Disclosure on the Internet accompanying
the Notice of Convocation of the 158th Ordinary General Meeting of Shareholders

Company's Systems and Policies

Consolidated Statement of Changes in Net Assets
Notes to Consolidated Financial Statements
Non-consolidated Statement of Changes in Net Assets
Notes to Non-consolidated Financial Statements

(from April 1, 2016 to March 31, 2017)

Denka Co., Ltd.
(Securities Code: 4061)

The content of this document is posted on the website of Denka Co., Ltd. ("the Company") (http://www.denka.co.jp/eng/), pursuant to laws and regulations and Article 16 of the Articles of Incorporation of the Company.

Company’s Systems and Policies

(1) Systems to Ensure the Appropriateness of Operations

The Company has determined the following by the resolution of the Board of Directors.

1) Systems to ensure that Directors’ and employees’ execution of duties complies with laws and regulations and the Articles of Incorporation

The Board of Directors of the Company performs important decision-making concerning business execution in accordance with laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations and oversees Directors’ and Executive Officers’ execution of duties.

Executive Directors and Executive Officers execute their duties under supervision by the President and oversee employees’ execution of duties at divisions for which they are responsible.

Audit & Supervisory Board Members, in accordance with the audit policy determined by the Audit & Supervisory Board, audit Directors’ execution of duties by attending the Board of Directors meetings and other important meetings, receiving briefings from Directors, and reviewing important documents.

The Company establishes the DENKA Group Ethics Policy as a set of action guidelines for all the officers and employees of the Company and its subsidiaries concerning compliance, and corporate rules and regulations are established to ensure compliance with specific laws and regulations and the Articles of Incorporation.

In accordance with the provisions of the DENKA Group Ethics Policy, the Company maintains a resolute attitude against antisocial forces and does not provide any payoff. Based on this policy, the Company establishes an internal system.

Regarding internal audits, the Company establishes the Internal Auditing Department as a dedicated department that conducts comprehensive internal auditing. In addition, regarding specialized or specific fields, business units and various committees provide education on compliance with rules and regulations and audit compliance statuses according to functions and report to the responsible officers, as necessary.

The Internal Auditing Department also performs assessment of statuses of design and operation of internal controls for the purpose of preparing a “report of internal control over financial reporting” specified by the Financial Instruments and Exchange Act and reports the result to the responsible officer.

The Company establishes the Compliance Hotline System to supplement internal audits by the departments described above to swiftly identify and address any violations.

2) Systems for storage and management of information related to Directors’ execution of duties

The Company records information related to Directors’ execution of duties in accordance with the Board of Directors Regulations, job descriptions, and other internal rules and regulations, and stores and manages such information based on the document retention regulations.

3) Rules and other systems for management of risk of loss

The Company formulates the Risk Management Guidelines to provide policies for responding to incidents that may greatly affect corporate activities.

Regarding such items as the environment, health and safety, and quality control, cross-organizational committees are established to comprehensively manage risks. Regarding items unique to departments, the relevant departments are responsible for managing associated risks.

4) Systems to ensure that Directors’ execution of duties is efficient

The Company adopts the executive officer system to optimize the management decision-making function of the Board of Directors and to strengthen each function of business execution and oversight by separating them.

Apart from the Board of Directors as the decision-making body, the Company establishes the Management Committee consisting of Directors. Depending on the agenda, relevant executive officers also participate in the meeting of the Management Committee to streamline and accelerate deliberation on important managerial matters.

For such important matters as budget formulation and capital investment, the Company sets up deliberative councils or special committees by function.

The job descriptions specify basic duties and decision-making authority of Directors, Executive Officers, and employees to enhance efficiency of execution of duties.

5) Systems to ensure the appropriateness of operations of the Group

Regarding management of subsidiaries, the Company specifies organizations responsible for each subsidiary. These supervisory organizations take responsibility for supervising. In addition, they provide guidance, administration, and oversight in accordance with the situation of each subsidiary.

Regarding ordinary operations of subsidiaries, the Company respects the autonomy and independence of each affiliated company. Regarding compliance with laws and regulations and social norms, the Company applies the DENKA Group Ethics Policy and other relevant rules and regulations to affiliated companies and provides education and oversight.

i) Systems for reporting of matters relating to execution of duties by subsidiaries' directors etc. to the parent company

The Company dispatches directors, etc. to subsidiaries from the organization that is responsible for the subsidiaries and information about important matters for the subsidiaries is exchanged and discussed at meetings of the Company's Board of Directors, etc.

Regarding execution of duties, taking into account the degree of impact on the Group as a whole, subsidiaries report matters of greater importance to the parent company, that is the Company, via their supervisory organizations, in accordance with the Job Descriptions for Management of Affiliated Companies.

ii) Subsidiaries' rules and other systems for management of risk of loss

The Company responds to incidents that may greatly affect subsidiaries' corporate activities in accordance with the Risk Management Guidelines.

Regarding such items as the environment, health and safety, and quality control at a subsidiary, directors, etc. dispatched to the subsidiary from the supervisory organization responsible for the subsidiary provide advice and guidance through discussion with specific organizations responsible for each such item.

iii) Systems to ensure that execution of duties by subsidiaries' directors, etc. is efficient

The Company dispatches directors, etc. to subsidiaries from the supervisory organizations responsible for the subsidiaries to facilitate information sharing between the Company and subsidiaries and to execute business systematically and efficiently by the Group as a whole.

