

90 YEARS SINCE 1915

DENKA
DENKI KAGAKU KOGYO KABUSHIKI KAISHA

Annual Report 2005

For the fiscal year ended March 31, 2005

Financial Highlights

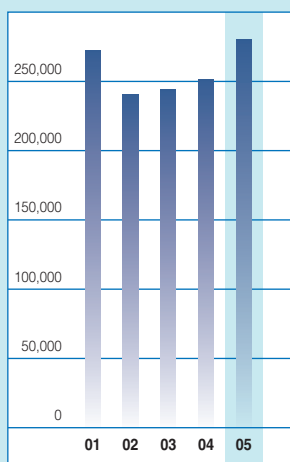
Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31, 2005 and 2004	2005	2004	2005
Net Sales	¥ 280,033	¥ 251,116	\$ 2,607,145
Operating Income	25,586	21,452	238,205
Income before Income Taxes	21,676	17,607	201,802
Net Income	13,587	10,554	126,497
Total Assets	328,249	315,743	3,056,034
Total Shareholders' Equity	130,715	114,965	1,216,975
Net Income per Share (in Yen and U.S. Dollars)	27.70	21.70	0.258
Shareholders' Equity per Share (in Yen and U.S. Dollars)	265.71	238.13	2.474

Note: Yen amounts are translated into U.S. dollars at a rate of ¥107.41=U.S.\$1.

Net Sales

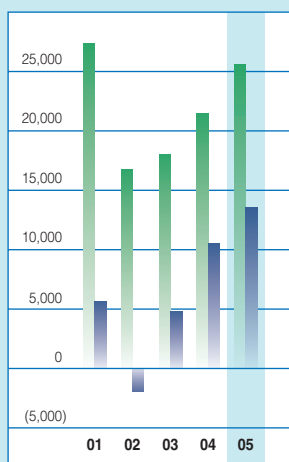
Millions of Yen



Operating Income and Net Income (Loss)

Millions of Yen

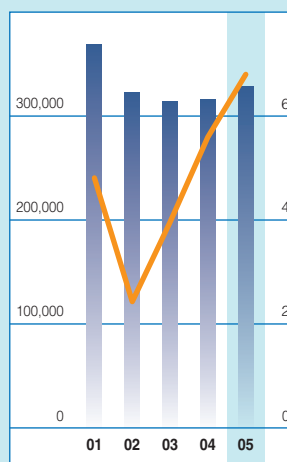
Operating Income
Net Income (Loss)



Total Assets and Return on Assets

Millions of Yen

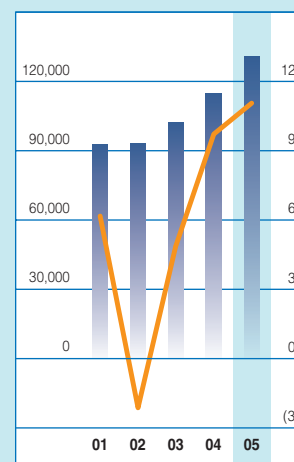
Total Assets
Return on Assets (%)



Total Shareholders' Equity and Return on Equity

Millions of Yen

Total Shareholders' Equity
Return on Equity (%)



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Disclaimer

Regarding Forward-Looking Statements

This annual report contains forward-looking statements related to management's expectation about future business conditions. Actual business conditions may differ significantly from management's expectations and accordingly affect the Company's sales and profitability. Actual results may differ as a result of factors over which the Company has no control, including unexpected changes in competitive and economic conditions, government regulations, technology and other factors.

Segment Information

Sales by Product Category As of March 31, 2005

Organic Related Materials Division

Raw materials for synthetic resin, synthetic resin, acetic chemical products, synthetic rubber etc.

Net sales amounted to 118,508 million yen, an increase of 20,698 million yen, or 21.2%, from a year earlier, with operating income at 8,647 million yen, an increase of 3,362 million, or 63.6%.

42.3%

¥118,508 million



Ejection-molded product using DENKA MW, super high-polymer polystyrene

Acetylene black, used for high-tension cable sheathing



Inorganic Related Materials Division

Fertilizer and inorganic chemical products, cement, special cement additives

Net sales increased by 123 million yen, or 0.3%, from a year earlier, to 46,681 million yen, with operating income of 4,125 million yen, a decline of 523 million yen, or 11.3%.

16.7%

¥46,681 million



Cement plant, serving also as a waste recycling plant

DENKA TASCON, non-shrink grouting material, used in bridge construction work



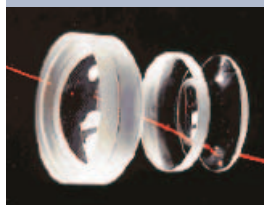
Electronic Materials Division

Electronic components, electronic packaging materials, functional ceramics

Net sales increased by 2,764 million yen, or 10.2%, from a year earlier to 29,770 million yen, with an operating income of 5,304 million yen, an increase of 243 million yen, or 4.8%, from a year earlier.

¥29,770 million

10.6%



"HARD LOCK OP," used for gluing optical lenses

Electronic component packing supplies (carrier tape and covering tape)



Functional and Processed Products Division

Food packaging materials, housing materials, industrial materials, medical and pharmaceutical products

Net sales amounted to 56,412 million yen, an increase of 3,276 million yen, or 6.2%, over the previous year, with an operating income of 6,905 million yen, an increase of 875 million yen, or 14.5%.

¥56,412 million

20.1%



"Toyo Gutters," pioneer in plastic rain drainage pipes

"SUVENYL," joint function enhancer



Other Products Division

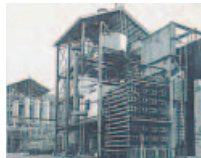
Net sales stood at 28,662 million yen, an increase of 2,053 million yen, or 7.7%, and operating income at 563 million yen, an increase of 202 million, or 56.3%, from a year earlier.

In Commemoration of Our 90th Anniversary — DENKA's Product Development History

DENKA, whose full name is Denki Kagaku Kogyo Kabushiki Kaisha, is celebrating its 90th anniversary in 2005. Since its founding in 1915, the Company has continued to evolve as a leading manufacturer of carbide chemicals, from which its business expanded by advances into petrochemical products since 1962, and further advances into electronic materials and related products in recent years. Throughout its 90 year history, DENKA has consistently been focusing on manufacturing, with which it always endeavors to contribute to society. This spirit will always accompany DENKA every step into the future.

■ Founding

DENKA was established in 1915 to produce calcium cyanamide, a fertilizer product, from carbide, which used to serve mainly as acetylene lamp fuel. The original entity was Hokkai Carbide Plant, founded by Tsuneichi Fujiyama, an ambitious scientist, with equity participation of the Mitsui group.



Hokkai Carbide Plant (Tomakomai)

1945 –

● Utilizing acetylene gas: advance into synthetic organic products

Polymerization technology

Utilization of acetylene gas

Utilization of surplus limestone

Sintering and electric furnace technology in carbide production

Nitriding technology in calcium cyanamide manufacturing

● Commercializing calcium cyanamide: the genesis of DENKA's product development

The year after its founding, DENKA proceeded to open the Omuta Plant in Fukuoka Prefecture, and then Omi Plant in Niigata Prefecture, supported by ample limestone resources and its own hydroelectric power generation facility, it proceeded to commercialize calcium cyanamide as fertilizer.

Availability of own resources and manufacturing technology for carbide and calcium cyanamide provided the foundation for all subsequent product development.



Limestone mining



Hydroelectric power generation



Molten carbide in the electric furnace

1953 –

● Utilizing byproducts and sintering technology: advancing into the cement business

Sintering and pulverizing technologies



1966 –

● Advance into resin processing



1962 –

Downstream product development using proprietary materials



● Advance into petrochemical products

● Successful production of chloroprene rubber in Japan



1962 –

1968 –

● Development of special cement additives



1971 –

● Advance into fine ceramics

Development of components made from highly functional materials



Milestone

Tsuneichi Fujiyama: Founder of carbide industry in Japan
Fujiyama was the first ever in Japan to successfully manufacture carbide. In 1901, a mere decade after the world's first prototype production of carbide by a Canadian scientist, Fujiyama succeeded at this endeavor in Sankyoza, a suburb in Sendai City. Fujiyama was also first in Japan to adopt the technology for manufacturing calcium cyanamide from carbide. Furthermore, he proceeded to develop a series of new technologies. His achievements had great influence on the subsequent development of the chemical industry in Japan.

→ Evolution through materials and products
→ Evolution through technologies

1915 1920 1940 1950 1960 1970

Advanced use of molding and processing technologies



2003 –

● Absorbed Toyo Kagaku Co., Ltd.



