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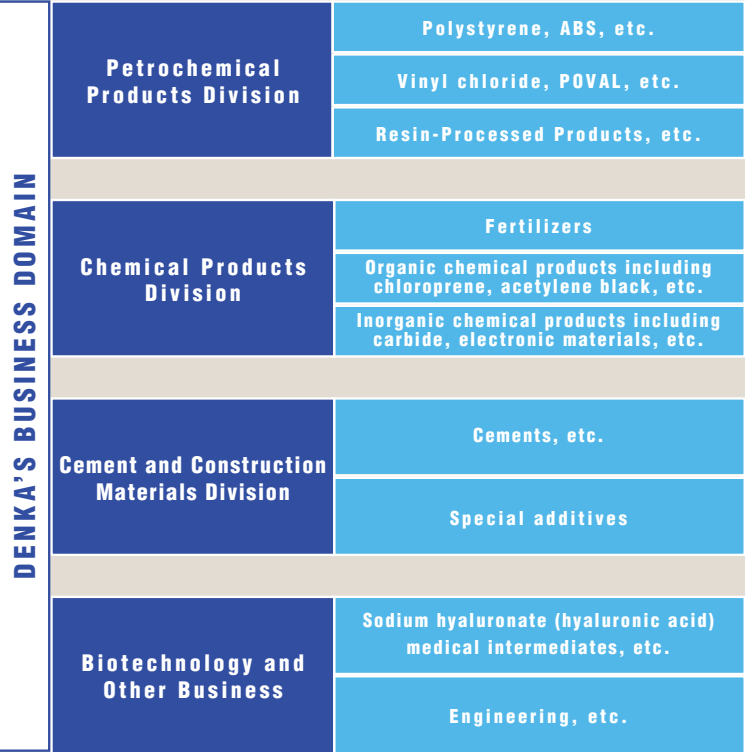
| ANNUAL | REPORT | 1999 |



Profile

It was 84 years ago, in 1915, when DENKA (Denki Kagaku Kogyo Kabushiki Kaisha) was established with capital support from the Mitsui group as a pioneer company in the field of electrochemical engineering, which was in those times recognized as a state-of-the-art technology. Since then, it has been a leading carbide and nitrolime producer, and after the Second World War it expanded its business to include carbide acetylene series organic synthesis and cements. It also entered the petrochemical market in 1962. It recently enhanced its areas of specialty, namely electronics, fine ceramics and biochemical products, to consolidate its business foundation.

Facing the turn of the century, the economy and society are changing rapidly on a global scale. To cope with this worldwide change, DENKA is promoting structural reform by reducing its costs and repositioning its business. It aims to contribute to society as a distinctive company, making its presence felt by improving the structure of the company and gaining international competitiveness.



Contents

1	Financial Highlights
2	To Our Shareholders
3	Questions and Answers
6	DENKA at a Glance
7	Review of Operations
11	Overseas Operations
12	Research and Development
13	Financial Section
14	Consolidated Balance Sheets
16	Consolidated Statements of Income
17	Consolidated Statements of Shareholders' Equity
18	Notes to Consolidated Financial Statements
24	Report of Independent Certified Public Accountants
25	Corporate Data
25	Board of Directors and Auditors
25	Overseas Subsidiaries

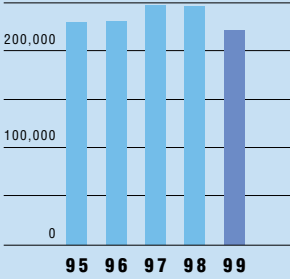
Financial Highlights

Years ended 31 March, 1999 and 1998

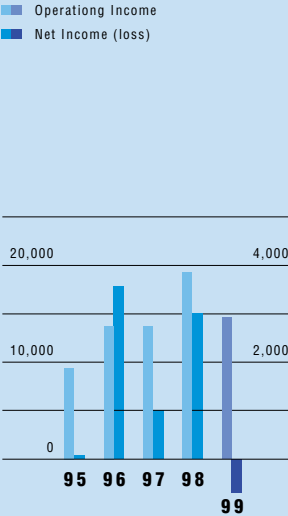
	Millions of Yen		Thousands of U.S. Dollars
	1999	1998	1999
Net Sales	¥ 221,546	¥ 246,624	\$ 1,837,793
Operating Income	14,648	19,460	121,509
Income before income taxes	1,031	4,902	8,553
Net Income	(699)	3,020	(5,799)
Total Assets	345,083	367,031	2,862,578
Total Shareholders' Equity	87,526	90,035	726,051
Net Income (loss) per Share (in Yen and U.S. Dollars)	(1.48)	6.35	(0.012)
Shareholders' Equity per Share (in Yen and U.S. Dollars)	185.49	189.41	1,539

Note: Yen amounts are translated into dollars at a rate of ¥120.55=U.S.\$1.