Depending on the degree of importance of subsidiaries, the Company has subsidiaries introduce the shared accounting system and provides resources of administrative organizations to enhance efficiency of execution of duties of subsidiaries.

iv) Systems to ensure that execution of duties by subsidiaries' directors, etc. and employees complies with laws and regulations and the Articles of Incorporation

The Company establishes the DENKA Group Ethics Policy applicable to the Group, including to subsidiaries, and encourages all the officers and employees of subsidiaries to ensure compliance with laws and regulations. At the same time, the Company manages subsidiaries in accordance with the Job Descriptions for Management of Affiliated Companies.

The Company's Internal Auditing Department is principally responsible for internal audits of subsidiaries and conducts internal auditing, in a timely manner, receiving support of the Company's Legal Department, as necessary.

The Company establishes a whistleblower system for early detection and correction of non-compliant conduct at subsidiaries.

6) Systems concerning employees who provide assistance to Audit & Supervisory Board Members, matters concerning securing effectiveness of instructions to the employees and matters concerning independence of such staff from Directors

The Company sets up the Audit & Supervisory Board Members Department as an organization that provides assistance to the Audit & Supervisory Board and to the Audit & Supervisory Board Members and assigns at least one exclusively assigned employee to the Audit & Supervisory Board Members Department based on consultation with the Audit & Supervisory Board Members in advance.

The Audit & Supervisory Board Members Department serves as the secretariat for the Audit & Supervisory Board and is directly commanded by the Audit & Supervisory Board Members.

The Audit & Supervisory Board Members are consulted in advance about performance evaluation of employees who belong to the Audit & Supervisory Board Members Department and determination of any other personnel matters.

7) Systems concerning reporting to Audit & Supervisory Board Members by the Company's Directors and employees and by those of subsidiaries, other systems concerning reporting to Audit & Supervisory Board Members, and systems to ensure that they do not receive unfavorable treatment because of their reporting to Audit & Supervisory Board Members

Directors, Executive Officers, and employees of the Company and those of subsidiaries report on their duties, by organization or by subsidiary, periodically or as necessary, in accordance with the instructions and/or requests of Audit & Supervisory Board Members.

The Internal Auditing Department reports the results of internal audits of the Company and subsidiaries periodically to Audit & Supervisory Board Members.

The Company establishes a whistleblower system as a system available for all the officers and employees of the Company and subsidiaries for reporting non-compliant conduct, designating the Audit & Supervisory Board Members Department as one of the contacts of the whistleblower system. If the Audit & Supervisory Board Members Department, etc. receives a report, the content of the report is reported to Audit & Supervisory Board Members.

It is specified in the DENKA Group Ethics Policy that no person who reports on non-compliant conduct using the whistleblower system receives unfavorable treatment because of his/her reporting.

8) Policy for treatment of expenses, etc. incurred by Audit & Supervisory Board Members' execution of duties and other systems to ensure that Audit & Supervisory Board Members effectively perform auditing

Directors secure the necessary budget in order not to impede execution of duties by the Audit & Supervisory Board and Audit & Supervisory Board Members. At the same time, when an Audit & Supervisory Board Member makes a claim in accordance with Article 388 of the Companies Act, the expenses and liabilities relevant to the claim will be paid without delay, unless it is deemed that they are unnecessary for execution of duties of the said Audit & Supervisory Board Member.

The Internal Auditing Department and other internal auditing organizations collaborate with Audit & Supervisory Board Members and coordinate with their auditing so that both internal auditing organizations and Audit & Supervisory Board Members can perform their duties efficiently.

(2) Operational Status of Systems to Ensure the Appropriateness of Operations

1) Compliance structure

Based on the DENKA Group Ethics Policy that defines the fundamentals of compliance, the Company continued to implement awareness activities, including training, during the fiscal year under review.

Additionally, with the intent of further strengthening the risk management and compliance structure, a Chief Compliance Officer was selected from among Executive Officers.

Furthermore, in 2016, which marked 101 years since our founding, Denka outlined "The Denka Value" as below as its corporate philosophy that will form the basis of the Denka Group as we look towards the next 100 years. Denka has conducted activities to instill this philosophy into every Group employee.

◇ The Denka Value (Corporate Philosophy)

The Denka Value consists of the Denka Mission, which represents our uppermost mission statement, and the Denka Principles, a set of precepts guiding actions taken by every Group employee.

・The Denka Mission

Taking on the challenge of expanding the possibilities of chemistry to create new value and contribute to sound social development.

Note: Based on the corporate slogan "Possibility of Chemistry."

・The Denka Principles

We: · Boldly confront challenges with determination and sincerity. · Think and take action today with the future in mind. · Deliver new values, and inspire customers through innovative monozukuri.* · Respect the environment and create a cheerful workplace that prioritizes safety. · Contribute to a better society, whilst taking pride in being a trusted corporate citizen. *Japanese-style craftsmanship

2) Business execution of Directors

The Board of Directors of the Company is composed of eight members, including three Outside Directors, and meetings of the Board of Directors were held 13 times during the fiscal year under review. Based on laws and regulations, the Articles of Incorporation, and the Board of Directors Regulations, decision-making was conducted regarding important business execution, reports were received from Directors and Executive Officers regarding required business execution conditions, and appropriate supervision was provided.

