlook for consumer spending and a global increase in material prices. Among other things, risk factors in the chemical industry are an upsurge in raw material prices associated with a rise in crude oil and naphtha prices and uncertain future currency movements, which give us continued concerns about the future.

Keeping a careful look at the forthcoming year's business environment, the Denka Group will strive to proactively expand sales by focusing on high value-added products and continue to lower costs for securing high profitability.

Q What is the DENKA "New Stage 2006" that has started in April 2004?

A In April 2004, the Denka Group started the DENKA "New Stage 2006" (NS06), a new group-wide campaign aiming at higher goals based on the results achieved through the "Reform 22" campaign. This is a three-year plan to end on March 31, 2007, with which we will further strengthen our business base and financial standings to ensure higher profitability, stability and a further expansion in the priority areas of growth by promoting more strategic business development. In this plan, we have set numerical targets

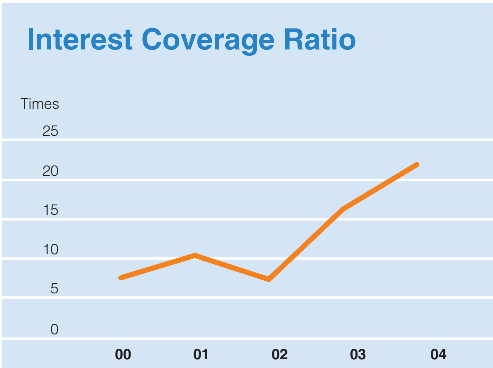
Business Topics

April	1996	Taiyo Vinyl Co., Ltd. commenced operation.
October	1996	"TC-10" campaign (Total cost reduction campaign) started operation.
April	1999	TOYO STYRENE CO., LTD. started operation.
April	2000	Taiyo Vinyl Co., Ltd. was reorganized under the management of Tosoh Corp.
July	2001	Denka Renotec Co., Ltd. was established. (Special additives)
March	2002	Divestment of Naruse Securities Co., Ltd.
April	2002	"Reform 22" campaign started.
June	2002	Divestment of Denka Pharmaceutical Co., Ltd.
October	2002	Toyo Chemical Co., Ltd. became a wholly-owned subsidiary.
April	2003	Toyo Chemical Co., Ltd. was merged with the Company.
July	2003	Denka Azumin Co., Ltd. started operation.
April	2004	DENKA "New Stage 2006" (NS06) campaign started.

of at least 10% in operating margin, shareholders' equity ratio of at least 50% and a ceiling for interest-bearing debt of ¥65,000 million, aiming at the industry's top-level profitability and financial strength.

Our approach is based on proactive business development toward new products and fields. To this end, we have decided to revitalize R&D activities as well as proactively allocate resources to growing domains by relaxing constraints on capital expenditures and depreciation expenses. The priority domains subject to investment are functional resins and electronic materials, and therefore we newly set up the Electronic Materials Business Headquarter in June 2004 to enhance and consolidate the electronics-related businesses. We will also seek to enhance the international competitiveness of our core businesses, to fulfill our societal responsibilities including compliance with the laws and environmental protection while optimizing our productivity through the business reform. Furthermore, in order to maintain a common awareness among all departments and employees through the entire Group, each department formulated its own new goal linked to the "NS06," thereby making this as a group-wide campaign.

We will also continue to drastically improve our financial standings. More concretely, we are aiming at reducing interest-bearing debts to lower the debt-equity ratio to a level of 0.5. To this end, a fairly high target was intentionally set so that interest-bearing debts of ¥120,400 million at the 2004 fiscal year-end could be halved over the next three years.



Q Please let us know about Denka's corporate vision and management policy.

A We have contributed to people's well being through our support for social and economic development by developing and supplying a wide range of chemical products for almost ninety years since the Company's establishment in 1915. We are seeking to build a higher level of profitability and cement our financial strength as a "distinctive manufacturer of chemicals who makes the presence felt unique and reliable" for the future, devoting ourselves to promote the "NS06" campaign in a bid to be a confident and proud company as well as a company of sustainable growth.

In 2003, there were successive cases in which some companies in the chemical industry received administrative penalties for safety negligence, which gave us a renewed recognition of the importance to comply with law. The Denka group does hope to maintain the public's confidence and understanding indefinitely by fulfilling its responsibilities as a corporate citizen including assurance of safety operation, legal compliance and proactive environmental preservation as prerequisites for corporate growth. With corporate governance as its cornerstone, we will make further efforts to enhance the board of directors' function, strengthen the auditing system, seek efficiency of the corporate structure and fortify the compliance framework.

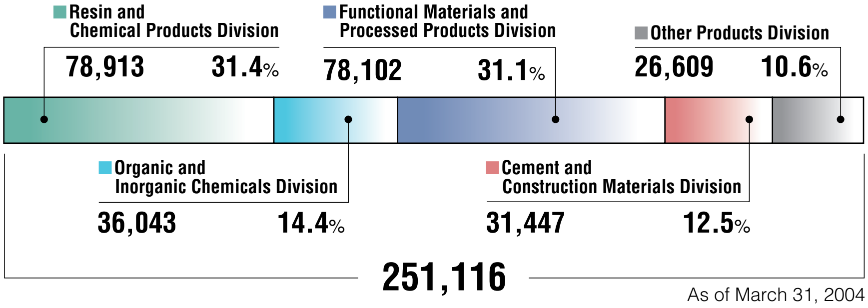
Also, the Company gives top priority to its management to meet the expectations of various stakeholders such as shareholders, customers, local communities as well as employees, and concurrently to enhance our corporate value. Positioning the fiscal 2004 as the starting year for a further leap forward, the Denka Group will make concerted efforts to strengthen its business foundation and establish a high-profit structure. We earnestly solicit and deeply appreciate the continued understanding and support of our shareholders, investors and other stakeholders.

June 2004

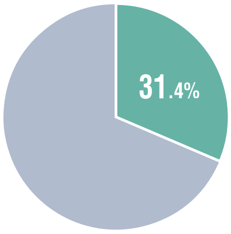
Toshio Hiruma, President

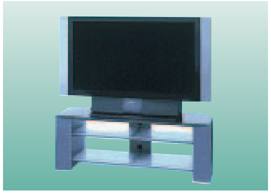
Segment Information

Sales by Product Category
(Millions of Yen)



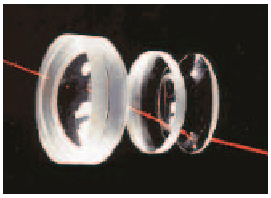
Resin and Chemical Products Division



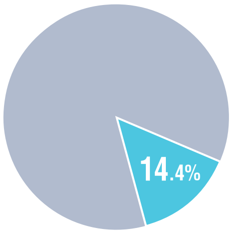


Transparent polymer used for large TV projection screens

"HARDLOC OP" used for gluing optical lenses together



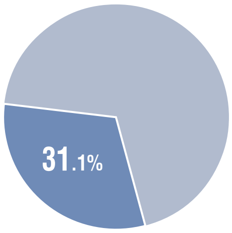
Organic and Inorganic Chemicals Division



Pneumatic automobile suspensions using chloroprene rubber

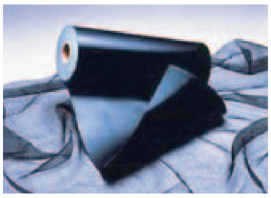
Conductive acetylene black used in casings for power cables

Functional Materials and Processed Products Division

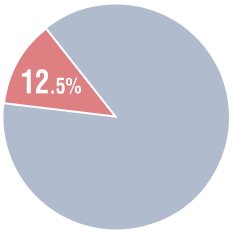


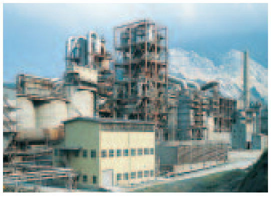
Heat-dissipating sheet spacer indispensable for electronic parts as thermal resistant materials

Conductive sheets processed into protective wrap for the transportation of electronic-components



Cement and Construction Materials Division





The largest cement plant in the coastal region along the Sea of Japan (Omi Plant in Niigata Prefecture)

A site where "DENKA SPREAD," spraying material for repair work, is applied

(Note)
Regarding the divisions previously classified as "Specialized Chemical Products" and "Pharmaceutical Products," we reviewed business segments with a view to reinforcing the Group's management to better clarify each division's actual performance and strategy. As a result, we have decided to reclassify the foregoing divisions as "Organic and Inorganic Chemicals Division" and "Functional Materials and Processed Products Division" from the fiscal year under review. Concurrently, it has been decided that the former "Petrochemical Products Division" is to be renamed as the "Resin and Chemical Products Division" in order to more properly define our business segments.