Current product range

Processed resin products



Food packaging materials, rain drainpipes, corrugated pipes, adhesive tapes, fiber for wigs

1987 –

● Full involvement in functional resins



Styrene resins



Styrene monomer, polystyrene, clear polymer Clearen, thermally-resistant resins

1980 –

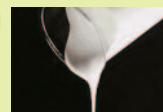
● Production start of acetylene black in Singapore



Market data

Both chloroprene rubber and acetylene black are products with a long sales track record. Even today 70% of DENKA's chloroprene production volume is for export (approx. 25% share globally), and its global market share for acetylene black exceeds 50%, proving it a huge global seller.

Chemical and organic chemical products



Acetic chemical products, chloroprene rubber, acetylene black

2003 –

● Established Denka Azumin Co., Ltd.



Later developments in carbide business

Even to this day when the petrochemical industry has come to its own in the mainstream, the carbide business continues to be the DENKA core business, where the Company maintains its competitiveness through availability of its ample own limestone resources and power generation capability.

Fertilizer and inorganic chemical products



Nitrolime, "Yorin" (fused magnesium phosphate), "Azumin" (magnesium humate), etc., refractory, materials for steel applications

2000 –

● Established cement recycling system



Cement



Various types of cement

2001 –

● Established a specialized repair company



Special cement additives



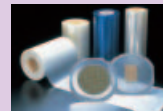
Expansion, high strength, non-shrink, and quick-hardening materials, repair and reinforcement business

1985 –

● Compound application of inorganic and organic materials: electronic materials business



Electronic materials



Electronic circuit boards, bonding agents, functional ceramics, transfer/transport materials for electronic components, adhesive tapes for semiconductor applications

1979 –

● Acquired Denka Seiken Co., Ltd., entering pharmaceutical business



2000 –

● Development of sodium hyaluronate



Medical and pharmaceutical products



Joint function enhancer, skin care products, vaccines, reagents

1980

1990

2000

Celebrating Denka's 90th anniversary

In 2005 we celebrate the 90th anniversary of Denka's foundation. We would like to share our joy at playing an important role for so long as a pioneer in the Japanese chemical industry and establishing today's sound management status with all our stakeholders including shareholders, customers and the local community.

The history of our company started when Tsuneichi Fujiyama, a young scientist, succeeded in manufacturing calcium carbide for the first time in Japan in 1901. He founded the Hokkai Carbide Plant which produced calcium cyanamide from carbide, and based on this plant our company was founded in Nihonbashi, Tokyo in 1915.

In the 90 years since then, the path our company has followed has been far from uneventful. We have experienced numerous management difficulties, such as the devastating damage caused by World War II and rationalization in the 1970s. In recent years we were plunged into a grave crisis as a result of the collapse of the bubble economy, but we succeeded in reconstructing our corporate management by restructuring our businesses, and this is something that fills us with deep emotion.

In August 2005 we relocated our head office to Nihonbashi Mitsui Tower. So Denka is about to start a new challenge at the site of its foundation.



**The Denka Group is
pursuing new possibilities
in the chemical industry,
driven by a frontier spirit
that has been fostered
over the 90 years
of its history.**

Toshio Hiruma, President

History of Denka's innovation

In the 90 years since our foundation, we have expanded our business while repeatedly driving technological innovation. Our starting point is the production of carbide, which still comprises our basic business.

In 1945, we entered into organic chemistry field to make effective use of the acetylene gas generated from carbide. In this field, we succeeded in the production of chloroprene rubber for the first time in Japan in 1962. In addition we expanded our acetylene black business in Singapore in 1980, and we are now the world's largest producer.

We also started our cement business utilizing surplus limestone in 1953, and in 1968 we developed a special cement additives business, which established us as a leading company. In 1971 we applied our carbide chemistry technology to the development of fine ceramic products and established the foundations of

today's electronic materials business.

We branched out into the petrochemical field in 1962 using polymerization technology that was developed in the acetylene-based organic chemical products field. Currently we are placing emphasis on higher value-added special resins and the plastic processing field, which includes food-packaging materials. Our company also made inroads into the pharmaceutical business in 1979, and succeeded in the development of macromolecular sodium hyaluronate using a fermentation method, our unique technology, in 2000.

Thus, we have established a solid position in the Japanese chemical industry as a distinctive chemicals manufacturer involved in a wide variety of businesses, ranging from our traditional carbide business, which dates back to our foundation, to leading-edge fields such as electronic materials and pharmaceuticals.



Tsuneichi Fujiyama,
pioneer of the carbide industry in Japan



Nihonbashi Mitsui Tower,
home of the new head office
(viewed from Bank of Japan)

Business environment for the fiscal year under review and major aspects addressed

The Japanese economy remained uncertain in the fiscal year under review, leaving concerns about the future business outlook, as evidenced by concerns about the high price of crude oil despite the growth of corporate capital investment and an upturn in consumer spending.

The market trend in the chemical industry was generally favorable. Exports to the U.S. and China increased, and in addition, electronic materials showed remarkable growth up to the middle of the year. In the latter half of the year, however, inventory adjustments for electronic devices began and the pace of their demand growth slowed down.

In such an economic situation, the Company implemented various measures to maintain its growth. In the organic related materials business, we made efforts to correct our product prices in line with a rise in raw material prices, while we put our energies into improving the production process for styrene monomer and opening up markets for functional resins. In the inorganic related materials business, we sought to expand sales of "Toretaro," a high silicate fertilizer, and improved the profitability of special cement additives. In the electronic materials business, we set up an Electronic Materials Research Center in our Shibukawa Plant in June 2004. We plan to build a new plant and

integrate the development and production function of electronic materials, which are currently distributed among various other plants, into this new plant in order to establish a system that can quickly respond to market needs. In the functional and processed products

business, we increased our production capacity for biaxially-stretched polystyrene sheet and at the same time sought to expand sales of SUVENYL, a macromolecular hyaluronic acid preparation.

Business performance for the fiscal year under review and its evaluation

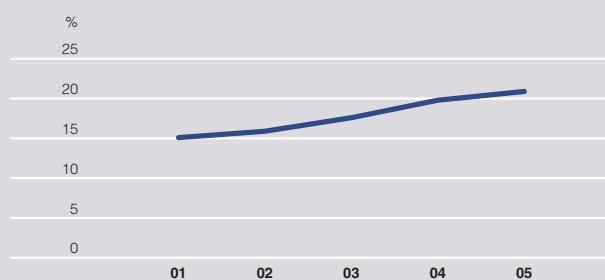
As a result, in the fiscal year under review the Group posted consolidated net sales of ¥280,033 million, an increase of ¥28,917 million, or up 11.5%, from the previous year. On the other hand, in response to a sharp rise in raw material prices, we promoted the correction of product prices and at the same time we tried to secure sales centering on high value-added products, such as materials for use in electronic devices. Hence, the consolidated operating income increased by ¥4,134 million, or 19.3%, from a year earlier to ¥25,586 million. Consolidated net income soared to a record high of ¥13,587 million, a rise of ¥3,032 million, or up 28.7% year on year.

As for the Company's dividend, we declared a year-end dividend of ¥4 per share including a 90th anniversary commemorative dividend of ¥1 per share, resulting in an annual payout of ¥7 per share (including the interim dividend paid in 2004).

Although the Company recorded a third consecutive year of increase in net sales and earnings in the fiscal year under review, raw material prices continue to soar and the future business environment remains uncertain. We believe further management efforts are needed for us to continue to increase our net sales and earnings in the future.



Overseas sales to net sales



Global operations

Overseas sales for the fiscal year ended March 2005 were ¥58,449 million, accounting for 20.9% of consolidated net sales, which was an increase for the sixth consecutive year. Optimizing our businesses on a global scale has become an essential element for our future growth.

Our company has overseas bases in the U.S., Germany, China and Singapore, and the core of our international strategy lies in Singapore where Denka Singapore Private Limited (DSPL) and Denka

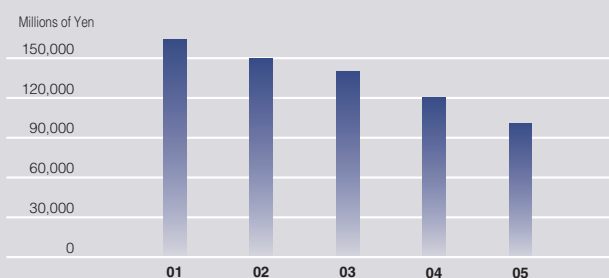
Advantech Private Limited (DAPL) that produces and markets fused silica filler, are located.