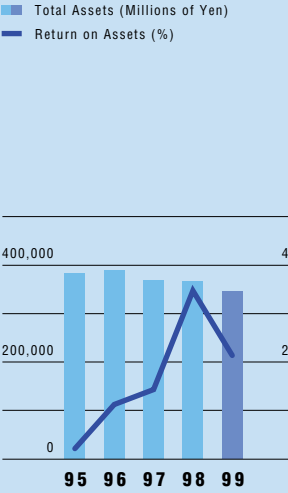
Net Sales
(Millions of Yen)



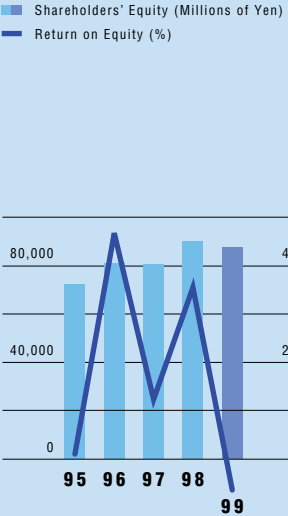
Operationg Income and Net Income (loss)
(Millions of Yen)



Total Assets and Return on Assets



Shareholders' Equity and Return on Equity



To Our Shareholders

For new “value creation” and “the establishment of structure to yield profits”



As the Japanese economy continues to endure its long-standing torpor, demand in the chemical sector continues to move sideways, causing a reduction in the operating rates for many products. Companies are working on fundamental structural reform, withdrawing from unprofitable businesses and accelerating business integration. Manufacturing capacity needs to be widely adjusted in view of the intensifying competition between the survivors and further softening in prices.

In this adverse environment, we have also started on the path to structural reform through business alliances and collaborations to improve our management culture.

In the vinyl chloride field, we have already completed regularizing our business by establishing TAIYO VINYL CORPORATION with Tosoh Corporation and Mitsui Chemicals. We have also agreed on a broad business collaboration with Sumitomo Osaka Cement for cement and construction materials to rationalize shipments, reduce costs and improve qualities.

In the polystyrene business, we have launched a new company, TOYO STYRENE CO., LTD., which was established with Nippon Steel Chemical and Daicel Chemical Industries by uniting the polystyrene division of the three companies. The new company, aiming to ensure global cost competitiveness, is fostering efficiency by unifying its production, sales force and R&D, concentrating on the latest facilities of the three, and strongly integrating product varieties, with the intention of effectuating a large-scale cost reduction. By concentrating the management resources of the three companies and pursuing rationality, synergistic effects are expected to develop in the short term.

Although we have been pushing ourselves to produce the optimum results in these circumstances, we could not avoid the downward trend in demand for nearly every product. Our consolidated net sales for the current term have been ¥221,546 million (US\$1,837.8 million), a ¥25,078 million (US\$208.0 million) decrease from the previous year.

However, in our “TC-10 Effort Program,” we thoroughly reviewed our operations, leading to a significant savings, particularly in the cost of repairs and logistics. This resulted in a total cost reduction of more than ¥10,000 million (US\$83.0 million), and substantially lowered the breakeven point to a sufficient level to weather the economic downturn.

Our new policy focuses on three target points. The first point is to further promote the “TC-10 Effort Program” and intensify its effects. Specifically, we are going to reexamine the cost of logistics and secondary logistics for cement. We are also thinking of setting up a three-year plan for each plant to maximize profits and reclaim the peripheral areas of existing products. The second point is to concentrate the allocation of management resources to the three targeted business areas, namely resin-fabricated wrapping products, semiconductor-related electronic materials and special cement additives. The third point is to enhance consolidated operations and improve the overall financial position. We plan to make efforts to realize synergies and promote business alliances with our affiliates. We have recognized the role of our Singapore subsidiaries as the center of our overseas operations in the 21st century and further develop the production systems at the three plants.

We are also paying particular attention to environmental problems. This approach focuses on company-wide “responsible care” (RC) activities, which are conducted under the internal “RC Committee” led by the President.

As a part of the RC activities, we are actively encouraging resource-efficient, energy-efficient technology. For example, we have set up the “Energy Conservation Committee” and started company-wide research for next-generation energy conservation measures. It considers, for instance, a comparison between CO₂ emission trading and the investment effects of new energy-efficient technology to conduct the research which directly contributes to profitability.