Sales steadily increased ¥6,575 million, or 9.1%, to ¥78,913 million, as compared to the previous year.

Styrene commodity resins (polystyrene and ABS resins): Sales considerably increased as export volumes grew on the back of the demands from the Chinese market. At DENKA Singapore P.L., our overseas subsidiary in Singapore, its sales volume of polystyrene resin expanded, with its sales price rising.

Functional resins: The sales volume of transparent polymers increased primarily for use in optical lens and game consoles. Heat-resistant ABS resins sold well mainly for use in automobiles and cellular phones. "CLEAREN", special resin, also showed a steady growth in its sales volume.

Chemical products: Sales volume of acetic acid and vinyl acetate grew chiefly within the domestic market. Sales revenue of "POVAL" increased due to expanded sales quantity in the domestic market. "HARDLOC" boosted its sales volume mainly for speakers installed in vehicles. "HARDLOC OP/UV" (ultraviolet curable adhesive) also showed a substantial sales expansion for optical lens and other applications.

Sales were ¥36,043 million, an increase of ¥1,286 million, or up 3.7%, from a year earlier.

Organic chemical products: While the sales volume of chloroprene rubber grew both at home and abroad primarily for use in automobiles and adhesives, sales revenue in yen eventually declined because export proceeds dropped due to strong yen. On the other hand, "ER Rubber" (used in automotive hoses) sold well while acetylene black also showed a strong growth in sales both in Japan and abroad.

Fertilizer: Sales of nitrolime almost leveled off from the previous year, but the sales volume of "Toretaro", high silicate fertilizer, rebounded. In addition, as the Company took over a part of fertilizer business including Azumin from Japan Metal & Chemicals Co., Ltd. in July 2003 and commenced its sales, overall fertilizer business recorded a marked growth in sales.

Inorganic chemical products: Sales of carbide developed favorably while "FIRELEN" sales dropped due to a decline in sales prices both in the domestic and overseas markets. Sales of alumina cement also dropped owing to its reduced sales volume resulting from fiercer competition with increasing imports.

Sales were ¥78,102 million, an increase of ¥152 million, or up 0.2%, as compared to the previous year.

Electronic and functional materials: The recovery of demand in IT-related products increased shipments of related materials. The sales volume of fused silica fillers climbed sizably both in Japan and in DENKA Advantech P.L. in Singapore, resulting in a sharp increase in its sales. The sales volume of thermally resistant products, such as electronic circuit boards and heat-dissipating sheets, showed a substantial growth thanks to steady advances in new development theme for IT-related product use. The sales volume of mono-silane gas at Denal Silane Co., Ltd. also grew strongly.

Resin-processed products: Sales of conductive sheets and electronic packaging materials, such as "ElegripTape," increased due to a steady increase in the sales volume. In food packaging materials, OPS (biaxially oriented polystyrene sheet) sales volume rose due to simultaneous enhancement of both our manufacturing facility for primary processing of sheets and films and the processed-product manufacturing facility at DENKA POLYMER Co., Ltd. on the back of strong demand. Sales of processed OPS products manufactured by DENKA POLYMER Co., Ltd. were sluggish overall because of weak demand for trays and lunch containers, coupled with a cool summer. Yarn for the use of synthetic fiber wigs saw a dip in sales revenue in yen terms due to the currency's appreciation.

Pharmaceutical and other products: The volume of "SUVENYL" sold to distributors by the Company fell on account of the production halt during the second-phase construction period for its output-capacity expansion. DENKA Seiken Co., Ltd. posted a sales increase by producing and selling more of its key product of influenza vaccines compared to the last year even though its sales of test reagents for domestic use slipped due to intensified competition.

Sales decreased ¥129 million, or down 0.4%, to ¥31,447 million, compared with a year ago.

Cement: While we were placed in the severe environment due to a continued reduction in public work projects, sales of the cement grew because we strived to hold onto the same sales volume as last year in Japan and its exports expanded substantially.

Special Additives: Sales of "DENKA SPREED" and "HARDLOC II" soared mainly due to reinforcement work. Although sales of "PRETASCON" developed well primarily for the use of anti-seismic reinforcement work, the sales volume of "NATMIC" fell due to decreased demand for its use of large-scale projects, such as the New Tomei Expressway, in addition to a reduction in the overall volume of construction work for public work projects.

Research and Development

1. Fundamental Role and Basic Policy

The Denka Group actively promotes research and development activities, with an emphasis on advancing its proprietary technologies and applying them to the related fields. The Group's research and development policy comprises: (1) development of new products based on corporate business strategies, (2) strengthening of the corporate business foundation by fostering core technologies, and (3) improving efficiency in its R&D through a more focused approach and more flexible operational management. As a continuously growing research and development based company, Denka is conducting its R&D with the ongoing aim of improving customer satisfaction.

2. Reorganization of Our Research and Development System

Denka restructured its research division into a more theme-focused and sector-oriented organization in June 2004. A "Research Center" was established at each corporate branch to facilitate the process by which research outcomes are reflected in the products to optimally leverage the features of its product lines.

An "Analysis Center" within the Central Research Center was also established to flexibly utilize the Group's common basic technologies in across a broad spectrum of analyses.

3. Results for the Current Fiscal Year

Research and development expenditures of the entire Denka Group for the fiscal year under review amounted to ¥8,478 million (US$ 80 million). In Japan alone, a total of 407 patents were disclosed and 272 (including utility patents) were registered.

The breakdown of Denka research and development activities and our key achievements (by division) is as follows:

(1) Resin and Chemical Products Division

Research and development activities are progressing with the focus on styrene functional resins to improve Denka production technologies for CLEAREN and transparent, thermally-resistant as well as weather-resistant resins, with a view to enhancing quality and developing new products. Moreover, we also entered the optics sector with our functional adhesives.

(2) Organic and Inorganic Chemicals Division

In the organic chemical product segment, we are enhancing the production technologies for chloroprene, ER rubber and acetylene black. In the fertilizer and inorganic chemical product segment, we are focusing on research and development to enhance our ALUMINA CEMENT, FIRELEN, alumina fiber and fertilizer operations.

(3) Functional Materials and Processed Products Division

In the semiconductor and electronic materials sector, we are proceeding with the development of new products in the product family of fused silica filler, ceramic substrates, metal base plates, heat sink and molded ceramic products.

In the resin processed product sector, we are working on the development of new products, concentrating on innovative packaging materials for the electronics as well as food processing sectors.

In the construction, industrial and environmental materials section, our development of products to meet market needs that incorporate adhesive coatings and profile extrusion molding technologies is advancing.

In the pharmaceutical product sector, we are addressing the development of new pharmaceutical applications which utilize the beneficial functions of hyaluronic acid.

DENKA Seiken Co., Ltd. is promoting the development of safe, effective vaccines as well as striving to develop bacterial and clinical biochemical reagents.