DSPL produces and markets ultrahigh molecular weight polystyrene (MW) and acetylene black. Above all, the styrene business is a growth business for which net sales of ¥150,000 million are expected for the fiscal year ending March 2009 in our entire Group. We are rapidly proceeding with the construction of a new plant that is scheduled to go into operation in 2006, in order to establish a global supply system that has two bases

—Chiba and Singapore. With the construction of this plant we will increase our production capacity for MW in Singapore from the current level of slightly under 100,000 tons per year to 150,000 tons per year, and at

the same time we will commence the production of MS resins and CLEAREN, also in Singapore. The combined capital investment for both the Chiba and the Singapore plants is estimated to be around ¥10,000 million.

Interest-bearing debt



Management strategy for further growth

The Denka Group promoted a business reform campaign, Reform 22, for two years from April 2002 to March 2004 to promote the building of a corporate structure, aiming to secure stable profits and maintain sustainable growth.

Based on the results achieved through this Reform 22 campaign, we started DENKA New Stage 2006 (NS06) in April 2004. This is a three-year plan scheduled to end on March 31, 2007, with which we will further strengthen our business base and financial standings, as well as invest more than ever in the priority areas of growth, including electronic materials, functional resins and plastic processing, to ensure higher profitability and stability. In this plan, we have set numerical targets of at least 10% in operating margin, a shareholders' equity ratio of at least 50% and a ceiling for interest-bearing debt of ¥65,000 million.

Although the fiscal year ended March 2005 was the first year of this NS06 campaign, we have achieved high levels of performance as shown by an operating margin of 9.1% (up 0.6 percentage points from a year earlier) and a shareholders' equity ratio of 39.8% (an improvement of 3.4 percentage points from the preceding year). Interest-bearing debt was reduced to ¥101,066 million (a reduction of ¥19,382 from a year earlier), and the ratio of interest-bearing debt to total assets declined to as low as 30.8% (an improvement of 7.3 percentage points from the previous year).

We have also been pushing ahead with the in-house

campaign Good Company Program (GCP) in which all employees have been participating since October 2004, with the ultimate goal of achieving NS06 and becoming a good company. GCP aims to raise awareness and reform the workplace at the individual workplace and group level, and addresses issues that include eliminating accidents and mishaps and improving business efficiency.

Since the Company's establishment ninety years ago we have contributed to economic development and people's well being, as a leading company in the Japanese chemical industry. Based on both the NS06 and GCP campaigns, we are seeking to build a higher level of profitability and cement our financial strength with the aim of improving corporate value. In addition, the Denka Group hopes to maintain the public's confidence and understanding by fulfilling its responsibilities as a corporate citizen, including assuring the safety of operations, legal compliance and proactive environmental preservation. We earnestly solicit and deeply appreciate the continued understanding and support of our shareholders, investors and other stakeholders.

August 2005

Toshio Hiruma, President

Research and Development

1. Fundamental Role and Basic Policy

The DENKA Group is engaged in research and development activities focusing on further perfecting its proprietary technologies and developing specialized highly functional products. The group's policies on R&D are threefold: (1) developing new products based on corporate business strategies, (2) providing a solid foundation for business by fostering core technologies, and (3) improving research efficiency through prioritization and flexible management. DENKA will continue to be an R&D-centred corporation, enhancing customer satisfaction through R&D activities.

2. R&D Organization

DENKA underwent an organizational revamp in June 2004. To reorganize its research divisions so as to be more task-focused and closer to their field applications, nine Research Centers have been established as DENKA's operational hubs. Advanced research that can be applied across business division lines is conducted by the Company's Central Research Institute. This research institute is leading all other research centers, in pursuit of perfecting DENKA's core technologies and further expanding their application to related areas.

3. Results for the Fiscal Year under Review

The group's total research and development expenditures came to 8,442 million yen (US\$78,596 million). During the year under review, 376 patents were disclosed, and 137 patents (including utility patents) were actually registered in Japan.

R&D activities in each business division during the year under review and their achievements were as follows.

(1) Organic Related Materials Division

The focus in research and development has been on high value-added styrene-based functional resins. Specifically, the Company has seen results in the ongoing development of production technology for materials such as clear resin, CLEAREN, and thermally-resistant resins, as well as improvements in quality, and new product development.

In organic chemicals, the Company has enhanced its production technology for a range of existing products including chloroprene, ER rubber, and acetylene black, as well as for newly developed products.

(2) Inorganic Related Materials Division

In specialty cement additives, the Company is working on quality improvements for its key products, including NATMIC, TASCON, and CSA.

Among fertilizers and inorganic products, the Company is engaged in research and development activities to substantively enhance the operations for

products such as alumina fibers and cement, as well as fertilizer.

(3) Electronic Materials Division

In electronic components, the Company has been engaged in new product development to meet market needs in a timely manner for ceramic and, metal circuit boards, heat sink as well as other heat dissipation materials, and for functional adhesives.

In functional ceramics, DENKA has been focusing on development of its ceramic filler product group, including silica, and BN (boron nitride) composite products.

In electronic packaging materials, the Company's focus is on new product development for adhesive tape used in transporting electronics components or for protecting and fastening semiconductor wafers (for transport).

(4) Functional and Processed Products Division

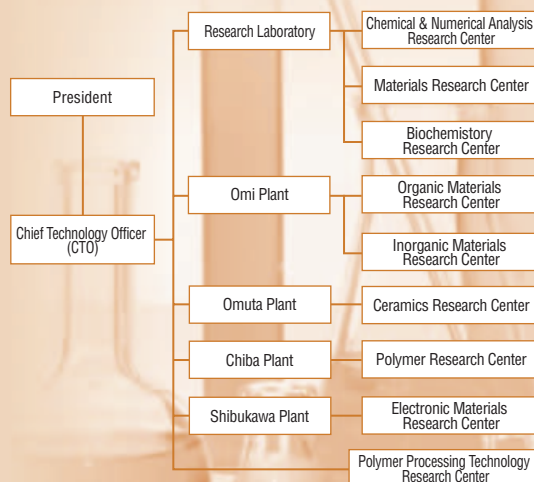
In packaging materials, construction materials, and processed resin products for industrial material application, the Company is utilizing its expertise in adhesive application technology and shape extrusion technology to promote product development that suit the market needs.

In pharmaceutical products, DENKA undertook research activities aiming to expand its share in hyaluronate. Denka Seiken Co., Ltd. is conducting development in various fields including high quality vaccines and bacteriological testing reagents.

(5) Other Products Division

Denka Engineering Co., Ltd., which is engaged in design and installation of industrial equipment, has been conducting research and development for pneumatic transfer equipment for powders and granulate materials, as well as wastewater treatment facilities.

R&D Organization



Measures for Environmental Issues

Our efforts to address environmental issues

Since 1995, we have been considering “environment, safety and health” to be the backbone of corporate management and have been promoting responsible care (RC) activities, which ensure environment sustainability and the safety of the entire lifecycle of chemical substances from development—through manufacture, distribution, use and final consumption—to disposal. In addition, we have been making company-wide efforts to address environmental issues including the reduction of environmental impact, in particular waste, as well as energy conservation, while striving to raise the employees’ environmental awareness. A key tool we use to promote these activities is our ISO 14001 environmental management system certification, which was obtained for all our plants and the central research laboratory.

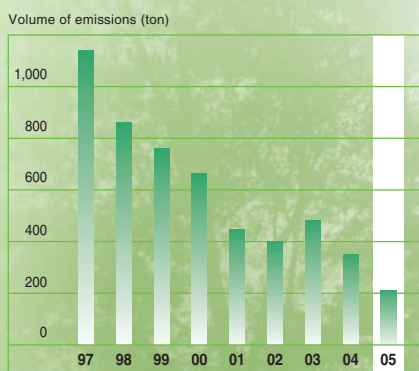
We launched a company-wide three-year plan aiming to reduce environmental impact in fiscal 2003, and fiscal 2004 is the second year of the plan.

Reducing emissions of chemical substances

Regarding the chemical substances designated under the PRTR (Pollutant Release and Transfer Register) Law, the actual emissions for fiscal 2004 amounted to 353 tons, which is a decrease of 131 tons (27%) from the previous year. Efforts were made at Chiba plant to reduce the emissions of toluene, styrene, MMA, etc. and also at Omi plant for the reduction of ethylene glycol, acetaldehyde, etc.