In the stage of product development, the Research Center and Research Office in each plant make efforts to establish a process with less chemical emissions and waste to develop environmentally-friendly products.

Although the overall circumstances mentioned above are by no means easy, we have faced the current state with a positive attitude and aim to be a distinctive company which makes its presence felt. We would like to ask for your continued support and cooperation.

June 29, 1999

Tsuneo Yano
Tsuneo Yano
President

Questions + Answers

What are the factors which led the consolidated net loss of ¥699 million (US\$5.8 million) for the current term?

The economy in Japan is currently suffering from deep recession, with stagnant consumer spending and retrenchment of corporate investment in equipment and facilities arising from concerns about the financial system and employment. Falling exports due to the economic turbulence in Asia, product market decline in the Asia region, strengthening of yen since the middle of the term, and other factors are also tightening market conditions. We had done our best to ensure strong sales, but the consolidated accounts for the current term recorded a significant drop in both income and revenue, of which the net sales were ¥221,546 million (US\$1,837.8 million), operating income were ¥14,648 million (US\$121.5 million), and the net loss was ¥699 million (US\$5.8 million). This is attributable to the fall in the sales price and lowering of sales volume due to the setback in demand, which although we succeeded in keeping down the cost of material, we could not fully offset by the cost reduction. Moreover, we accounted the stock transfer loss for the Long-Term Credit Bank of Japan and the Nippon Credit Bank as an extraordinary loss, while we accounted fixed asset transfer profits as extraordinary profits to partly counterbalance this.

Questions + Answers

How does the company plan to resolve its financial problems of excessive interest-bearing liabilities and unrealized losses on securities?

We find these problems critical and fundamental to the management basis and are seriously considering countermeasures. There were ¥260,812 million (US\$2,163.5 million) in interest-bearing liabilities as of March 31, 1993, which decreased to ¥202,470 million (US\$1,679.6 million) as of March 31, 1998, and ¥186,564 million (US\$1,547.6 million) at the end of current term.

Our policy for the future is to accelerate the reduction of these liabilities and assets through the sale of approximately 20% of the cross-held shares, of which we currently hold ¥39,000 million (US\$323.5 million) by book value, plus other securities, to further reduce the total assets by ¥20,000 million (US\$165.9) or more by March 31, 2001 and improve our financial position.



Questions + Answers

What do you mean by
“a distinctive company
which makes its
presence felt”?

In order to survive in this age of mega-competition and the global economy, we must build a strong corporate structure and improve our international competitiveness. When we refer to the phrase “a distinctive company which makes its presence felt”, we mean a company which develops and distributes a number of differentiated products and strongly presents its appeal by improving competitiveness.

Profitability must be urgently improved by concentrating our resources, within the wide range of various business fields, on areas where we have special advantages or sound growth in order to achieve this goal. In detail, we are planning to allocate our resources to the following three targeted business areas.

We have already concentrated our research divisions on resin-fabricated wrapping products. We intend to take advantage of our location in Kanto area, where 60% of all national products are consumed, and our integrated production system including everything from materials to end products.

For semiconductor-related electronic materials, we have made fused silica as our main product, and maintain our position as one of the leading manufacturers in the world through the smooth operation of our plants in Omuta and Singapore. In the electronic substrate field, we are also promoting the development of ceramic substrate for power modules in hybrid cars in addition to the existing aluminum substrates.

The market for special cement additives is becoming highly competitive due to the entry of cement manufacturers. With 30 years of experience, we promote product development matching the needs of the market, and continue to maintain our dominance.



Questions + Answers

What is
the company’s
decision
regarding
dividends?

We recognize that stock dividend is one of the most important management issues. Our fundamental policy is to decide upon the balance of gaining retained earnings needed for further business development and allocating dividends to the shareholders based on performance, taking profits into account.

Business conditions during the current term were poor, reflecting the temporary loss incurred due to the stock transfer loss at the Long-Term Credit Bank of Japan and others, coupled with the lengthy recession. However, as a result of the cost-reducing policy, the earnings structure stabilized firmly and corporate structure improved. We are planning to issue annual dividends of ¥5 per share (a payout ratio of 410%) with periodic income and a portion of retained earnings. We also wrote-off 3.50million shares of treasury stock in March and 3.43million in April in order to utilize capital reserves.