Additionally, with the intent of deliberation and consideration for important management issues, the Management Committee, composed of Directors, Audit & Supervisory Board Members, and a portion of Executive Officers, was held once a month in principle, with the intent of increasing efficiency of consideration of important management issues and accelerating decision-making.

3) Business execution of Audit & Supervisory Board Members

The Audit & Supervisory Board is composed of four members, including two Outside Audit & Supervisory Board Members, and meetings of the Audit & Supervisory Board were held 15 times during the fiscal year under review. Additionally, Audit & Supervisory Board Members attended meetings of the Board of Directors and other important meetings, and while auditing the business execution of Directors, they also visited various business sites including those of Group companies, and reported to the Audit & Supervisory Board regarding the contents of audits.

Furthermore, to assist the duties of Audit & Supervisory Board Members, the Audit & Supervisory Board Members Department was established and exclusive employees were assigned.

4) Risk management structure

To respond appropriately to events that may greatly affect the corporate activities of the Company, the Risk Management Guidelines were defined, containing categories of specific types of risk that may occur, and a controlling division and emergency contact structure are maintained. Meetings of the Risk Management Committee as defined by the above guidelines and various other meetings related to risks are held periodically and as required, and report to the Board of Directors.

5) Implementation of internal audits

Based on the internal auditing plan, the Internal Auditing Department implements internal audits of the Company and Group companies, and while reporting the results to the Board of Directors and the Audit & Supervisory Board, cooperates as required with audits by the Audit & Supervisory Board Members, working together to conduct operations that are mutually efficient.

(3) Basic Policies regarding the Control of the Company

The following matters were decided at a meeting of the Board of Directors of the Company

I. Details of the Basic Policies

The Company was established in 1915 for the production of calcium carbide and chemical fertilizers by utilizing limestone resources and its in-house electric power plants. Since then, we have grown to become a unique chemicals manufacturer whose business lines include diverse chemical products ranging from inorganic and organic materials to electronic materials, processed resin products and pharmaceutical products. These materials are based on our proprietary technologies of electric furnace controls, high-temperature reaction controls, organic synthesis and others nurtured in the course of many years of experience in the field of carbide chemicals business.

In view of this history, characteristics of the Company's businesses are represented by many of its products involving very lengthy processes from raw materials to final products or utilizing proprietary technologies in various fields in a complex manner.

These businesses are based on the accumulated efforts over the years, including steady R&D and safety activities, capital investment and human resources development from a long-term perspective, and building of relationships of trust with suppliers, customers, and the local community. In other words, diverse technologies and people who have knowledge and experience capable of utilizing such technologies in a complex manner are the sources of the Company's corporate value, and management resources and the relationships of trust that have been cultivated underpin the Company's corporate value. This is our basic recognition of the Company's current situation.

As the onward march of globalization and informatization rapidly change the business environment, those who fail to notice changes in market needs or economic structures will jeopardize their business platforms. In Japan, too, merger and acquisitions (M&As) and business tie-ups are increasingly used as a means of pursuing growth strategies. The Company's Board of Directors also recognizes that utilization of dynamism based on market principles is important for sustainable growth of society and companies, including the Company, and for enhancement of corporate value over the medium to long term.

As a listed company, we recognize the diversity of our shareholders and consider that our shareholders should make a final decision about the transfer of the control of the Company, including purchasing of a large amount of the Company's shares. However, certain large-scale purchases that have actually carried out may be detrimental to the corporate value or the common interests of the shareholders of the company, or sufficient information or time may not be provided for the company to consider whether it should accept or reject such a purchase attempt. Unconditionally accepting all large-scale purchase attempts is contrary to fulfilling the responsibility of management entrusted by shareholders.

The Company's Board of Directors considers that a person that governs the Company's financial and business policies should fully understand the source of the Company's corporate value and be capable of continuously and sustainably securing and enhancing the Company's corporate value and the common interests of its shareholders. The Company, in principle, raises objection to any attempts to purchase a large amount of the Company's shares or similar attempts that come under the items listed below.

If a person attempting a large-scale purchase of the Company's shares does not provide sufficient information and time for the Company or its shareholders to consider whether such attempt comes under the items listed below, the Company's Board of Directors also raises an objection to such attempt, in principle.

If there is an attempt to conduct a large-scale purchase of the Company's shares that comes under the items listed below, the Company's Board of Directors considers implementing necessary and considerable countermeasures within the scope permitted by laws and regulations, regulations of financial instruments exchanges etc., and the provisions of the Company's Articles of Incorporation, in order to prevent damage to the Company's corporate value and the common interests of its shareholders, and to secure an environment where each of our shareholders can make a convincing decision. The Company's Board of Directors intends to perform day-to-day monitoring of any attempts of large-scale purchase of the Company's shares or similar attempts and take actions agilely to prevent damage to the common interests of the shareholders and the Company's corporate value.