Furthermore, regarding the Voluntary Reduction Program for Hazardous Air Pollutants that was initiated by Japan’s Ministry of Economy, Trade and Industry as well as the Ministry of the Environment, the chemical companies accomplished the primary goal in fiscal 2004 and stopped the activities, but DENKA achieved a 96% reduction in hazardous air pollutants over fiscal 1997.

Emissions of chemical substances under the PRTR Law



Reduction of waste

The quantity of leftover waste for final disposal in fiscal 2004 amounted to about 4,600 tons, which is a decrease of about 2,200 tons (32%) from the previous year.

The amount requiring final disposal was reduced at the Omuta plant by increasing the utilization of recycled waste. At the Chiba plant, the promotion of waste oil recycling and volume reduction of sludge contributed to reduced volume for external disposal while at the Ofuna plant, plastic waste was comprehensively separated and sorted to facilitate selling and efficient use of such valuable resources.

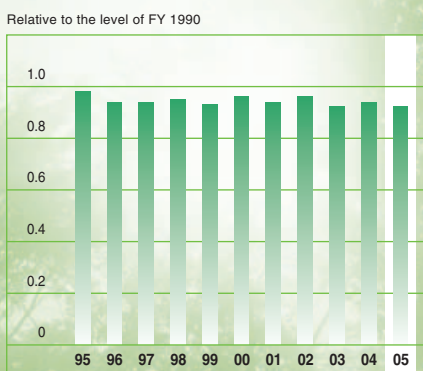
Measures for compliance with the Soil Contamination Measures Law

Regular observation of groundwater, etc. is carried out at all plants to ensure that there is no contamination that may have external effect. On Ofuna plant site, in particular, comprehensive research was conducted in fiscal 2003 and 2004 to confirm that both soil and groundwater did not pose any problems.

Promotion of energy saving

The unit energy consumption for fiscal 2004 was 102% of the previous year’s level (and 94% of the level for fiscal 1990) due to equipment trouble, biennial maintenance, etc. We have formulated a medium-term plan for energy conservation and are enhancing our efforts to achieve unit energy consumption of 90% of the fiscal 1990 level by fiscal 2010.

Unit energy consumption



Operating and Financial Review

Business Environment

During the year under review, the Japanese economy showed signs of solid recovery, as exemplified by increased exports and capital investment as well as upturning consumer spending. However, surging crude oil prices and moves toward inventory adjustment in electronic devices and related industries from the second half of the term point toward a yet uncertain future outlook for the economy.

In the chemical industry, the booming US economy and economic growth in China have helped boost exports, and domestic demand for materials of electronic devices continued to expand during the first half of the year. However, this demand expansion slowed down in the latter half year due to inventory adjustments in electronic components and devices. At the same time, raw material prices continued to rise throughout the term due largely to soaring crude oil and naphtha prices. Though product sales prices have been revised to absorb the higher material costs, crude oil prices continue to rise, posing a grave concern for the immediate future.

Operating Results

1. Net Sales

Under the economic circumstances as mentioned above, the DENKA group, through its commitment to expanding its business and ensuring profitability, attained net sales for the full year of 280,033 million yen (US\$2,607 million), an increase of 28,917 million yen, or 11.5%, from a year earlier.

2. Operating Income

Earnings faced negative factors such as surging material prices, but this was offset by ongoing efforts to revise product prices and to expand sales volumes, centering on high value-added products including materials for electronic components and functional resins. Operating income reached 25,586 million yen (US\$238 million), an increase of

4,134 million yen, or 19.3%, with an operating income ratio of 9.1%, improving by 0.6 percentage points from a year earlier.

3. Net Income

The group's earnings improved from higher investment income due to increased profitability at unconsolidated subsidiaries and affiliates, and a lower interest burden attributable to reduced interest-bearing debt. In addition, the group proactively took such measures to streamline its assets and strengthen its financial standing, as eliminating equity cross-holdings and liquidation of company-owned real estate like corporate housing.

The group recognized gains and losses from disposal of such assets, as well as losses from reorganizing affiliated companies. Net income for the term came to 13,587 million yen (US\$126 million), an increase of 3,033 million yen, or 28.7%, from a year earlier.

Business results by segment are presented earlier in the Segment Information.

Financial Position

1. Total Assets

Total assets at the end of the year under review were 328,249 million yen (US\$3,056 million), up 12,506 million yen from the previous year. Current assets totaled 111,900 million yen (US\$1,042 million), 12,691 million yen higher than a year earlier. This was mainly attributable to higher receivables due to increased sales, and higher inventories due to increased raw material prices. Fixed assets totaled 216,349 million yen (US\$2,014 million), a decrease of 184 million yen. Intangible fixed assets increased due to restructuring of business operating systems, and investment securities increased due to improved profitability of equity-method subsidiaries, as well as an upturn in the stock

Five-Year Summary

	Millions of Yen					Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2005
Net Sales	¥ 280,033	¥ 251,116	¥ 243,825	¥ 240,678	¥ 272,274	\$ 2,607,145
Net Income (Loss)	13,587	10,554	4,774	(1,978)	5,636	126,497
Total Shareholders' Equity	130,715	114,965	102,105	93,099	92,523	1,216,975
Total Assets	328,249	315,743	313,561	322,808	369,029	3,056,034

Note: Yen amounts are translated into U.S. dollars at a rate of ¥107.41=U.S.\$1.

market. Property, plant and equipment declined due to divestment of company-owned real estate including corporate housing.

2. Total Liabilities

Liabilities at the end of the fiscal year totaled 192,084 million yen (US\$1,788 million), down 3,615 million yen from a year earlier. This decline was due to a reduced level of interest-bearing debt. On the other hand, payables increased due to rising raw material prices. Interest-bearing debt decreased by 19,382 million yen from a year earlier to 101,066 million yen, pushing down the ratio of total debts to total assets by 7.3 percentage points to 30.8%. This was achieved by containing capital investment within the limits of the available funds (without relying on debts), as well as the divestment of assets such as investment securities and land for corporate housing.

3. Minority Interest

Improved earnings at consolidated subsidiaries raised minority interest to 5,450 million yen (US\$51 million), an increase of 371 million yen from a year earlier.

4. Total Shareholders' Equity

Total shareholders' equity came to 130,715 million yen (US\$1,217 million), an increase of 15,750 million yen from a year earlier, thanks to higher net income, and increased capital and capital surplus from the exercise of stock warrants, as well as unrealized gains on investment securities. As a result, shareholder equity ratio increased from 36.4% a year earlier to 39.8%, while book value per share rose from 238.13 yen to 265.71 yen.

Cash Flows

Net cash from operating activities during the year under review amounted to 29,703 million yen (US\$277 million), a

decrease of 2,509 million yen from a year earlier. This was due to increased trade receivables from higher sales and increased inventories on the back of surging raw material prices, although the Company experienced a recovery in its business performance and reduction in interest payments.

Net cash used in investing activities came to 8,512 million yen (US\$79 million). The Company has made proactive capital investments into high-growth businesses, such as capacity expansion for thermally resistant resins as well as for CALALYAN Y film, an easy-to-open packaging film. This was offset by sales of assets such as investment securities, in a continuing drive since last term to eliminate equity cross-holdings. Free cash flow, which combines operating and investing cash flows, amounted to 21,191 million yen (US\$197 million), a decrease of 2,919 million yen from a year earlier.

Net cash used in financing activities included 3,043 million yen in cash dividends and 17,055 million yen (US\$159 million) for repayment of interest-bearing debt, in an ongoing drive to bolster the Company's financial position.

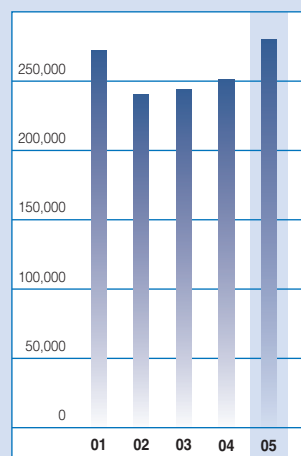
Consequently, cash and cash equivalent at the end of the year came to 7,725 million yen (US\$72 million), an increase of 1,095 million yen as compared with the end of the previous term.

Dividends

The Company disbursed a year-end dividend of 3.00 yen per share (US\$0.028) and a commemorative dividend of 1.00 yen celebrating the Company's 90th anniversary. Combined with the interim dividend of 3.00 yen, paid in December of last year, the total annual dividends amount 7.00 yen.