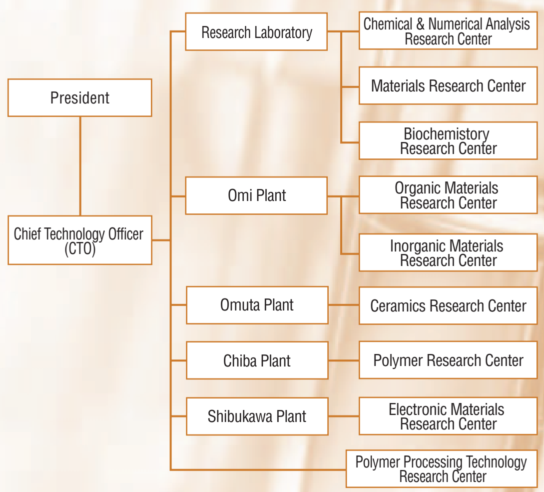
(4) Cement and Construction Materials Division

In the special cement additives sector, we are refining key products, such as NATMIC, TASCON and CSA while developing new markets for HARDLOC II, an acrylic adhesive.

(5) Other Products Division

Denka Consultant & Engineering Co., Ltd., which designs and builds industrial equipment, has been developing technology for efficient pneumatic transportation systems for powdered/granulated materials that are generally difficult to convey.

R&D Organization



Measures for Environmental Issues

Our efforts for environmental conservation and efficient use of resources

Today, businesses are expected to strive towards attaining the so-called “sustainable society” in which the environment should be conserved and resources efficiently used. Against this backdrop, chemical companies are increasingly incorporating these notions into corporate philosophies and adopting responsible care (RC) activities. Specifically, they are proactively implementing reductions in the emission of chemical substances as well as other pollutants to utilize waste as a resource through efficient recycling.

Having obtained ISO 14001 certification for all plants, we are proactively promoting RC activities. Furthermore, we have formulated a medium-term (three-year) environmental plan to reduce environmental impact (reduction in emissions of chemicals, improvement in the quality of the atmosphere and the water, decreasing the volume of leftover waste for final disposal, and reduction in greenhouse gas emissions) in order to proceed with forward-looking planned improvement.

Of our various activities, we shall discuss the progress made in reducing emissions of the chemical substances designated under the PRTR Law (PRTR = Pollutant Release and Transfer Register), promotion of energy saving and recycling through our cement plant recycling system.

Reduction in emissions of chemical substances listed in the PRTR Law

While we have been making efforts to reduce emissions of chemical substances listed in the PRTR Law, we actually had emissions of 483 tons (54 substances for the entire company) in the fiscal year 2003, about a 20% increase from a year earlier. However, it is important to note that this figure is inflated on the surface due to mergers of some of our affiliates companies, and that we have in fact reduced our emissions about 15% compared to the previous year. We will continue to take reduction measures and review our options in order to achieve an emission ceiling of 210 tons for 2005.

Promotion of energy saving

We have been promoting energy saving with our medium-term environmental plan by setting specific criteria and targets at each plant. As a result, we could achieve energy savings resulting in the unit energy consumption for fiscal 2003 being 96.2% of the previous year’s (or 92.2% of the level for fiscal 1990). The energy savings target set by the chemical industry for fiscal 2010 is 90% of the level in fiscal 1990.

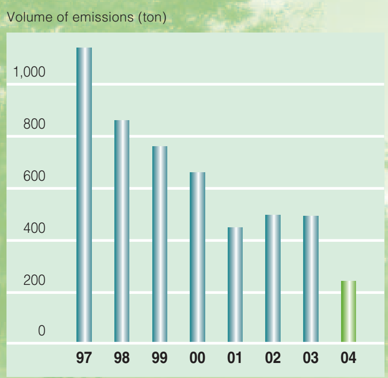
We have established specific plans for energy conservation at the individual plant sites (Omi factory: cement and chloroprene; Chiba factory: styrene monomer; Omuta factory: fused silica) and are continuing to reduce energy consumption targeting a unit energy consumption of 90.6% of the level in fiscal 1990.

Promotion of recycling with our cement plant recycling system

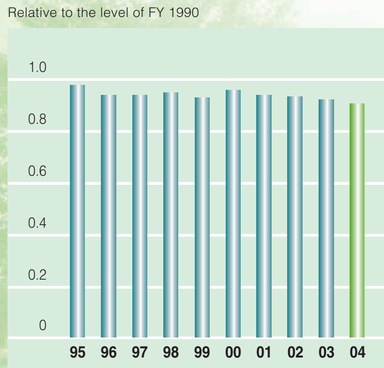
Our Omi factory is quick to make effective use of waste and by-products as raw material or fuel in the cement production process. We contribute to the recycling of resources by voluntarily accepting 450,000 tons of waste and by-products regardless of origin including carbide from urban refuse in adjacent communities, dried sludge left over from sewage treatment, bone-meal feed which is to be disposed at the behest of the government.

Further, as our biomass boiler started its full operation in March 2003, we accepted 27,000 tons of wood waste from adjacent communities for recycling.

Emissions of chemical substances under the PRTR Law



Unit energy consumption



Financial Review

Business Environment

During the fiscal term under review, Japan was still suffering from deflation and it's difficult employment situation. However, in the latter half of the term, the nation's economy began to show signs of recovery, due chiefly to rising exports helped by steady economic situation in the U.S. and high economic growth in China, improvement in corporate earnings mainly in the digital products sector, and resultant increases in their capital spending. Overall, Japan's economy picked up moderately in fiscal 2003, despite such negative factors as high crude oil prices, the strong yen and rising long-term interest rates.

In the chemical industry, demand was sluggish at the beginning of the fiscal year, affected partly by temporarily weakened economic activities in the East Asian region due to the SARS (severe acute respiratory syndrome) in spring 2003. Later, however, demand picked up and remained solid, particularly from exporters and IT-related corporations. Meanwhile, hikes in crude oil and naphtha prices pushed up prices of raw materials, which weighed on the profitability of corporate Japan.

Operating Results

1. Net Sales

Under these economic circumstances, Denka did its utmost to expand its business domains and secure profits. As a result, net sales increased ¥7,291 million, or 3.0%, from the previous year to ¥251,116 million (US$2,377 million).

The segment summary report is as presented earlier in the "Segment Information."

2. Operating Income

While profits were hurt by a sharp rise in prices of raw materials, sales of high-value added products such as IT-related materials and functional resins increased in terms of volume. Accordingly, operating income soared ¥3,433 million, or 19.1%, year on year to ¥21,452 million (US$203 million). The operating income margin stood at 8.5%, up 1.1 percentage points from a year earlier.

3. Net Income

Improved investment earnings helped balance sheets at equity-method affiliates to look better, and interest expenditures decreased thanks to a reduction in interest-bearing liabilities. To streamline its asset holdings and enhance its financial position, Denka proactively unwound cross-shareholdings and sold real estate properties such as corporate housing units.

Denka posted gains from the sale of these assets, while posting valuation losses on golf course memberships and investment securities, in addition to losses incurred during the improvement of logistics operations and phasing-out of resin facilities. As a result, net income soared ¥5,780 million, or 121.1%, from the preceding year to ¥10,554 million (US$100 million).