1) Purchases that may cause obvious harm to the Company's corporate value and the common interests of its shareholders through actions such as those described below or any similar action:
   (i) A buyout of share certificates, etc. and demanding the Company or its related parties purchase such shares at high prices
   (ii) Temporary obtaining of control of the management of the Company to further the interest of the purchaser at the expense of the Company, such as by temporarily obtaining control of the management of the Company to acquire the Company's material assets, etc. at low cost
   (iii) Making the Company's assets subject to use as collateral or for repayment of debts of the purchaser, etc., its group companies, or other related parties
   (iv) Temporary obtaining of control of the management of the Company to dispose of high-value assets that have currently little relevance to the Company's businesses and declare temporarily high dividends based on the proceeds from the disposal of such assets, or to sell the shares at a high price once the share price rises sharply by virtue of high dividends
2) Purchases that may have the substantive effect of compelling shareholders to sell shares, such as coercive two-tier tender offers (a takeover bid in which the purchaser, etc. does not propose to purchase all the shares in the first stage, but sets second-stage purchase terms disadvantageous or unclear to the shareholders)
3) Purchases that do not allow the Company's Board of Directors to have reasonably necessary time to submit an alternative proposal
4) Purchases that do not provide the Company's shareholders with necessary information and information reasonably necessary for evaluating the details of the purchase
5) Purchases whose terms (including amount and type of consideration for the purchase, the timing of the purchase, the legality of the purchase method, the probability of the purchase, management policies or business plans following the purchase) are inadequate or inappropriate in light of the Company's intrinsic value

6) Purchases that may significantly harm the Company's corporate value and, in turn, the common interests of its shareholders, such as by damaging relationships with the Company's employees, suppliers, etc. and the Company's brand power, which are indispensable for creating the Company's corporate value
7) Inappropriate obtaining of the control of the Company from the viewpoint of public order that the purchaser, etc., for example, when management or major shareholders of the purchaser etc. includes person(s) who have relationships with antisocial forces

II. Outline of the Special Measures Contributing to Realization of the Basic Policies

1) Special measures contributing to realization of the basic policies

The Company is promoting the Denka100 management plan to achieve sustainable growth and enhancement of corporate value. The strategies of Denka100 were revised in April 2013. Specifying goals for 2017, we set three new growth strategies to achieve numerical targets and are implementing many concrete measures with a proactive attitude.

Three new growth strategies
1. Optimize the most optimal production system
2. Scrutinize every cost element
3. Focus management resources on new growth drivers and develop next-generation products

Numerical targets Fiscal 2017
Consolidated operating income of ¥60 billion or more
Operating income ratio of 10% or more
Ratio of overseas sales to net sales of 50% or more

In 2014, reflecting our determination to return the profits yielded by these initiatives to our shareholders, we established the Policy on Shareholder Returns. Concurrently, with the aim of achieving further corporate growth, we have secured a budget for strategic investments such as M&As.

Furthermore, in order to build a more robust management structure better suited to pursuing the new growth strategies set forth in the Denka100 management plan and to strengthen corporate governance and enhance management transparency and soundness, in June 2015, the Company adopted a new structure, including an increase in the number of Outside Directors (from two to three) and a decrease in the number of Directors on the Board (reduction by two). This change will enable the Company to bolster its management structure for both defensive and offensive purposes.

Coinciding with the Company's centenary in 2015, to express our determination to achieve the Denka100 management plan through a concerted effort of all employees, we renewed our corporate logo and formulated a corporate slogan and action guidelines for employees. The Company changed its trade name on October 1.

2) Measures to prevent decisions on the Company's financial and business policies from being controlled by persons viewed as inappropriate under the basic policy

As measures to prevent decisions on the Company's financial and business policies from being controlled by persons viewed as inappropriate under the basic policy, the Company formulated countermeasures for large-scale purchase of the Company's shares (so-called poison pill, hereinafter referred to as the "Plan") in the past but a resolution was passed not to continue the Plan upon its expiration.

The Company will continue to strive to enhance corporate value and to secure the common interests of its shareholders by ensuring compliance with the basic policy.

III. The Decisions of the Company's Board of Directors and the Reasons Thereof

The Company's Board of Directors believes the measures described in II-1) above are for the purpose of enhancing the Company's corporate value and the common interests of the shareholders from a medium to long term perspective and contributing to realization of the Company's basic policy. These measures are in accordance with the common interests of the shareholders and are not for the purpose of maintaining the positions of the Company's officers.

Consolidated Statement of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the fiscal year	**36,998**	**49,284**	**112,335**	**(7,971)**	**190,647**
Changes of items during the fiscal year					
Dividends from surplus			(6,228)		(6,228)
Profit attributable to owners of parent			18,145		18,145
Change of scope of consolidation			(503)		(503)
Purchase of treasury stock				(2,200)	(2,200)
Disposal of treasury stock		0		0	0
Reversal of revaluation reserve for land			4		4
Net changes of items other than shareholders' equity					-
Total changes of items during the fiscal year	**-**	**0**	**11,417**	**(2,199)**	**9,217**
Balance at end of the fiscal year	**36,998**	**49,284**	**123,752**	**(10,170)**	**199,865**

(Millions of yen)

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total valuation and translation adjustments		
Balance at beginning of the fiscal year	**10,775**	**10,267**	**2,739**	**(2,695)**	**21,087**	**4,336**	**216,071**
Changes of items during the fiscal year							
Dividends from surplus					–		(6,228)
Profit attributable to owners of parent					–		18,145
Change of scope of consolidation					–		(503)
Purchase of treasury stock					–		(2,200)
Disposal of treasury stock					–		0
Reversal of revaluation reserve for land		(4)			(4)		–
Net changes of items other than shareholders' equity	4,061	2	(1,243)	(203)	2,617	(414)	2,202
Total changes of items during the fiscal year	4,061	(2)	(1,243)	(203)	2,613	(414)	11,416
Balance at end of the fiscal year	**14,837**	**10,265**	**1,496**	**(2,898)**	**23,700**	**3,922**	**227,487**

(Note) Amounts are rounded down to the nearest million yen.