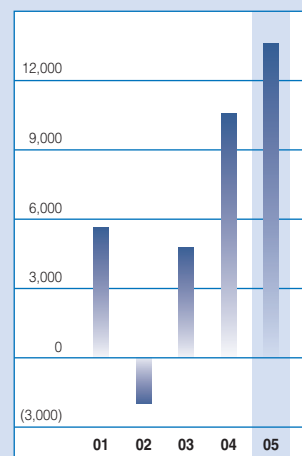
Net Sales

Millions of Yen



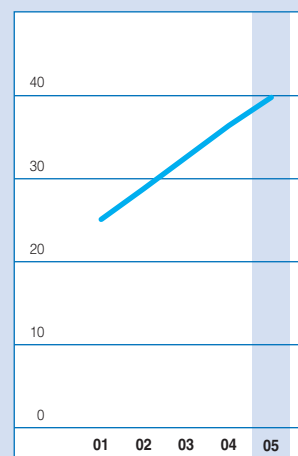
Net Income (Loss)

Millions of Yen



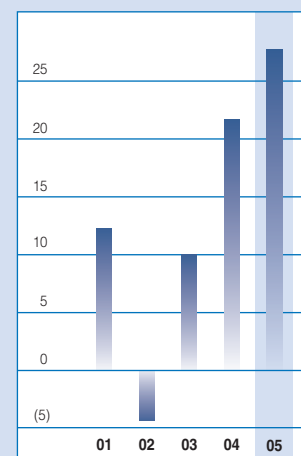
Shareholders' Equity Ratio

%



Net Income (Loss) per Share

Yen



Consolidated Balance Sheets

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Thousands of
U.S. Dollars
(Note 3)

March 31

Millions of Yen

ASSETS	2005	2004	2005
Current assets:			
Cash and time deposit	¥ 7,758	¥ 6,693	\$ 72,228
Notes and accounts receivable, trade (Note 4)	59,609	54,000	554,968
Marketable securities	—	372	—
Inventories (Note 7)	37,247	31,841	346,770
Deferred tax asset (Note 11)	1,647	1,413	15,340
Prepaid expenses and other current assets (Note 4)	5,949	5,223	55,384
Allowance for doubtful accounts	(310)	(333)	(2,889)
Total current assets	111,900	99,209	1,041,801
Property, plant and equipment (Note 8):			
Buildings and structures	105,614	104,981	983,285
Machinery and equipment	273,937	271,334	2,550,386
Land (Note 19)	63,260	66,975	588,955
Construction in progress	4,540	2,568	42,265
	447,351	445,858	4,164,891
Accumulated depreciation	(276,695)	(271,321)	(2,576,059)
Total property, plant and equipment	170,656	174,537	1,588,832
Intangible fixed assets	2,429	382	22,612
Investments and other assets:			
Investment securities (Notes 4 and 5)	38,261	35,716	356,211
Long-term loans receivable	296	887	2,752
Other	4,735	4,637	44,081
Deferred tax asset (Note 11)	805	994	7,497
Allowance for doubtful accounts	(833)	(619)	(7,752)
Total investments and other assets	43,264	41,615	402,789
Total assets	¥ 328,249	¥ 315,743	\$ 3,056,034

The accompanying notes are an integral part of these financial statements

Thousands of
U.S. Dollars
(Note 3)

Millions of Yen

LIABILITIES AND SHAREHOLDERS' EQUITY	2005	2004	2005
Current liabilities:			
Notes and accounts payable, trade (Note 4)	¥ 40,157	¥ 33,992	\$ 373,863
Short-term bank loans (Note 8)	34,066	49,721	317,160
Commercial paper	6,000	—	55,861
Current portion of long-term debt (Note 8)	12,170	20,542	113,303
Accrued taxes on income and other (Note 11)	5,410	3,423	50,365
Accrued bonus	1,941	1,922	18,073
Other current liabilities (Note 4)	27,766	22,947	258,509
Total current liabilities	127,510	132,547	1,187,134
Long-term liabilities:			
Long-term debt (Note 8)	48,830	50,186	454,615
Deferred tax liability (Note 11)	3,983	3,229	37,080
Deferred tax liability on write-up of land (Note 19)	5,898	4,307	54,911
Accrued retirement benefits			
—for employees (Note 14)	5,074	4,674	47,238
—for directors and statutory auditors	581	549	5,411
Other long-term liabilities	208	207	1,936
Total long-term liabilities	64,574	63,152	601,191
Total liabilities	192,084	195,699	1,788,325
Contingent liabilities (Note 23)			
Minority interest in consolidated subsidiaries	5,450	5,079	50,734
Shareholders' equity:			
Common stock: (Note 15)			
Authorized: 1,584,070,000 shares			
Issued: 492,384,440 shares	36,998	35,303	344,460
Capital surplus	41,550	39,857	386,831
Unrealized gains on revaluation of land (Note 19)	8,848	6,461	82,374
Retained earnings (Notes 9 and 18)	36,839	28,640	342,975
Unrealized gains on investment securities	7,717	6,022	71,850
Foreign currency translation adjustments	(996)	(1,138)	(9,269)
Treasury stock (Note 16)	(241)	(180)	(2,246)
Total shareholders' equity	130,715	114,965	1,216,975
Total liabilities and shareholders' equity	¥ 328,249	¥ 315,743	\$ 3,056,034

The accompanying notes are an integral part of these financial statements

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 3)
	2005	2004	2005
Net sales (Note 4)	¥ 280,033	¥ 251,116	\$ 2,607,145
Cost of sales (Notes 4, and 13)	205,843	181,324	1,916,429
Gross profit	74,190	69,792	690,716
Selling, general and administrative expenses (Notes 10, 12 and 13)	48,604	48,340	452,511
Operating income	25,586	21,452	238,205
Other income			
Interest and dividend income (Note 4)	584	475	5,438
Gain on sale of investment securities	2,362	1,846	21,994
Gain on sale of land and buildings	87	394	806
Equity in gains of unconsolidated subsidiaries and affiliates	607	563	5,654
Other, net (Note 4)	593	501	5,518
	4,233	3,779	39,410
Other expenses			
Interest expenses	1,228	1,429	11,436
Loss on disposal of property, plant and equipment	1,107	666	10,302
Devaluation of investment securities	—	423	—
Devaluation of golf memberships	—	829	—
Unrecognized transition amount	1,229	1,170	11,440
Cost during the suspension of plant operation	123	286	1,142
Costs for logistics improvement and disposal of resin facilities	—	575	—
Loss on sale of property and equipment	718	417	6,684
Loss on sale of subsidiaries and affiliates	1,660	—	15,458
Loss on liquidation of business	293	—	2,729
Other, net	1,785	1,829	16,622
	8,143	7,624	75,813
Income before income taxes	21,676	17,607	201,802
Income taxes (Note 11)			
Current	(6,298)	(3,299)	(58,631)
Deferred	(1,273)	(3,226)	(11,853)
	(7,571)	(6,525)	(70,484)
Income before minority interests	14,105	11,082	131,318
Minority interest in losses of consolidated subsidiaries	(518)	(528)	(4,821)
Net income	¥ 13,587	¥ 10,554	\$ 126,497

	Yen		U.S. Dollars (Note 3)
	2005	2004	2005
Per share			
Net income-basic	¥ 27.70	¥ 21.70	\$ 0.258
Net income-diluted	—	21.69	—

The accompanying notes are an integral part of these financial statements

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, 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
Net income	—	—	—	13,587
Increase in retained earnings resulting from inclusion of a subsidiary	—	—	—	11
Exercise of stock acquisition rights	9,317	1,695	1,690	—
Increase in paid in capital due to sale of treasury stock	—	—	3	—
Cash dividends	—	—	—	(2,922)
Bonuses to directors and statutory auditors	—	—	—	(91)
Reversal of land revaluation gain	—	—	—	(2,386)
Balance at March 31, 2005	492,384	¥ 36,998	¥ 41,550	¥ 36,839

	Thousands		Thousands of U.S. Dollars (Note 3)	
	Common stock Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2004	483,067	\$ 328,672	\$ 371,071	\$ 266,648
Net income	—	—	—	126,497
Increase in retained earnings resulting from inclusion of a subsidiary	—	—	—	101
Exercise of stock acquisition rights	9,317	15,788	15,732	—
Increase in paid in capital due to sale of treasury stock	—	—	28	—
Cash dividends	—	—	—	(27,207)
Bonuses to directors and statutory auditors	—	—	—	(845)
Reversal of land revaluation gain	—	—	—	(22,219)
Balance at March 31, 2005	492,384	\$ 344,460	\$ 386,831	\$ 342,975

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Thousands of
U.S. Dollars
(Note 3)