We will further promote the improvement of management efficiency, stabilization of group-wide operating performance and strengthening of the corporate structure. We will commit ourselves to recovering earnings and improving profitability as soon as possible, in order to create shareholder value.



Questions + Answers

How is
the company
dealing with the
Y2K issues?

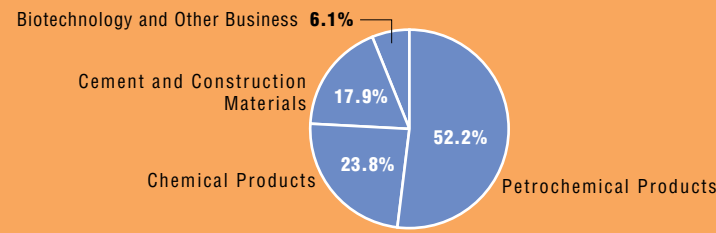
We recognize the Y2K issues as important and urgent issues for the continuation of work and response to customers. We are dealing with the problem exhaustively across the company within the limits of our control. Particularly, the System and Facility Divisions, where the Y2K issues are directly linked to a potential fatal problem, have acted well in advance to develop countermeasures.

The System Division had already completed the adaptation to the year 2000 when it reconstructed the computer system in 1992. Since 1997, renewals of hardware and OS have also been implemented in consideration of the Y2K issues. An overall simulation test was conducted in March 1999 to dissolve any doubtful factors.

Facility Division has been screening its working hardware since early 1998, determining the impacts and countermeasures for each vendor and dealing with any hardware problems during the regular overhaul of each plant. It is scheduled to be completed by October 1999.

However, because a strict standard proposal was made by American corporations requiring the Japanese business sector to increase their efforts towards the issue, the divisional approach we have taken thus far may not be enough. So, we have established the “Y2K Issues Committee” with Executive Accounting Director as the chairman in March 1999, and set up four subcommittees under it to organize a company-wide system, to lay down the crisis management plan and implement a final check.

DENKA at a Glance



Breakdown of Sales (1999.3)

Review of Operations



Petrochemical Products Division



Outline

DENKA produces and sells various petrochemical products in response to the diversified needs of the market, such as PS, ABS, functional resins and other styrene resins, vinyl chlorides, vinyl acetates, resin-processed products, etc.

Main Products

Styrene Products

Polystyrene, AS resin, ABS resin, styrene-butadiene copolymer (CLEAREN), functional resins, etc.

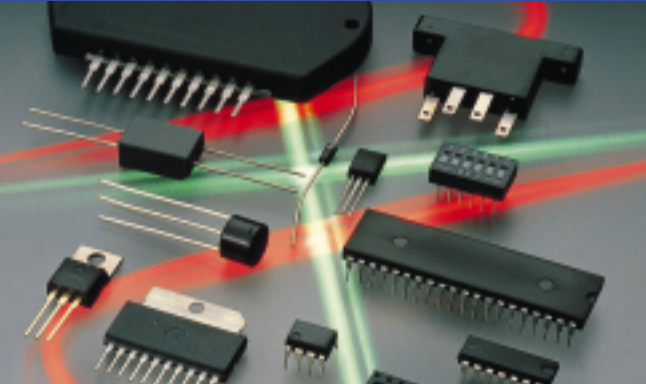
Vinyl Chlorides and Vinyl Acetates

Vinyl chloride, PVC compound (VINYKON), vinyl acetate, polyvinyl alcohol (POVAL), LAC, ethylene-vinylacetate copolymer emulsion (EVA TEX), structural adhesives (HARDLOC), etc.

Resin-Processed Products

Stretch film, POVAL film, styrene sheet, other plastic sheet, PET bottle, etc.

Chemical Products Division



Outline

DENKA provides chemical products with originality, such as environmentally-friendly fertilizers, chloroprene rubber (originally developed by DENKA), carbide, refractory, etc.

Main Products

Fertilizers

Calcium cyanamide, fused magnesium phosphate, composted fertilizer, etc.

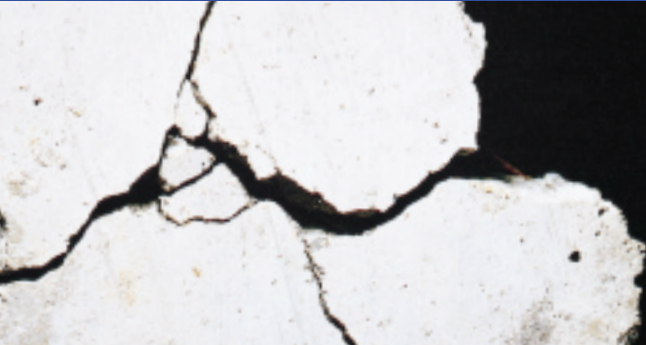
Organic Chemical Products

Chloroprene, acetylene black, etc.