Notes to Consolidated Financial Statements

1. Significant Matters, etc. Providing the Basis for Preparation of Consolidated Financial Statements

(1) Scope of consolidation

1) Consolidated subsidiaries

Number of consolidated subsidiaries: 42

Names of principal consolidated subsidiaries:

Denka Singapore Pte., Ltd.

Denka Advantech Pte., Ltd.

Denka Performance Elastomer LLC

DENKA SEIKEN Co., Ltd.

DENKA Polymer Co., Ltd.

Hinode Kagaku Kogyo

Akros Trading Co., Ltd.

YK Inoas Co., Ltd.

DENKA Inorganic Materials Tianjin Co., Ltd., Denka Infrastructure Technologies Shanghai Co,. Ltd., and Denka Electronics Materials Dalian Co., Ltd., which were non-consolidated subsidiaries until the previous fiscal year, are included in the scope of consolidation during the fiscal year under review as their significance has increased.

Additionally, Indonesian subsidiary PT ESTOP INDONESIA is included in the scope of consolidation due to additional purchase of its shares.

2) Principal non-consolidated subsidiaries

Names of principal non-consolidated subsidiaries:

KAMBARA NAMAKON K.K.

DS POVAL K.K.

Reason for exclusion from the scope of consolidation:

The non-consolidated subsidiaries are excluded from the scope of consolidation because they are both small in scale and the aggregate amounts of their total assets, net sales, net income or loss (amount prorated to the ownership), and retained earnings (amount prorated to the ownership), etc. have no material impact on the consolidated financial statements.

(2) Application of the equity method

1) Non-consolidated subsidiaries and affiliates to which the equity method is applied

Number of non-consolidated subsidiaries and affiliates to which the equity method is applied: 14

Names of principal non-consolidated subsidiaries to which the equity method is applied:

KAMBARA NAMAKON K.K.

SANSHIN BUSSAN K.K.

Names of principal affiliates to which the equity method is applied:

TOYO STYRENE Co., Ltd.

JUZEN Chemical Corporation

Denak Co., Ltd.,

Kurobegawa Electric Power Company

2) Non-consolidated subsidiaries and affiliates to which the equity method is not applied

Name of the principal non-consolidated subsidiary to which the equity method is not applied:

DS POVAL K.K.

Name of the principal affiliate to which the equity method is not applied:

Shogawa Nama Concrete Kogyo K.K.

Reason for not applying the equity method:

The non-consolidated subsidiary and affiliate not subject to the equity method are excluded from application of the equity method because their individual impacts on consolidated net income or loss, retained earnings, etc., are negligible, and their overall impact on the consolidated financial statements is immaterial.

(3) Accounting periods of consolidated subsidiaries

Among the consolidated subsidiaries, Denka Singapore Pte., Ltd. and 27 other subsidiaries have a year-end balance sheet date of December 31.

Necessary adjustments are made in preparing the consolidated financial statements to reflect any significant transactions that took place between that date and the consolidated balance sheet date.

(4) Accounting policies

1) Standards and methods for valuation of principal assets

Securities

Available-for-sale securities

Securities with market value

Stated principally at market value based on the average quoted market price for a period of one month before the balance sheet date

(Valuation difference is reported as a separate component of net assets. The cost of sales is calculated principally using the moving-average method.)

Securities without market value

Stated principally at cost using the moving-average method

Derivatives

Stated at market value

Inventories

Stated principally at cost using the weighted-average method

(Balance sheet amounts are calculated by writing down their net realizable value when there is evidence of deterioration in value.)

2) Depreciation method for principal depreciable assets

Property, plant and equipment

Principally, the straight-line method is applied.

Intangible assets

Principally, the straight-line method is applied. (However, software for internal use is amortized by the straight-line method over the estimated internal useful life (principally five years).)

Lease assets

For finance leases that do not transfer the ownership of the lease assets to the lessee, the straight-line method with no residual value is applied, regarding the lease term as the useful life. Finance leases commencing on or before March 31, 2008 that do not transfer the ownership of the lease assets to the lessee are accounted for in the same manner as ordinary rental transactions.

3) Standards of accounting for principal allowances and provisions

• Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover possible losses on receivables. The Company records an estimated irrecoverable amount based on the historical write-off rate for ordinary receivables and based on assessment of recoverability of individual receivables for specific doubtful accounts.

• Provision for bonuses

The Company provides reserve for payment of bonuses to employees based on the amount of estimated employees’ bonuses.

4) Other significant matters providing the basis for preparation of consolidated financial statements

• Method of amortization of goodwill and amortization period

Goodwill is amortized within twenty years over a reasonable period, and amortized using the straight-line method.

• Method of hedge accounting

The Company adopts the deferral method of hedge accounting. Interest rate swaps are accounted for by the special method provided by the accounting standards as they satisfy the criteria for application of the special method. Forward exchange contracts that satisfy the criteria for application of the appropriation method are accounted for by the appropriation method.

• Method of accounting for retirement benefits

In order to prepare for payment of employees' retirement benefits, based on the projected amounts at the fiscal year-end, the amount of retirement benefit obligation from which the amount of plan assets is deducted is recorded as net defined liability.

In calculating retirement benefit obligations, the benefit formula basis is adopted for attributing expected benefits to periods.

Prior service cost is principally recorded by the straight-line method over certain periods (principally 10 years) within the average remaining service period of employees expected to receive benefits.