For the Years Ended March 31

Millions of Yen

	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes	¥ 21,676	¥ 17,607	\$ 201,802
Adjustments —			
Depreciation	13,060	14,447	121,593
Amortization of deferred charges	—	79	—
Devaluation of golf membership	—	829	—
Provision for doubtful accounts	191	(49)	1,777
Interest and dividend income	(584)	(475)	(5,438)
Interest expenses	1,228	1,429	11,436
Devaluation of investment securities	—	423	—
Gain on sale of investment securities	(2,362)	(1,846)	(21,995)
Equity in gains of unconsolidated subsidiaries and affiliates	(607)	(563)	(5,654)
Loss on sales of property, plant and equipment, net	1,416	736	13,181
Loss on sale of subsidiaries and affiliates	1,660	—	15,458
Other	706	13	6,575
Changes in assets and liabilities:			
Receivables	(5,551)	(901)	(51,678)
Inventories	(5,296)	(1,995)	(49,306)
Notes and accounts payable	6,166	(703)	57,405
Other, net	2,776	3,952	25,846
Sub-total	34,479	32,983	321,002
Interest and dividend received	596	477	5,553
Interest paid	(1,279)	(1,470)	(11,913)
Income taxes refunded (paid)	(4,093)	222	(38,103)
Net cash provided by operating activities	29,703	32,212	276,539
Cash flows from investment activities:			
Purchase of marketable securities	—	(372)	—
Sales of marketable securities	372	372	3,463
Purchases of property, plant and equipment	(13,149)	(13,450)	(122,421)
Sales of property, plant and equipment	2,377	2,515	22,131
Purchases of intangible fixed assets	(1,932)	—	(17,988)
Purchases of investment securities	(241)	(1,203)	(2,239)
Sales of investment securities	3,043	4,092	28,329
Sales of shares of a subsidiary which resulted in exclusion from consolidation (Note 21)	989	—	9,206
Other, net	29	(56)	269
Net cash used in investment activities	(8,512)	(8,102)	(79,250)
Cash flows from financing activities:			
Decrease in short-term borrowings	(9,733)	(14,013)	(90,620)
Proceeds from long-term debt	328	7,030	3,057
Repayment of long-term debt	(17,651)	(12,400)	(164,330)
Proceeds from issuance of bonds	10,000	—	93,101
Cash dividends	(3,043)	(3,016)	(28,331)
Purchase of treasury stock	(57)	(40)	(538)
Net cash used in financing activities	(20,156)	(22,439)	(187,661)
Effect of exchange rate changes on cash and cash equivalent	17	(15)	162
Net increase in cash and cash equivalents	1,052	1,656	9,790
Cash and cash equivalents at the beginning of the year	6,630	4,883	61,727
Increase of cash and cash equivalents resulting from inclusion and exclusion of subsidiaries from consolidation	43	91	403
Cash and cash equivalents at the end of the year (Note 20)	¥ 7,725	¥ 6,630	\$ 71,920

The accompanying notes are an integral part of these financial statements

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, 2005 and 2004, 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 (Thirteen subsidiaries in 2004) were consolidated on the basis of their fiscal years ended at December 31, 2004 and 2003. The year-end data of one subsidiary was November 30, 2004 and 2003. Therefore, the subsidiary tentatively closed its account at January 31, 2005 and 2004 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, 2005.

(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 unfunded 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) 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.

(8) 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.

(9) 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.

(10) Net income per share —

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

(11) Re-classification —

Certain reclassifications of the financial statements for the year ended March 31, 2004 have been made to conform to the presentation for the year ended March 31, 2005.

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 ¥107.41 = US\$1, the approximate rate of exchange as at March 31, 2005 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
	2005	2004	2005
Notes and accounts receivable, trade	¥ 9,166	¥ 7,546	\$ 85,335
Other current assets	265	265	2,465
Investment securities	11,458	10,996	106,672
Notes and accounts payable, trade	2,592	2,047	24,131
Other current liabilities	185	195	1,720

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
	2005	2004	2005
Net sales	¥ 24,938	¥ 20,950	\$232,172
Cost of sales	8,560	7,397	80,062
Other income—Interest and dividend income	17	16	157
Other income—other	664	911	6,178

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
	2005	2004	2005
Investment securities			
Market value	¥ 20,493	¥ 18,185	\$190,796
Carrying amount	8,196	8,401	76,306
Unrealized gain	¥ 12,297	¥ 9,784	\$114,490

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
	2005	2004	2005
Finished products	¥ 18,399	¥ 16,915	\$ 171,295
Semi-finished products	7,875	6,583	73,319
Work in process	2,734	1,417	25,458
Raw materials	6,199	5,017	57,709
Supplies	2,040	1,909	18,989
	¥ 37,247	¥ 31,841	\$ 346,770

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
	2005	2004	2005
Bank overdrafts with interest ranging from 0.67% to 6.00% per annum	¥ 841	¥ 690	\$ 7,832
Short-term bank loans with interest ranging from 0.58% to 3.15% per annum represented by short-term notes maturing at various dates within one year	33,225	49,031	309,328
	¥ 34,066	¥ 49,721	\$ 317,160

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Loans, principally from banks and insurance companies, maturing serially to 2011 with interest ranging from 0.95% to 2.29% per annum:			
Secured	¥ 20	¥ 45	\$ 186
Unsecured	25,980	32,693	241,878
1.59% bonds due 2004	—	10,000	—
1.12% bonds due 2006	5,000	5,000	46,551
1.83% bonds due 2007	10,000	10,000	93,101
1.30% bonds due 2008	10,000	10,000	93,101
0.88% bonds due 2009	10,000	—	93,101
0% bonds with warrant attached due 2004	—	2,990	—
	61,000	70,728	567,918
Less-current portion of long-term debt	12,170	20,542	113,303
	¥ 48,830	¥ 50,186	\$ 454,615

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
	2005	2004	2005
Property, plant and equipment — at book value	¥ 89,462	¥ 88,656	\$ 832,902

The aggregate annual maturities of long-term debt subsequent to March 31, 2005 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2006	¥ 12,170	\$ 113,303
2007	19,064	177,488
2008	15,786	146,970
2009	13,502	125,705
2010	214	1,992
2011 and thereafter	264	2,460
	¥ 61,000	\$ 567,918

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, 2005, which was approved on June 29, 2005, at the general shareholders' meeting is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends at ¥4.00 per share	¥ 1,966	\$ 18,306

10. Effect of the change in the standard enterprise tax in Japan:

Effective from April 1, 2004, enterprise tax regulations in Japan were amended. Under the new enterprise tax regulations, enterprise tax will be based on the sum of three tax components, namely; income tax based component, value added component and capital based component. In accordance with the new accounting standard issued by the Accounting Standards Board of Japan, enterprise tax relating to the value added component and capital based component are required to be classified as selling, general and administrative expenses in the statement of income. As a result of this new requirement, selling, general and administrative expense increased by ¥382 million (\$3,557 thousand) for the year ended March 31, 2005.

Under this new tax requirement, the enterprise tax ratio for income based component is expected to be reduced. As a result, the statutory tax rate for the Company reduced from 41.0% for the year ended March 31, 2004 to 40.0% for the year ended March 31, 2005.

11. 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
	2005	2004	2005
Deferred tax assets			
Net operating loss carry forward	¥ 23	¥ 55	\$ 213
Allowance for doubtful accounts	261	256	2,430
Enterprise income taxes	522	279	4,861
Accrued severance cost for directors and statutory auditors	233	220	2,173
Accrued severance and pension costs for employees	1,853	1,610	17,250
Accrued bonus	783	761	7,286
Inter-company profit on inventories and fixed assets	441	430	4,105
Devaluation of investment securities	297	390	2,770
Devaluation of golf memberships	754	986	7,020
Other	587	563	5,467
Gross deferred tax assets	5,754	5,550	53,575
Deferred tax liabilities:			
Unrealized gains on investment securities	4,837	3,905	45,035
Retained earnings appropriated for special reserve	2,349	2,362	21,869
Other	98	119	914
Gross deferred tax liabilities	7,284	6,386	67,818
Net deferred tax assets	¥ (1,530)	¥ (836)	\$ (14,243)

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

	Year ended March 31, 2005	Year ended March 31, 2004
Statutory tax rate	40.0%	41.0%
Increase (reduction) in taxes resulting from:		
Income tax credit	(3.6)%	(2.3)%
Other	(1.5)%	(1.6)%
Effective income tax rate	34.9%	37.1%

12. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended March 31, 2005 and 2004 comprised the following:

	Millions of Yen	Thousands of U.S. Dollars	
	2005	2004	2005
Selling expenses			
Carriage and shipping	¥ 16,544	¥ 16,565	\$ 154,024
Sales commission	4,505	4,558	41,941
Other	2,041	2,103	19,006
	23,090	23,226	214,971
General and administrative expenses:			
Salaries and remuneration	11,137	11,246	103,689
Employees' welfare	401	369	3,729
Research and development	4,786	4,955	44,562
Other	9,190	8,544	85,560
	25,514	25,114	237,540
	¥ 48,604	¥ 48,340	\$ 452,511

13. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the year ended March 31, 2005 and 2004, approximated ¥8,442 million (\$78,596 thousands) and ¥8,478 million, respectively.