Financial Position

1. Total Assets

Total assets at the end of the year under review were ¥315,743 million (US$2,989 million), up ¥2,182 million from the previous year. Current assets rose ¥1,062 million to ¥99,209 million (US$939 million), as a result of increases in account receivable due to expanded sales and inventories reflecting increasing prices for raw materials. Fixed assets were ¥216,534 million (US$2,050 million), up ¥1,120 million

Five-Years Summary

	Millions of Yen					Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	2004
Net Sales	**¥ 251,116**	¥ 243,825	¥ 240,678	¥ 272,274	¥ 256,273	**$ 2,377,318**
Net Income (Loss)	**10,554**	4,774	(1,978)	5,636	8,319	**99,915**
Total Assets	**315,743**	313,561	322,808	369,029	379,293	**2,989,141**
Total Shareholders' Equity	**114,965**	102,105	93,099	92,523	90,195	**1,088,369**

Note: Yen amounts are translated into dollars at a rate of ¥105.63=U.S.$1.

from a year earlier, as the value of investment securities rose due to improved balance sheets at equity-method affiliates and an about-face in the stock market. Costs for the corporate bond issue, which had been booked as a part of the deferred assets until the previous fiscal year, were booked as expenses when incurred, beginning in the term under review.

2. Total Liabilities

Total liabilities at the end of the year stood at ¥195,699 million (US$1,853 million), down ¥11,092 million from a year earlier. Denka managed to reduce interest-bearing liabilities by ¥19,557 million to ¥120,448 million, by keeping capital investments within the scope of its own funds and selling investment securities and properties such as land for corporate housing. The ratio of total debts to total assets stood at 38.1%, an improvement of 6.5 percentage points from the previous year.

3. Minority Interest

Minority interest was up ¥414 million year on year to ¥5,079 million, due to increased profits at equity-method affiliates.

4. Total Shareholders' Equity

Total shareholders' equity at the end of the year grew ¥12,860 million from the preceding year to ¥114,965 million, owing to increases in net income and net unrealized gains on invstment securities. As a result, the shareholder equity ratio rose 3.8 percentage points to 36.4%, while the book value per share rose ¥26.68 to ¥238.13.

Cash Flows

Net cash provided by operating activities was ¥32,212 million (US$305 million), up ¥2,713 million from the previous year, mainly thanks to earnings pickup and declines in interest payment.

A net outflow of ¥8,102 million (US$77 million) represented net cash used in investment activities. Focusing on mission-critical growth businesses to achieve new growth, Denka made proactive capital investments in the second phase to boost the output of SUVENYL and other projects to expand the production of heat-resistant resins as well as "Elegrip Tape," an adhesive tape for fastening semiconductors. In the meantime, the company sold assets, including investment securities to unwind cross-shareholdings. As a result, total free cash flows amounted to ¥24,110 million (US$228 million), a rise of ¥14,453 million from a year earlier.

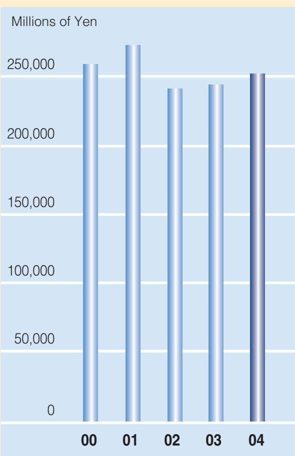
Net cash used in financing activities included the dividend payment of ¥3,016 million and repayment of interest-bearing liabilities of ¥19,382 million (US$183 million), aiming to strengthen our financial position.

As a result, cash and cash equivalents at the end of the year increased ¥1,747 million to ¥6,630 million (US$63 million).

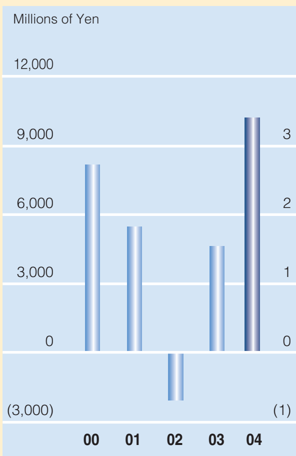
Dividends

We paid a year-end dividend of ¥3 (US$0.028) per share, bringing the annual dividend for the year to ¥6, of which ¥3 was disbursed in December 2003 as an interim dividend.

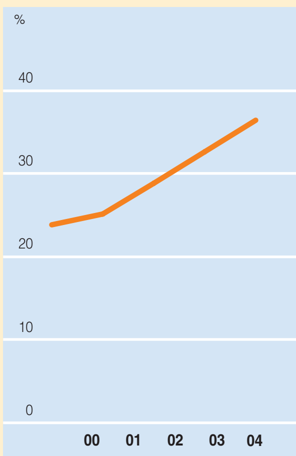
Net Sales



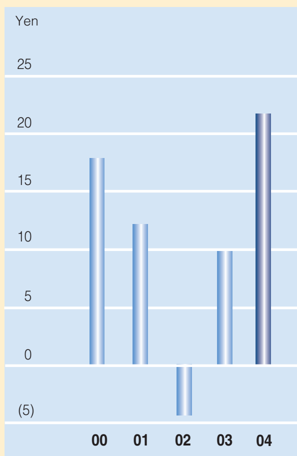
Net Income (Loss)



Shareholder's Equity Ratio



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	**2004**	**2003**	**2004**
Current assets:			
Cash and time deposit	¥ **6,693**	¥ 4,931	$ **63,366**
Notes and accounts receivable, trade (Note 4)	**54,000**	52,938	**511,218**
Marketable securities	**372**	372	**3,520**
Inventories (Note 7)	**31,841**	29,741	**301,443**
Deferred tax asset (Note 10)	**1,413**	3,705	**13,377**
Prepaid expenses and other current assets (Note 4)	**5,223**	6,880	**49,448**
Allowance for doubtful accounts	**(333)**	(420)	**(3,155)**
Total current assets	**99,209**	98,147	**939,217**
Property, plant and equipment (Note 8):			
Buildings and structures	**104,981**	102,616	**993,856**
Machinery and equipment	**271,334**	271,122	**2,568,724**
Land (Note 18)	**66,975**	66,983	**634,054**
Construction in progress	**2,568**	3,782	**24,309**
	445,858	444,503	**4,220,943**
Accumulated depreciation	**(271,321)**	(266,188)	**(2,568,599)**
Total property, plant and equipment	**174,537**	178,315	**1,652,344**
Intangible fixed assets	**382**	474	**3,610**
Investments and other assets:			
Investment securities (Notes 4 and 5)	**35,716**	27,902	**338,123**
Long-term loans receivable (Note 4)	**887**	996	**8,402**
Other	**4,637**	6,629	**43,890**
Deferred tax asset (Note 10)	**994**	1,592	**9,413**
Allowance for doubtful accounts	**(619)**	(573)	**(5,858)**
Total investments and other assets	**41,615**	36,546	**393,970**
Deferred charges:			
Other	**—**	79	**—**
Total deferred charges	**—**	79	**—**
Total assets	¥ **315,743**	¥ 313,561	$ **2,989,141**

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	Millions of Yen 2003	Thousands of U.S. Dollars (Note 1) 2004
Current liabilities:			
Notes and accounts payable, trade (Note 4)	¥ 33,992	¥ 34,635	$ 321,801
Short-term bank loans (Note 8)	49,721	57,908	470,711
Commercial paper	—	6,000	—
Current portion of long-term debt (Note 8)	20,542	13,471	194,470
Accrued taxes on income and other (Note 10)	3,423	1,811	32,406
Accrued bonus	1,922	2,128	18,196
Other current liabilities (Note 4)	22,947	19,794	217,242
Total current liabilities	132,547	135,747	1,254,826
Long-term liabilities:			
Long-term debt (Note 8)	50,186	62,627	475,107
Deferred tax liability (Note 10)	3,229	970	30,566
Deferred tax liability on write-up of land (Note 18)	4,307	2,925	40,774
Accrued retirement benefits			
—for employees (Note 13)	4,674	3,786	44,248
—for directors and statutory auditors	549	484	5,198
Other long-term liabilities	207	252	1,969
Total long-term liabilities	63,152	71,044	597,862
Total liabilities	195,699	206,791	1,852,688
Contingent liabilities (Note 21)			
Minority interest in consolidated subsidiaries	5,079	4,665	48,084
Shareholders' equity:			
Common stock: (Note 14)			
Authorized: 1,584,070,000 shares			
Issued: 483,066,899 shares	35,303	35,303	334,210
Capital surplus	39,857	39,857	377,324
Unrealized gains on revaluation of land (Note 18)	6,461	4,418	61,169
Retained earnings (Notes 9 and 17)	28,640	22,538	271,142
Unrealized gains on investment securities	6,022	1,013	57,008
Foreign currency translation adjustments	(1,138)	(883)	(10,776)
Treasury stock (Note 15)	(180)	(141)	(1,708)
Total shareholders' equity	114,965	102,105	1,088,369
Total liabilities and shareholders' equity	¥ 315,743	¥ 313,561	$ 2,989,141