Actuarial gains and losses are principally recorded by the straight-line method over certain periods (principally 10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

Unrecognized actuarial gains and losses and unrecognized prior service cost are recorded, after adjustment for tax effects, as remeasurements of defined benefit plans in accumulated other comprehensive income in the net assets section.

• Consumption taxes

Consumption taxes are recorded using the tax-excluded method.

(5) Change in accounting policies

(Changes in accounting policies)

In line with the revisions to the Corporation Tax Act of Japan, the Company applied the Practical Solution on a change in depreciation method due to Tax Reform 2016 (Practical Issues Task Force (PITF) No. 32, June 17, 2016) from the fiscal year under review. Accordingly, the depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016 was changed from the declining-balance method to the straight-line method.

The impact on operating income, ordinary income and income before income taxes as a result of these changes is immaterial.

(Additional information)

The Company applied the Implementation Guidance on Recoverability of Deferred Tax Assets (Accounting Standards Board of Japan (ASBJ) Guidance No. 26, March 28, 2016) from the fiscal year under review.

2. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral

Investment securities: 357 million yen

Liabilities corresponding to pledged assets

Notes and accounts payable-trade and other liabilities: 222 million yen

(2) Accumulated depreciation of property, plant and equipment: 397,094 million yen

(3) Guarantee obligations, etc.

Guarantee for loans from financial institutions: 167 million yen

3. Notes to the Consolidated Statement of Changes in Net Assets

(1) Type and total number of shares issued and type and number of shares of treasury stock

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Shares issued				
Common stock	465,954,121	—	—	465,954,121
Total	465,954,121	—	—	465,954,121
Treasury stock				
Common stock	18,640,888	4,859,552	1,828	23,498,612
Total	18,640,888	4,859,552	1,828	23,498,612

Note: The increase in the number of shares of common stock of treasury stock was due to the purchase of 4,831,000 shares of treasury stock and the purchase of shares constituting less than one unit in accordance with the provisions of Article 165, Paragraph 2 of the Companies Act and of the Articles of Incorporation. The decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one unit.

(2) Dividends

1) Payment of dividends

• Dividends for common stock

Resolution	Types of shares	Dividends paid (millions of yen)	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 22, 2016	Common stock	3,131	7.00	March 31, 2016	June 23, 2016
Meeting of the Board of Directors held on November 8, 2016	Common stock	3,097	7.00	September 30, 2016	December 2, 2016

2) Dividends whose record date falls during fiscal 2016 but whose effective date is in the next fiscal year

• Dividends for common stock

The following resolutions are expected to be made.

Resolution	Types of shares	Dividends paid (millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Ordinary General Meeting of Shareholders to be held on June 22, 2017	Common stock	3,097	Retained earnings	7.00	March 31, 2017	June 23, 2017

4. Financial Instruments

(1) Financial instruments

The Group is not engaged in fund investment. The Group’s policy is to procure funds through bank borrowings and issuance of bonds and/or commercial paper in combination, as necessary.

Notes and accounts receivable-trade are exposed to customer credit risk. For such risk, management of due dates is implemented in accordance with the credit management rules. Investment securities mainly consist of stocks, and the market values of listed stocks are determined on a quarterly basis.

Loans payable, bonds payable, and commercial paper are used for working capital (mainly short term) and for capital investment. Certain long-term loans payable are exposed to the risk of interest rate fluctuations. For such risk, interest rate swaps are employed to fix the amount of interest expenses. Certain business transactions denominated in foreign currencies are exposed to the risk of foreign exchange fluctuations, and for such risk, forward exchange contracts are employed.

Derivative transactions are entered into only in the scope of practical purposes in accordance with the internal control rules and not for speculative purposes.

(2) Fair values of financial instruments

Carrying amounts and market values of the financial instruments and the differences between carrying amounts and market values as of March 31, 2017 (consolidated balance sheet date of fiscal 2016) are as follows.

(Millions of yen)

	Carrying amount (*)	Market value (*)	Difference
(1) Cash and deposits	10,258	10,258	−
(2) Notes and accounts receivable-trade	85,069	85,069	−
(3) Investment securities Available-for-sale securities	31,820	31,820	−
(4) Notes and accounts payable-trade	(46,811)	(46,811)	−
(5) Short-term loans payable	(43,492)	(43,492)	−
(6) Long-term loans payable	(40,256)	(40,410)	153
(7) Bonds payable	(30,000)	(30,124)	124
(8) Derivatives	−	−	−

(*) Figures in parentheses are recorded as liabilities on the consolidated balance sheets.
The amount represents a net amount of credits and debts arising from derivative transactions and the figures in parentheses are recorded as liabilities on the consolidated balance sheet.

Note 1: Method for calculating fair values of financial instruments and matters concerning investment securities and derivatives

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Because of the short maturities of these instruments, their market values are approximately the same as the book values, therefore, the book values are stated as the market value.

(3) Investment securities

The market value is estimated based on quoted market prices.

(4) Notes and accounts payable-trade, (5) Short-term loans payable and Commercial paper

Because of the short maturities of these instruments, their market values are approximately the same as the book values, therefore, the book values are stated as the market value.

(6) Long-term loans payable

The market value is the present value calculated by discounting the total amount of principal and interest by the interest rate to be applied to new borrowings for the same amount of principal. Long-term loans payable with variable interest rates are qualified for the special method applied for interest rate swaps (Refer to (8) below.), and the market value of such long-term loans payable is calculated by discounting the total amount of principal and interest, which are accounted for together with associated interest rate swaps, by the reasonably estimated rate to be applied to similar borrowings.