14. 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, 2005 is analyzed as follows:

	Millions of Yen	Thousands of U.S. Dollars	
	2005	2004	2005
Projected benefit obligations	¥ 26,861	¥ 27,208	\$250,080
Plan assets	13,784	13,045	128,327
Net unreserved projected benefit obligations	13,077	14,163	121,753
Unrecognized transition obligations	5,447	6,674	50,712
Unrecognized prior service cost	44	(45)	412
Unrecognized actuarial losses	2,512	2,860	23,391
Accrued retirement benefit	¥ 5,074	¥ 4,674	\$ 47,238

(Note: 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, 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥ 1,234	¥ 1,169	\$ 11,492
Interest cost	330	456	3,072
Expected return on plan assets	(165)	(199)	(1,538)
Amortization of transition obligations	1,229	1,171	11,440
Amortization of prior service cost	5	(0)	45
Amortization of actuarial losses	474	532	4,411
Net pension and severance cost	¥ 3,107	¥ 3,129	\$ 28,922

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

	Year ended March 31, 2005
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 of prior service cost	10 years
Amortization of unrecognized actuarial gains and losses	10 years
Amortization of transition obligations	10 years

15. Number of outstanding shares:

The number of shares of common stock outstanding at March 31, 2005 were 492,384,440 shares.

16. Number of treasury stock held by the company at March 31, 2005:

There were 813,928 shares of treasury stock at March 31, 2005.

17. Commitment line contracts:

For efficient procurement of working capital, the Company have entered into commitment line contracts with six financial institutions, which provided the Company with the commitment facilities in the aggregate amount of ¥20,000 million (\$186,202 thousand) as of March 31, 2005 and ¥25,000 million as of March 31, 2004. The unused facilities maintained by the Company as of March 31, 2005 and 2004, amounted to ¥20,000 million (\$186,202 thousand), and ¥14,000 million, respectively.

18. 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, 2005 and 2004 were ¥3,688 million (\$34,339 thousand), and ¥3,656 million, respectively.

19. 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.

20. Cash and cash equivalents:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash and cash equivalents as of March 31 consist of :			
Cash and bank deposits	¥ 7,758	¥ 6,693	\$ 72,228
Long term deposits over three months	(33)	(63)	(308)
	¥ 7,725	¥ 6,630	\$ 71,920

21. Main assets and liabilities of the company excluded from the consolidated subsidiary resulting from the sale of shares:

As a result of the sales of the shares of DENKA REAL ESTATE MANAGEMENT CO., LTD (DRM) during the year ended March 31, 2005, DRM was excluded from the consolidated subsidiary from the year ended March 31, 2005.

The followings are the main assets and liabilities of DRM at the time when its shares were sold and the impact on the cash flow statements and the amount of proceeds and gains from the sales of the shares.

	Millions of Yen	Thousands of U.S. Dollars
Current Assets	¥ 23	\$ 219
Fixed Assets	2,411	22,447
Current Liabilities	(276)	(2,572)
Long-term Liabilities	(1,570)	(14,617)
Decrease of Current Liabilities	100	931
Decrease of Long-term Liabilities	1,570	14,617
Loss on liquidation of subsidiaries and affiliates	(1,253)	(11,669)
Sales price of security of DRM	1,005	9,356
Cash and cash equivalents of DRM	(16)	(150)
Cash proceeds from the sale of shares	¥ 989	\$ 9,206

22. 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, 2005 and 2004 comprise the following:

	Millions of Yen		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and Structures	¥ 1,520	¥ 539	¥ 981
Machinery and equipment	6,418	3,020	3,398
Vehicles and delivery equipment	282	151	131
Tools, furniture and fixtures	1,593	765	828
Intangible assets	50	22	28
	¥ 9,863	¥ 4,497	¥ 5,366

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, 2005

	Thousands of U.S. Dollars		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Buildings and Structures	\$ 14,151	\$ 5,020	\$ 9,131
Machinery and equipment	59,749	28,113	31,636
Vehicles and delivery equipment	2,629	1,403	1,226
Tools, furniture and fixtures	14,834	7,128	7,706
Intangible assets	463	202	261
	\$ 91,826	\$ 41,866	\$ 49,960

Depreciation expenses of those leased assets for the year ended March 31, 2005 and 2004 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
	2005	2004	2005
Future lease payments			
Within one year	¥ 2,074	¥ 1,935	\$ 19,312
Over one year	3,292	4,817	30,648
	¥ 5,366	¥ 6,752	\$ 49,960

- (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
	2005	2004	2005
Lease rental expenses	¥ 2,025	¥ 1,839	\$ 18,853
Depreciation cost corresponding amounts	2,025	1,839	18,853

23. Contingent liabilities:

Contingent liabilities at March 31, 2005 and 2004 for notes receivable discounted and endorsed and loans guaranteed were approximately ¥704 million (\$6,550 thousand) and ¥1,704 million, respectively.

24. Business Segment Information:

The Companies are primarily engaged in the manufacture and sale of products in the five major segments of Organic related materials Division, Inorganic related materials Division, Electronic materials Division, Functional and Processed Products Division and Other Products Division.

Information by business segment for the years ended March 31, 2005 and 2004 is summarized as follows:

Year ended March 31, 2005

Millions of Yen

	Organic related materials Division	Inorganic related materials Division	Electronic materials Division	Functional and Processed Products Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 118,508	¥ 46,681	¥ 29,770	¥ 56,412	¥ 28,662	¥ 280,033	¥ —	¥ 280,033
Inter-segment	6,877	3,091	1,820	2,428	4,951	19,167	(19,167)	—
Total	125,385	49,772	31,590	58,840	33,613	299,200	(19,167)	280,033
Operating costs and expenses	116,738	45,647	26,286	51,935	33,050	273,656	(19,209)	254,447
Operating income	¥ 8,647	¥ 4,125	¥ 5,304	¥ 6,905	¥ 563	¥ 25,544	¥ 42	¥ 25,586
Assets	¥ 96,586	¥ 54,739	¥ 32,018	¥ 59,189	¥ 9,938	¥ 252,470	¥ 75,779	¥ 328,249
Depreciation cost	5,043	3,079	2,129	2,809	22	13,082	(22)	13,060
Capital expenditure	5,640	2,728	4,503	3,658	15	16,544	(50)	16,494

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

(Change in classification of business)

Prior to April 1, 2004, the Company classified its businesses into five divisions; Resin and Chemical Products Division, Organic and Inorganic Chemicals Division, Function and Processed Products Division, Cement and Construction Materials Division and Other Products Division.

From April 1, 2004, 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 Company classified its business into "Organic related materials Division," "Inorganic related materials Division," "Electronic materials Division," "Functional and Processed Products Division," and "Other products Division."

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, 2004

Millions of Yen

	Organic related materials Division	Inorganic related materials Division	Electronic materials Division	Functional and Processed Products Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	¥ 97,809	¥ 46,558	¥ 27,005	¥ 53,135	¥ 26,609	¥ 251,116	¥ —	¥ 251,116
Inter-segment	5,937	3,222	1,760	2,298	4,207	17,424	(17,424)	—
Total	103,746	49,780	28,765	55,433	30,816	268,540	(17,424)	251,116
Operating costs and expenses	98,461	45,131	23,704	49,403	30,456	247,155	(17,491)	229,664
Operating income	¥ 5,285	¥ 4,649	¥ 5,061	¥ 6,030	¥ 360	¥ 21,385	¥ 67	¥ 21,452
Assets	¥ 86,295	¥ 55,540	¥ 27,966	¥ 58,178	¥ 10,853	¥ 238,832	¥ 76,911	¥ 315,743
Depreciation cost	6,252	3,181	2,029	2,951	50	14,463	(16)	14,447
Capital expenditure	4,462	2,232	1,764	4,865	39	13,362	(26)	13,336