Consolidated Statements of Income

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

For the Years Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
Net sales (Note 4)	¥ 251,116	¥ 243,825	$ 2,377,318
Cost of sales (Note 4)	181,324	177,200	1,716,593
Gross profit	69,792	66,625	660,725
Selling general and administrative expenses (Notes 11 and 12)	48,340	48,607	457,639
Operating income	21,452	18,018	203,086
Other income			
Interest and dividend income (Note 4)	475	491	4,493
Gain on sale of investment securities	1,846	81	17,478
Gain on sale of land and buildings	394	866	3,733
Equity in gains of unconsolidated subsidiaries and affiliates	563	—	5,327
Other, net (Note 4)	501	1,076	4,745
	3,779	2,514	35,776
Other expenses			
Interest expenses	1,429	1,713	13,524
Loss on disposal of property, plant and equipment	666	1,184	6,309
Amortization of deferred research and development costs	—	332	—
Devaluation of investment securities	423	3,346	4,008
Devaluation of golf memberships	829	160	7,852
Unrecognized transition amount	1,170	1,249	11,076
Equity in deficit of unconsolidated subsidiaries and affiliates	—	262	—
Cost during the suspension of plant operation	286	227	2,712
Costs for logistics improvement and disposal of resin facilities	575	—	5,440
Loss on sale of property and equipment	417	—	3,943
Other, net	1,829	2,010	17,308
	7,624	10,483	72,172
Income before income taxes	17,607	10,049	166,690
Income taxes (Note 10)			
Current	(3,299)	(1,969)	(31,229)
Deferred	(3,226)	(2,640)	(30,548)
	(6,525)	(4,609)	(61,777)
Income before minority interests	11,082	5,440	104,913
Minority interest in losses of consolidated subsidiaries	(528)	(666)	(4,998)
Net income	¥ 10,554	¥ 4,774	$ 99,915

	Yen		U.S. Dollars (Note 1)
	2004	2003	2004
Per share			
Net income-basic	¥ 21.70	¥ 9.99	$ 0.205
Net income-diluted	21.69	—	0.205

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

For the Years Ended March 31	Thousands	Millions of Yen		
	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
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**
Net income	**—**	**—**	**—**	**10,554**
Increase in retained earnings resulting from inclusion of a subsidiary	**—**	**—**	**—**	**229**
Increase due to inclusion in consolidation resulting from merger	**—**	**—**	**—**	**325**
Cash dividends	**—**	**—**	**—**	**(2,895)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(68)**
Reversal of land revaluation gain	**—**	**—**	**—**	**(2,043)**
Balance at March 31, 2004	**483,067**	**¥ 35,303**	**¥ 39,857**	**¥ 28,640**

	Thousands	Thousands of U.S. Dollars (Note 1)		
	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2003	**483,067**	**$ 334,210**	**$ 377,324**	**$213,367**
Net income	**—**	**—**	**—**	**99,915**
Increase in retained earnings resulting from inclusion of a subsidiary	**—**	**—**	**—**	**2,168**
Increase due to inclusion in consolidation resulting from merger	**—**	**—**	**—**	**3,077**
Cash dividends	**—**	**—**	**—**	**(27,407)**
Bonuses to directors and statutory auditors	**—**	**—**	**—**	**(644)**
Reversal of land revaluation gain	**—**	**—**	**—**	**(19,334)**
Balance at March 31, 2004	**483,067**	**$ 334,210**	**$ 377,324**	**$271,142**

Consolidated Statements of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

For the Years Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	**2003**	**2004**
Cash flows from operating activities:			
Income before income taxes	**¥ 17,607**	¥ 10,049	**$ 166,690**
Adjustments —			
Depreciation	**14,447**	14,742	**136,774**
Amortization of deferred charges	**79**	411	**747**
Devaluation of golf membership	**829**	160	**7,852**
Provision for doubtful accounts	**(49)**	(185)	**(467)**
Interest and dividend income	**(475)**	(491)	**(4,493)**
Interest expenses	**1,429**	1,713	**13,524**
Devaluation of investment securities	**423**	3,346	**4,008**
Gain on sale of investment securities	**(1,846)**	(81)	**(17,478)**
Equity in gains of unconsolidated subsidiaries and affiliates	**(563)**	263	**(5,327)**
Loss on sales of property, plant and equipment, net	**736**	33	**6,968**
Other	**13**	309	**108**
Changes in assets and liabilities:			
Receivables	**(901)**	5,541	**(8,530)**
Inventories	**(1,995)**	(825)	**(18,887)**
Notes and accounts payable	**(703)**	2,500	**(6,655)**
Other, net	**3,952**	(2,207)	**37,414**
Sub-total	**32,983**	35,278	**312,248**
Interest and dividend received	**477**	500	**4,521**
Interest paid	**(1,470)**	(1,807)	**(13,920)**
Income taxes refunded (paid)	**222**	(4,472)	**2,102**
Net cash provided by operating activities	**32,212**	29,499	**304,951**
Cash flows from investment activities:			
Purchase of marketable securities	**(372)**	(372)	**(3,520)**
Sales of marketable securities	**372**	372	**3,522**
Purchases of property, plant and equipment	**(13,450)**	(24,333)	**(127,330)**
Sales of property, plant and equipment	**2,515**	3,551	**23,814**
Purchase of investment securities	**(1,203)**	(1,592)	**(11,394)**
Sales of investment securities	**4,092**	1,483	**38,735**
Sales of investment securities of a subsidiary which resulted in exclusion from consolidation	**—**	487	**—**
Other, net	**(56)**	562	**(531)**
Net cash used in investment activities	**(8,102)**	(19,842)	**(76,704)**
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	**(14,013)**	(3,811)	**(132,662)**
Proceeds from long-term debt	**7,030**	14,064	**66,553**
Repayment of long-term debt	**(12,400)**	(18,889)	**(117,388)**
Cash dividends	**(3,016)**	(2,731)	**(28,556)**
Purchase of treasury stock	**(40)**	(129)	**(374)**
Net cash used in financing activities	**(22,439)**	(11,496)	**(212,427)**
Effect of exchange rate changes on cash and cash equivalent	**(15)**	(19)	**(142)**
Net increase (decrease) in cash and cash equivalents	**1,656**	(1,858)	**15,678**
Cash and cash equivalents at the beginning of the year	**4,883**	6,816	**46,223**
Increase(decrease) of cash and cash equivalents resulting from inclusion and exclusion of subsidiaries from consolidation	**91**	(75)	**866**
Cash and cash equivalents at the end of the year (Note 19)	**¥ 6,630**	¥ 4,883	**$ 62,767**

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 subsidiaries (the "Company") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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.

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 29 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, 2004 and 2003, 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.

Thirteen subsidiaries (twelve subsidiaries in 2003) were consolidated on the basis of their fiscal years ended at December 31, 2003 and 2002. The year-end data of one subsidiary was November 30, 2003 and 2002. Therefore, the subsidiary tentatively closed its account at January 31, 2004 and 2003 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. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company has not applied this accounting method as of the fiscal year ended March 31, 2004.