(7) Bonds payable

The market value is estimated based on quoted market prices.

(8) Derivatives

The market value is calculated based on the prices provided by the financial institutions. However, interest rate swaps that qualify for the special method are accounted for as part of hedged long-term payables, and therefore, the market value of such interest rate swaps is included in the market value of the corresponding long-term payables (Refer to (6) above.). Forward exchange contracts that qualify for the appropriation method are accounted for as part of hedged accounts receivable and accounts payable, excluding those associated with forecasted transactions, and therefore, the market value of such forward exchange contracts is included in the market value of the corresponding accounts receivable and accounts payable (Refer to (2) and (4) above.)

Note 2: Unlisted stocks (amounting to 22,783 million yen on the consolidated balance sheet) are not included in “(3) Investment securities, Available-for-sale securities” because it is extremely difficult to identify their market values as no quoted market price is available and it is impossible to estimate their future cash flows.

5. Real Estate for Rent

Disclosure is omitted because the Group does not own real estate for the purpose of gaining rental revenues or capital gains and the total amount of real estate for rent is immaterial.

6. Notes to Per Share Information

(1) Net assets per share:	505.28 yen
(2) Profit attributable to owners of parent per share:	41.01 yen

7. Other Notes

Not applicable

8. Figures shown in millions of yen have been rounded down to the nearest million.

Non-consolidated Statement of Changes in Net Assets

(From April 1, 2016 to March 31, 2017)

(Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
					Other retained earnings				
	Capital stock	Legal capital surplus	Other capital surplus	Total capital surplus	Reserve for advanced deprecia-tion of noncur-rent assets	Retained earnings brought forward	Total retained earnings	Treasury stock	Total share-holders' equity
Balance at beginning of the fiscal year	**36,998**	**49,284**	**0**	**49,284**	**3,854**	**53,665**	**57,519**	**(7,962)**	**135,840**
Changes of items during the fiscal year									
Reversal of reserve for advanced depreciation of noncurrent assets				-	(18)	18	-		-
Dividends from surplus				-		(6,228)	(6,228)		(6,228)
Net income				-		11,904	11,904		11,904
Purchase of treasury stock				-			-	(2,200)	(2,200)
Disposal of treasury stock			0	0			-	0	0
Reversal of revaluation reserve for land				-		4	4		4
Net changes of items other than shareholders' equity				-			-		-
Total changes of items during the fiscal year	**-**	**-**	**0**	**0**	**(18)**	**5,698**	**5,679**	**(2,199)**	**3,480**
Balance at end of the fiscal year	**36,998**	**49,284**	**0**	**49,284**	**3,835**	**59,363**	**63,199**	**(10,161)**	**139,320**

(Millions of yen)

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments	
Balance at beginning of the fiscal year	**9,643**	**10,267**	**19,910**	**155,750**
Changes of items during the fiscal year				
Reversal of reserve for advanced depreciation of noncurrent assets			–	–
Dividends from surplus			–	(6,228)
Net income			–	11,904
Purchase of treasury stock			–	(2,200)
Disposal of treasury stock			–	0
Reversal of revaluation reserve for land		**(4)**	**(4)**	-
Net changes of items other than shareholders' equity	3,674	2	3,676	3,676
Total changes of items during the fiscal year	**3,674**	**(2)**	**3,672**	**7,152**
Balance at end of the fiscal year	**13,317**	**10,265**	**23,582**	**162,903**

(Note) Amounts are rounded down to the nearest million yen.

Notes to Non-consolidated Financial Statements

1. Significant Accounting Policies

(1) Standards and methods for valuation of assets

1) Securities

Stocks of subsidiaries and affiliates

Stated at cost using the moving-average method

Available-for-sale securities

Securities with market value

Stated at market value based on the average quoted market price for a period of one month before the balance sheet date

(Valuation difference is reported as a separate component of net assets. The cost of sales is calculated using the moving-average method.)

Securities without market value

Stated at cost using the moving-average method

2) Inventories

Stated at cost using the weighted-average method

(Balance sheet amounts are calculated by writing down their net realizable value when there is evidence of deterioration in value.)

(2) Depreciation method for noncurrent assets

Property, plant and equipment

The straight-line method is applied.

Intangible assets

The straight-line method is applied. However, software for internal use is amortized by the straight-line method over the estimated internal useful life (five years).

Lease assets

Finance leases that do not transfer the ownership of the lease assets to the lessee

The straight-line method with no residual value is applied, regarding the lease term as the useful life.

Finance leases commencing on or before March 31, 2008 that do not transfer the ownership of the lease assets to the lessee are accounted for in the same manner as ordinary rental transactions.

(3) Standards of accounting for allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided to cover possible losses on notes and accounts receivable. The Company records an estimated irrecoverable amount based on the historical write-off rate for ordinary receivables and based on assessment of recoverability of individual receivables for specific doubtful accounts.

2) Provision for bonuses

The Company provides reserve for payment of bonuses to employees based on the amount of estimated employees' bonuses at the fiscal year-end.

3) Provision for retirement benefits

The Company provides reserve for employees' retirement benefits based on the projected benefit obligation and plan assets at fair value at the fiscal year-end.

In calculating retirement benefit obligations, the benefit formula basis is adopted for attributing expected benefits to periods.