Year ended March 31, 2005

Thousands of U.S. Dollars

	Organic related materials Division	Inorganic related materials Division	Electronic materials Division	Functional and Processed Products Division	Other Products Division	Total	Elimination	Consolidation
Sales:								
Outside customers	\$ 1,103,321	\$ 434,609	\$ 277,164	\$ 525,202	\$ 266,849	\$ 2,607,145	\$ —	\$ 2,607,145
Inter-segment	64,029	28,777	16,946	22,601	46,089	178,442	(178,442)	—
Total	1,167,350	463,386	294,110	547,803	312,938	2,785,587	(178,442)	2,607,145
Operating costs and expenses	1,086,847	424,978	244,733	483,516	307,696	2,547,770	(178,830)	2,368,940
Operating income	\$ 80,503	\$ 38,408	\$ 49,377	\$ 64,287	\$ 5,242	\$ 237,817	\$ 388	\$ 238,205
Assets	\$ 899,228	\$ 509,630	\$ 298,091	\$ 551,059	\$ 92,521	\$ 2,350,529	\$ 705,505	\$ 3,056,034
Depreciation cost	46,952	28,664	19,825	26,148	208	121,797	(204)	121,593
Capital expenditure	52,514	25,397	41,922	34,054	137	154,024	(464)	153,560

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

25. Overseas Sales Information:

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2005			2004			2005		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	¥ 44,961	¥ 13,488	¥ 58,449	¥ 38,115	¥ 11,687	¥ 49,802	\$ 418,593	\$ 125,578	\$ 544,171
Consolidated sales	—	—	¥ 280,033	—	—	¥ 251,116	—	—	\$ 2,607,145
Percentage of overseas sales over consolidated sales	16.1%	4.8%	20.9%	15.2%	4.6%	19.8%	16.1%	4.8%	20.9%

26. 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 31st March, 2005 and 2004 were as follows:

Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	Transactions		Resulting Accounting Balance		
					For the Year Ended 31st March		Account	At 31st March,	
					2005	2004		2005	2004
TOYO STYRENE CO., LTD.	¥ 5,000	Produce and Sale of Polystyrene	50%	Sales	¥ 13,852	¥ 11,008	Accounts receivable, trade	¥ 5,067	¥ 4,028
HISISAN TRADING CO., LTD.	¥ 1,200	Domestic sales and Import/Exports of pulp, paper, organic and inorganic products and industrial resins	37.7%	Sales	¥ 9,821	¥ 8,898	Accounts receivable, trade	¥ 3,572	¥ 3,163
							Notes receivable, trade	¥ 6	¥ 9

Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Description of the Company's Transactions	Transactions		Resulting Accounting Balance		
					For the year ended 31st March		Account	At 31st March,	
					2005			2005	
TOYO STYRENE CO., LTD.	\$ 47,335	Produce and Sale of Polystyrene	50%	Sales	\$ 128,972		Accounts receivable, trade	\$ 47,183	
HISISAN TRADING CO., LTD.	\$ 11,172	Domestic sales and Import/Exports of pulp, paper, organic and inorganic products and industrial resins	37.7%	Sales	\$ 91,441		Accounts receivable, trade	\$ 33,260	
							Notes receivable, trade	\$ 56	

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

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

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

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, 2005 and 2004, 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, 2005 and 2004, 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 24, 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, 2005

Corporate Data

Corporate Data

(As of March 31, 2005)

Established

May 1, 1915

Paid-in Capital

¥36,998 million (US\$344 million)

Employees

4,747 (Consolidated)

2,853 (Non-Consolidated)

Directory

Head Office —

Nihonbashi Mitsui Tower, 1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-8338, JAPAN

Main telephone: +81-3-5290-5055

Main facsimile: +81-3-5290-5059

URL: <http://www.denka.co.jp/>

Branches & Sales Offices —

Osaka, Nagoya, Fukuoka, Niigata, Toyama, Sapporo, Sendai, Nagano, Takasaki, Shizuoka, Hiroshima, Takamatsu, Kagoshima, Akita, Omi, Ageo Production Facilities — Omi (Niigata), Omuta (Fukuoka), Chiba, Shibukawa (Gunma), Ofuna (Kanagawa), Denka Kako Co., Ltd. (Gunma)

Shareholder Information

(As of March 31, 2005)

Total Number of Authorized Shares
Shares of Common Stock Issued
Shareholders

1,584,070,000
492,384,440
55,730

Major Shareholders

	Number of shares held (thousands)	Ratio of total shares outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	70,180	14.25
The Master Trust Bank of Japan, Ltd. (Trust Account)	30,086	6.11
The Bank of New York GCM Client Accounts E ISG	17,937	3.64
Trust & Custody Services Bank, Ltd. as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd	15,275	3.10
Mitsui Mutual Life Insurance, Co.	11,908	2.41
The Sumitomo Trust & Banking Co., Ltd. (Trust Account B)	10,774	2.18
National Mutual Insurance Federation of Agricultural Cooperatives	7,072	1.43
State Street Bank and Trust Company 505103	7,065	1.43
DEUTSCHE BANK AG LONDON PB NON TREATY CLIENTS 613	6,676	1.35
Mitsui Sumitomo Insurance Co., Ltd.	6,295	1.27

Breakdown of Shareholders (Thousand shares)

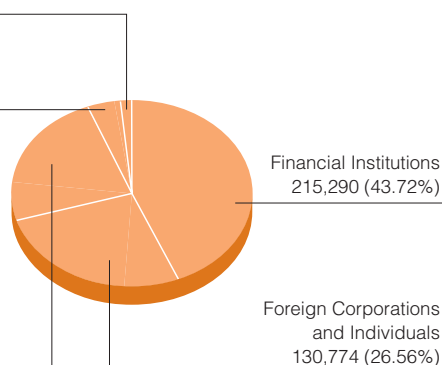
Securities Companies
7,419 (1.51%)

Other Corporations
21,619 (4.39%)

Individuals, Other
117,279 (23.82%)

Financial Institutions
215,290 (43.72%)

Foreign Corporations and Individuals
130,774 (26.56%)



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

Wehrhahn-Center Cantadorstr, 3
D-40211 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: 65-6224-1305
Facsimile: 65-6224-3840
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, 2005)

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
Takashi Toratani
Shigetoshi Toyooka
Tetsuro Maeda

Standing Corporate Auditors

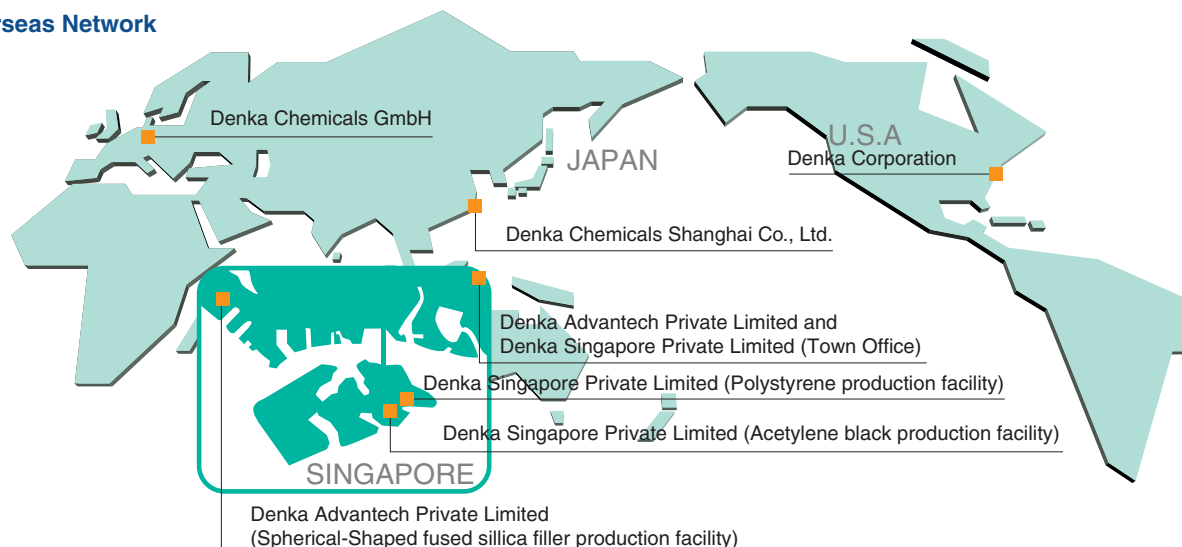
Takakazu Koyama
Yukinori Totake
Takayasu Tanaka

Corporate Auditor

Minoru Hatakenaka

*Representative Director

Overseas Network





Nihonbashi Mitsui Tower,
1-1, Nihonbashi-Muromachi
2-chome, Chuo-ku,
Tokyo 103-8338, JAPAN