(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 ($116,491 thousand) and the unrecognized prior service cost 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) Changes in accounting principle —

Bond issue costs

Prior to April 1, 2003, bond issue costs were amortized on the straight-line method over the period of 3 years as permitted under the Commercial Code of Japan. Effective from April 1, 2003, costs pertaining to the issuance of bonds are charged to expense as incurred. This change in the amortization of bond issuance costs was made to rationalize administration of amortization calculation, and to improve the financial position of the company.

Due to this change in the amortization method, bond issuance cost of ¥78 million remaining at the end of the prior year was fully charged to expense, and as a result, "Other expense" increased by ¥29 million ($274 thousand) and "income before income taxes" decreased by the same amount.

(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 bases 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 fluctuation 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.

(12) Re-classification —

Certain reclassifications of the financial statements for the year ended March 31, 2003 have been made to conform to the presentation for the year ended March 31, 2004.

3. U.S.dollar amounts

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 ¥105.63 = US$1, the approximate rate of exchange as at March 31, 2004 has been used for the purpose of such translations.

4. 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
	2004	2003	2004
Notes and accounts receivable, trade	¥ 7,546	¥ 8,638	$ 71,439
Short-term loans receivable	—	425	—
Other current assets	265	338	2,509
Investment securities	10,996	9,819	104,099
Long-term loans receivable	—	331	—
Notes and accounts payable, trade	2,047	2,502	19,386
Other current liabilities	195	433	1,853

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
	2004	2003	2004
Net sales	¥ 20,950	¥ 19,710	$198,334
Cost of sales	7,397	6,037	70,027
Other income—Interest and dividend income	16	15	154
Other income—other	911	979	8,620

5. 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
	2004	2003	2004
Investment securities			
Market value	¥ 18,185	¥ 12,145	$172,157
Carrying amount	8,401	10,279	79,532
Unrealized gain	¥ 9,784	¥ 1,866	$ 92,625

6. 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.

7. Inventories:

Inventories at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Finished products	**¥ 16,915**	¥ 15,997	**$ 160,134**
Semi-finished products	**6,583**	6,030	**62,324**
Work in process	**1,417**	1,815	**13,415**
Raw materials	**5,017**	3,900	**47,497**
Supplies	**1,909**	1,999	**18,073**
	¥ 31,841	¥ 29,741	**$ 301,443**

8. 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
	2004	2003	2004
Bank overdrafts with interest ranging from 0.67% to 6.50% per annum	**¥ 690**	¥ 940	**$ 6,532**
Short-term bank loans with interest ranging from 0.46% to 3.10% per annum represented by short-term notes maturing at various dates within one year	**49,031**	56,968	**464,179**
	¥ 49,721	¥ 57,908	**$ 470,711**

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans, principally from banks and insurance companies, maturing serially to 2010 with interest ranging from 0.50% to 4.90% per annum:			
Secured	**¥ 45**	¥ 36	**$ 427**
Unsecured	**32,693**	33,072	**309,499**
2.40% bonds due 2003	**—**	5,000	**—**
1.59% bonds due 2004	**10,000**	10,000	**94,670**
1.12% bonds due 2006	**5,000**	5,000	**47,335**
1.83% bonds due 2007	**10,000**	10,000	**94,670**
1.30% bonds due 2008	**10,000**	10,000	**94,670**
0% bonds with warrant attached due 2004	**2,990**	2,990	**28,306**
	70,728	76,098	**669,577**
Less-current portion of long-term debt	**20,542**	13,471	**194,470**
	¥ 50,186	¥ 62,627	**$ 475,107**

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
	2004	2003	2004
Property, plant and equipment — at book value	**¥ 88,656**	¥ 87,377	**$ 839,307**

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31:		
2005	¥ 20,541	$ 194,462
2006	12,100	114,550
2007	9,066	85,827
2008	15,546	147,173
2009	13,259	125,522
2010 and thereafter	216	2,043
	¥ 70,728	$ 669,577

9. 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, 2004, which was approved on June 29, 2004, 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	$ 13,699

10. Income taxes:

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets			
Net operating loss carry forward	**¥ 55**	¥ 2,677	**$ 526**
Allowance for doubtful accounts	**256**	281	**2,431**
Enterprise income taxes	**279**	104	**2,648**
Accrued severance cost for directors and statutory auditors	**220**	194	**2,086**
Accrued severance and pension costs for employees	**1,610**	1,065	**15,248**
Accrued bonus	**761**	729	**7,201**
Inter-company profit on inventories and fixed assets	**430**	832	**4,062**
Devaluation of investment securities	**390**	520	**3,690**
Devaluation of golf memberships	**986**	668	**9,326**
Other	**563**	445	**5,328**
Gross deferred tax assets	**5,550**	7,515	**52,546**
Deferred tax liabilities:			
Unrealized gains on investment securities	**3,905**	750	**36,977**
Retained earnings appropriated for special reserve (Note 12)	**2,362**	2,375	**22,361**
Other	**119**	65	**1,126**
Gross deferred tax liabilities	**6,386**	3,190	**60,464**
Net deferred tax assets	**¥ (836)**	¥ 4,325	**$ 7,918**

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

	Year ended March 31, 2004	Year ended March 31, 2003
Statutory tax rate	41.0%	41.0%
Increase (reduction) in taxes resulting from:		
Non deductible expenses	—	3.0%
Income tax credit	(2.3)%	—
Other	(1.6)%	1.9%
Effective income tax rate	37.1%	45.9%

11. 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
	2004	2003	2004
Selling expenses			
Carriage and shipping	¥ 16,565	¥ 15,368	$ 156,829
Sales commission	4,558	5,115	43,153
Other	2,103	2,828	19,900
	23,226	23,311	219,882
General and administrative expenses:			
Salaries and remuneration	11,246	11,270	106,471
Employees' welfare	369	295	3,494
Research and development	4,955	5,194	46,912
Other	8,544	8,537	80,880
	25,114	25,296	237,757
	¥ 48,340	¥ 48,607	$ 457,639

12. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the year ended March 31, 2004 and 2003, approximated ¥8,478 million ($80,261 thousands) and ¥8,691 million, respectively.

13. 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, 2004 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligations	¥ 27,208	¥ 27,574	$257,578
Plan assets	13,045	11,672	123,497
Net unreserved projected benefit obligations	14,163	15,902	134,081
Unrecognized transition obligations	6,674	8,403	63,184
Unrecognized prior service cost	(45)	—	(426)
Unrecognized actuarial losses	2,860	3,713	27,075
Accrued retirement benefit	¥ 4,674	¥ 3,786	$ 44,248

(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, 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 1,169	¥ 1,244	$ 11,067
Interest cost	456	541	4,317
Expected return on plan assets	(199)	(258)	(1,884)
Amortization of transition obligations	1,171	1,250	11,086
Amortization of prior service cost	(0)	—	(0)
Amortization of actuarial losses	532	411	5,036
Net pension and severance cost	¥ 3,129	¥ 3,188	$ 29,622

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

	Year ended March 31, 2004
Method of attributing the projected benefits to periods of services	straight-line basis
Discount rate	1.2 %
Expected rate of return on plan assets	1.2 %
Amortization or prior service cost	10 years
Amortization of unrecognized actuarial gains and losses	10 years
Amortization of transition obligations	10 years

14. Number of outstanding shares:

The number of shares of common stock outstanding at March 31, 2004 were 483,066,899 shares.

15. Number of treasury stock held by the company at March 31, 2004:

There were 644,394 shares of treasury stock at March 31, 2004.

16. Commitment line contracts:

For efficient procurement of working capital, the Company have entered into commitment line contracts with six financial institutions, which provided the Companies with the commitment facilities in the aggregate amount of ¥25,000 million ($236,675 thousand) as of March 31, 2004 and ¥10,000 million as of march 31, 2003. The unused facilities maintained by the Company as of March 31, 2004 and 2003, amounted to ¥14,000 million ($132,538 thousand), and ¥10,000 million, respectively.