Prior service cost is recorded by the straight-line method over certain periods (10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

Actuarial gains and losses are recorded by the straight-line method over certain periods (10 years) within the average remaining service period of employees expected to receive benefits, commencing with the following fiscal year.

(4) Changes in accounting policies

(Additional information)

The Company applied the Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year under review.

(5) Consumption taxes

Consumption taxes are recorded using the tax-excluded method.

2. Notes to the Non-consolidated Balance Sheet

(1) Assets pledged as collateral: None

(2) Accumulated depreciation of property, plant and equipment: 331,617 million yen

(3) Guarantee obligations

Guarantee for loans from financial institutions: 3,909 million yen

(4) Monetary receivables from and monetary obligations to subsidiaries and affiliates

Short-term monetary receivables:	26,525 million yen
Short-term monetary obligations:	27,601 million yen
Long-term monetary receivables:	2,280 million yen

3. Notes to the Non-consolidated Statement of Income

Amount of transactions with subsidiaries and affiliates

Sales to subsidiaries and affiliates:	71,278 million yen
Purchase from subsidiaries and affiliates:	27,149 million yen

Transactions with subsidiaries and affiliates other than business transactions

6,887 million yen

4. Notes to the Non-consolidated Statement of Changes in Net Assets

Type and number of shares of treasury stock

	Number of shares at the beginning of the year	Increase during the year	Decrease during the year	Number of shares at the end of the year
Common stock	18,615,888	4,859,552	1,828	23,473,612

Note: The increase in the number of shares of common stock of treasury stock was due to the purchase of 4,831,000 shares of treasury stock and the purchase of shares constituting less than one unit in accordance with the provisions of Article 165, Paragraph 2 of the Companies Act and of the Articles of Incorporation. The decrease in the number of shares of common stock of treasury stock was due to the sale of shares constituting less than one unit.

5. Notes to Deferred Tax Accounting

Breakdown of deferred tax assets and deferred tax liabilities by major cause

(Millions of yen)

	As of March 31, 2017
Deferred tax assets	
Allowance for doubtful accounts	2
Provision for retirement benefits	504
Provision for bonuses	470
Loss on liquidation of business	101
Loss on valuation of investment securities	195
Loss on valuation of golf club membership	368
Impairment loss	849
Enterprise tax payable	201
Other	552
Subtotal of deferred tax assets	3,242
Valuation allowance	(1,616)
Total deferred tax assets	1,626
Deferred tax liabilities	
Valuation difference on available-for-sale securities	5,587
Reserve for advanced depreciation of non-current assets	1,688
Total deferred tax liabilities	7,275
Net deferred tax assets (liabilities)	(5,649)

6. Notes concerning Related Party Transactions

Subsidiaries

Type	Company name	Location	Capital or equity	Business	Ownership of voting rights	Relationship: Concurrent positions, etc. of directors	Relationship: Business relationship	Transactions	Transaction amount (Millions of yen)	Account	Balance at the end of the year (Millions of yen)
Subsidiary	Akros Trading Co., Ltd.	Minato-ku, Tokyo	1,200 million yen	Sales of inorganic/ organic industrial products, industrial resins, etc.	68.5% directly owned by the Company	1 director with a concurrent position at the Company 2 directors on loan	The Company sells synthetic rubber products etc. to it.	Sales of the Company’s products	23,953	Accounts receivable-trade	7,485
Subsidiary	Denka Singapore Pte., Ltd.	Singapore	69.41 million US dollars	Manufacturing and sales of acetylene black and polystyrene resin, etc.	100% indirectly owned by the Company	2 directors on loan	Technology licensing by the Company	Loan guarantee	1,417	-	-
Subsidiary	YK Inoas Co., Ltd.	Bunkyo-ku, Tokyo	100 million yen	Sales of raw materials for industrial applications, civil engineering and construction materials, and interior materials	100% directly owned by the Company	4 directors on loan	The Company sells synthetic resin products, civil engineering and construction materials, etc. to it.	Sales of the Company’s products	13,520	Accounts receivable-trade	4,556
Subsidiary	DENKA SEIKEN Co., Ltd.	Chuo-ku, Tokyo	1,000 million yen	Manufacturing and sales of vaccines and clinical diagnostic reagents	100% directly owned by the Company	2 directors with a concurrent position at the Company 1 director on loan	The Company conducts joint research and development	-	-	Deposits received	12,100
Affiliate	TOYO STYRENE Co., Ltd	Minato-ku, Tokyo	5,000 million yen	Manufacturing, processing, and sales of polystyrene resin	50% directly owned by the Company	1 director on loan	The Company supplies its products as raw materials and purchases certain finished products from it.	Sales of the Company’s products and purchase of raw materials from the Company	11,932 6,118	Accounts receivable-trade Accounts payable Deposits received	5,280 2,276 5,500

Notes: 1. Transaction amounts do not include consumption taxes, etc. Balance at the end of the year includes consumption taxes, etc.

2. Sales of the Company’s products, etc. and purchase of raw materials, etc. are determined in the same manner as for terms of transactions with unrelated parties.

3. The Company provides loan guarantee to Denka Singapore Pte., Ltd. for part of its purchase liabilities.

7. Notes to Per Share Information

(1) Net assets per share: 368.16 yen

(2) Net income per share: 26.90 yen

8. Other Notes

Not applicable

9. Figures shown in millions of yen have been rounded down to the nearest million.