17. 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, 2004 and 2003 were ¥3,656 million ($34,607 thousand), and ¥3,633 million, respectively.

18. Land Revaluation:

Under the Law of Land Revaluation 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.

19. Cash and cash equivalents:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash and cash equivalents as of March 31 consist of:			
Cash and bank deposits	¥ 6,693	¥ 4,931	$ 63,366
Long term deposits over three months	(63)	(48)	(599)
	¥ 6,630	¥ 4,883	$ 62,767

20. 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, 2004 and 2003 comprise the following:

At March 31, 2004 — Millions of Yen

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and structures	¥ 1,519	¥ 404	¥ 1,115
Machinery and equipment	9,200	4,329	4,871
Vehicles and delivery equipment	304	160	144
Tools, furniture and fixtures	1,259	672	587
Intangible assets	56	21	35
	¥ 12,338	¥ 5,586	¥ 6,752

At 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

At March 31, 2004 — Thousands of U.S. Dollars

	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and structures	$ 14,380	$ 3,824	$ 10,556
Machinery and equipment	87,096	40,982	46,114
Vehicles and delivery equipment	2,878	1,515	1,363
Tools, furniture and fixtures	11,919	6,362	5,557
Intangible assets	531	200	331
	$116,804	$ 52,883	$ 63,921

Depreciation expenses of those leased assets for the year ended March 31, 2004 and 2003 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
	2004	2003	2004
Future lease payments			
Within one year	¥ 1,935	¥ 1,631	$ 18,319
Over one year	4,817	4,372	45,602
	¥ 6,752	¥ 6,003	$ 63,921

(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
	2004	2003	2004
Lease rental expenses	¥ 1,839	¥ 1,352	$ 17,410
Depreciation cost corresponding amounts	1,839	1,352	17,410

21. Contingent liabilities:

Contingent liabilities at March 31, 2004 and 2003 for notes receivable discounted and endorsed and loans guaranteed were approximately ¥1,704 million ($16,132 thousand) and ¥1,440 million, respectively.

22. Business Segment Information:

The Companies are primarily engaged in the manufacture and sale of products in the five major segments of Resin and Chemical Products Division, Organic and Inorganic Chemicals Division, Functional and Processed Products Division and Cement and Construction Materials Division and Other Products Division.

Information by business segment for the years ended March 31, 2004 and 2003 is summarized as follows:

Year ended March 31, 2004 — Millions of Yen

	Resin and Chemical Products Division	Organic and Inorganic Chemicals Division	Functional and Processed Products Division	Cement and Construction Materials Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 78,913	¥ 36,043	¥ 78,102	¥ 31,447	¥ 26,611	¥ 251,116	¥ —	¥ 251,116
Inter-segment	4,688	2,419	3,906	2,205	4,206	17,424	(17,424)	—
Total	83,601	38,462	82,008	33,652	30,817	268,540	(17,424)	251,116
Operating costs and expenses	79,839	33,998	71,673	31,191	30,455	247,156	(17,492)	229,664
Operating income	¥ 3,762	¥ 4,464	¥ 10,335	¥ 2,461	¥ 362	¥ 21,384	¥ 68	¥ 21,452
Assets	¥ 60,603	¥ 42,077	¥ 84,009	¥ 41,288	¥ 10,853	¥ 238,830	¥ 76,913	¥ 315,743
Depreciation cost	4,445	2,475	4,910	2,581	52	14,463	(16)	14,447
Capital expenditure	2,486	2,482	6,561	1,793	40	13,362	(27)	13,335

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	¥ 72,271	¥ 313,561
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

(Change in classification of business)

Prior to April 1, 2004, the Company classified its businesses into five divisions; Petrochemical Products Division, Specialized Chemical Products Division, Cement and Construction Materials Division, Pharmaceutical Division and Other Products Division.

From April 1, 2004, Specialized Chemical Products Division and the Pharmaceutical Division has been reclassified into the "Organic and Inorganic Chemicals Division" and "Functional and Processed Products Division" in order to define and to focus on the actual business.

In addition, the Petrochemical Products Division has been renamed into "Resin and Chemical Products Division" so as to clarify the content of its business.

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

Year ended March 31, 2003 — Millions of Yen

	Resin and Chemical Products Division	Organic and Inorganic Chemicals Division	Functional and Processed Products Division	Cement and Construction Materials Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 72,338	¥ 34,757	¥ 77,950	¥ 31,576	¥ 27,204	¥ 243,825	¥ —	¥ 243,825
Inter-segment	4,704	2,528	2,661	2,418	3,945	16,256	(16,256)	—
Total	77,042	37,285	80,611	33,994	31,149	260,081	(16,256)	243,825
Operating costs and expenses	75,120	32,482	71,330	32,406	30,855	242,193	(16,386)	225,807
Operating income	¥ 1,922	¥ 4,803	¥ 9,281	¥ 1,588	¥ 294	¥ 17,888	¥ 130	¥ 18,018
Assets	¥ 62,435	¥ 43,917	¥ 79,198	¥ 41,706	¥ 14,034	¥ 241,290	¥ 72,271	¥ 313,561
Depreciation cost	4,841	2,430	4,614	2,820	51	14,756	(15)	14,741
Capital expenditure	3,150	2,116	10,356	2,648	78	18,348	5,593	23,941

Year ended March 31, 2004 — Thousands of U.S. Dollars

	Resin and Chemical Products Division	Organic and Inorganic Chemicals Division	Functional and Processed Products Division	Cement and Construction Materials Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	**$ 747,070**	**$ 341,219**	**$ 739,392**	**$ 297,709**	**$ 251,928**	**$ 2,377,318**	**$ —**	**$ 2,377,318**
Inter-segment	**44,381**	**22,901**	**36,978**	**20,875**	**39,817**	**164,952**	**(164,952)**	**—**
Total	**791,451**	**364,120**	**776,370**	**318,584**	**291,745**	**2,542,270**	**(164,952)**	**2,377,318**
Operating costs and expenses	**755,836**	**321,859**	**678,528**	**295,286**	**288,319**	**2,339,828**	**(165,596)**	**2,174,232**
Operating income	**$ 35,615**	**$ 42,261**	**$ 97,842**	**$ 23,298**	**$ 3,426**	**$ 202,442**	**$ 644**	**$ 203,086**
Assets	**$ 573,729**	**$ 398,343**	**$ 795,314**	**$ 390,874**	**$ 102,745**	**$ 2,261,005**	**$ 728,136**	**$ 2,989,141**
Depreciation cost	**42,081**	**23,431**	**46,483**	**24,434**	**492**	**136,921**	**(151)**	**136,770**
Capital expenditure	**23,535**	**23,497**	**62,113**	**16,974**	**379**	**126,498**	**(255)**	**126,243**

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

23. Overseas Sales Information:

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2004			2003			2004		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	¥ 38,115	¥ 11,687	¥ 49,802	¥ 31,249	¥ 11,650	¥ 42,899	$ 360,835	$ 110,641	$ 471,476
Consolidated sales	—	—	¥ 251,116	—	—	¥ 243,825	—	—	$ 2,377,318
Percentage of overseas sales over consolidated sales	15.2%	4.6%	19.8%	12.8%	4.8%	17.6 %	15.2%	4.6%	19.8%

24. 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, 2004 and 2003 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: For the Year Ended March 31, 2004	Transactions: For the Year Ended March 31, 2003	Resulting Accounting Balance: Account	Resulting Accounting Balance: March 31, 2004	Resulting Accounting Balance: March 31, 2003
TOYO STYRENE CO., LTD.	¥ 5,000	Produce and Sale of Polystyrene	50%	Sales	¥ 11,008	¥ 10,416	Accounts receivable, trade	¥ 4,028	¥ 4,084
HISISAN TRADING CO., LTD.	¥ 1,200	Domestic sales and Import/Exports of pulp, paper, organic and inorganic products and industrial resins	37.7%	Sales	¥ 8,898	—	Accounts receivable, trade	¥ 3,163	—
							Notes receivable, trade	¥ 9	—

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: For the Year Ended March 31, 2004	Resulting Accounting Balance: Account	Resulting Accounting Balance: March 31, 2004
TOYO STYRENE CO., LTD.	$ 47,335	Produce and Sale of Polystyrene	50%	Sales	$ 104,213	Accounts receivable, trade	$ 38,133
HISISAN TRADING CO., LTD.	$ 1,200	Domestic sales and Import/Exports of pulp, paper, organic and inorganic products and industrial resins	37.7%	Sales	$ 84,237	Accounts receivable, trade	$ 29,944
						Notes receivable, trade	$ 85

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

25. Subsequent events:

Effective June 29, 2004, the Company has established "Electronics Materials Division" in order to enhance businesses relating to electric and electronics, magnesium, semiconductors, and optical product businesses. In addition the Company is undergoing a reorganization of the business divisions and the Research and Development frameworks.

As a result, the five divisions previously categorized by the Company as "Resin and Chemical Products Division," "Organic and Inorganic Chemicals Division," Functional and Processed Products Division," "Cement and Construction Materials Division," and "Other Products Division" was reclassified into the following five divisions "Organic related materials division," "Inorganic related materials division," "Electronic materials division," "Functional and Processed Products division," and "Other products division."

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Report of Independent Auditors

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, 2004 and 2003, 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles 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 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2004

Corporate Data
(As of March 31, 2004)

Established
May 1, 1915

Paid-in Capital
¥35,326 million (US$294 million)

Employees
3,246

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, Sendai, Nagano, Takasaki, Shizuoka, Hiroshima, Takamatsu, Kagoshima, Akita, Hachinohe, Omi, Ageo
Production Facilities —
Omi (Niigata), Omuta (Fukuoka), Chiba, Shibukawa (Gunma), Ofuna (Kanagawa)

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: info@denkany.com

Denka Chemicals GmbH
Königsallee 60, D-40212 Düsseldorf,
F.R. Germany
Telephone: 49 (211) 130990
Facsimile: 49 (211) 329942
E-mail: info@denkagermany.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

Denka Chemicals Shanghai Co., Ltd.
Room 3308, New Hongqiao Center Bldg
No:83 Loushanguan Rd, Chang Ning
Area, Shanghai China 200336
Telephone: 86-21-6236-9090
Facsimile: 86-21-6236-8770
E-mail: ttsushima@denka.com.cn

Board of Directors and Corporate Auditors
(As of June 29, 2004)

President
Toshio Hiruma*

Vice President
Takeshi Furuya*

Senior Managing Directors
Michio Otake
Higashi Ito
Seiki Kawabata
Yoshiaki Mikami

Managing Directors
Shunichi Hayashi
Kenichi Tsuchigame
Keisuke Takagi
Kei Hayashi

Adviser
Tsuneo Yano

Directors
Akira Kobayashi
Koji Minai
Suguru Toratani
Shigetoshi Toyooka
Tetsuro Maeda

Standing Corporate Auditors
Takakazu Koyama
Yukinori Totake
Hideo Kitahara

Corporate Auditor
Kenji Fujinuma

*Representative Director

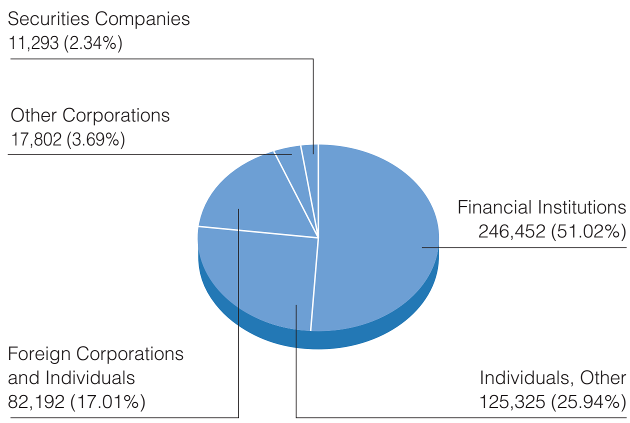
Shareholder Information
(As of June 29, 2004)

Total Number of Authorized Shares	1,584,070,000
Shares of Common Stock Issued	483,066,899
Shareholders	58,381

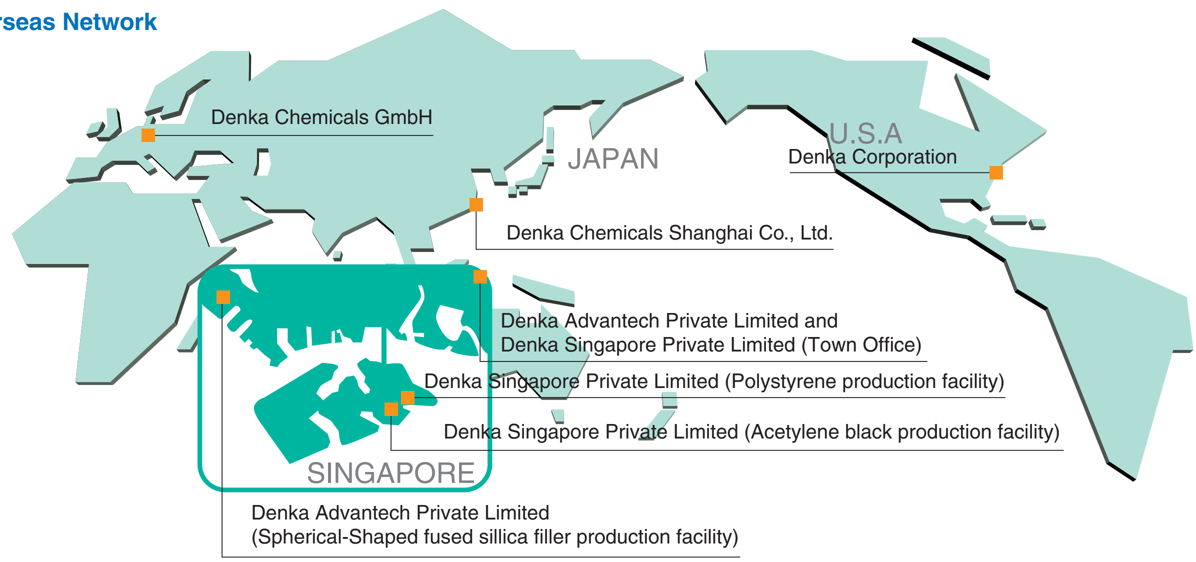
Major Shareholders

	Number of shares held (thousands)	Ratio of total shares outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	**91,506**	**19.18**
The Master Trust Bank of Japan, Ltd. (Trust Account)	**24,353**	**5.10**
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**
Mitsui Mutual Life Insurance, Co.	**11,908**	**2.49**
The Sumitomo Trust & Banking Co., Ltd.	**10,769**	**2.25**
The Norinchukin Bank	**8,517**	**1.78**
Japan Trustee Services Bank, Ltd. (The Chuo Mitsui Trust and Banking Company, Limited Retirement Benefit Trust Account)	**7,921**	**1.66**
Nikko Citi Trust and Banking Corporation (Investment Trust Account)	**6,544**	**1.37**
Mitsui Sumitomo Insurance Co., Ltd.	**6,295**	**1.31**
National Mutual Insurance Federation of Agricultural Cooperatives	**6,173**	**1.29**

Breakdown of Shareholders (thousands)



Overseas Network



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