Inorganic Chemical Products

Carbide, powdery and grainy calcium carbide for desulphurization (SULFEX), ferrosilicon nitride (FIRELEN), aluminous cement, fibrous refractory material for use under extremely high temperatures (ALCEN), fused silica, boron carbide, boron nitride, silicon nitride, etc.

Cement and Construction Materials Division



Outline

DENKA has a unique approach towards the construction material market by developing and producing special cement additives using its well-renowned technology.

Main Products

Cements

Ordinary portland cement, portland slag cement for blast furnaces, limestone, etc.

Special Additives

Expansive additives, quick-setting additives, non-shrink additives, etc.

Biotechnology and Other Business



Outline

With a high level of technology achieved in other divisions, DENKA is promoting the development of bioreactors and biotechnology researches. Also, it is developing its medical care business in liaison with pharmaceutical affiliates such as Denka Seiken Co., Ltd., DENKA PHARMACEUTICAL Co., Ltd. and JUZEN CHEMICAL COMPANY LTD.

Main Products

Sodium hyaluronate (hyaluronic acid), physiological activator, diagnostic chemical by new bio, medical intermediates, etc.

Petrochemical Products Division

Topics

- DENKA launched TOYO STYRENE CO., LTD. in a joint equity scheme with Nippon Steel Chemical and Daicel Chemical Industries and commenced operations in April 1999.
- Acrylonitrile/styrene (AS) production facilities using the continuous polymerizing method were established in the Chiba Plant in April 1999.

Market Conditions and Plans for the Future

The petrochemical products market is now facing a turning point of an entire restructuring. For polystyrene in particular, which is a typical general-use resin, the problem of excess supply has surfaced recently. However, business integration in the industry is accelerating rapidly and with the launch of TOYO STYRENE CO., LTD., which commenced operations in April 1999, the number of cooperation in the market which at one time had been ten is drawn down to four. However, business integration alone will not lead to improved profits, so the producers must reduce their costs and strengthen the structure of their companies, considering countermeasures for the volatile market conditions.

In the overseas market, DENKA's polystyrene production facilities in Singapore are operating at full capacity. In addition to the existing markets in Hong Kong, China and other Asian countries, we are currently exploring new markets in Europe and South Africa.

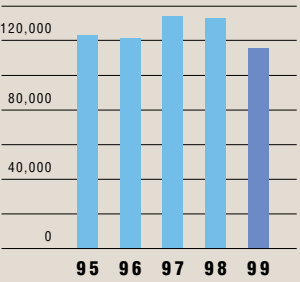
Operating Results

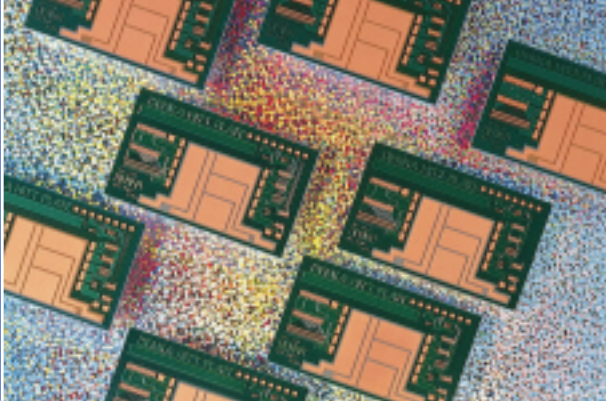
In the domestic market, prices dropped sharply in the styrene resin market due to the depreciation of material costs. In addition, the sales volume of products for housing construction materials, such as vinyl acetate, and products for consumer durables, such as ABS resin, declined significantly.

In the overseas market, a surge in slumping demand in Asia due to the continuing economic recession and exports from Korea and Thailand led to a significant fall in the market price, resulting in a decrease in the sales volume for styrene monomer, polystyrene and ABS resin. For resin processed materials, although revenues increased for conductive sheet for semiconductor chip carriers, food wrapping products were generally weak both in price and sales volume.

As a result, consolidated net sales in the current term for the division declined ¥16,702 million (US\$138.5 million), or 12.6%, from the previous term to ¥115,591 million (US\$958.9 million).

Net Sales
(Millions of Yen)





Chemical Products Division

Topics

- “DENKA Fused Silica” produced in the Omuta Plant and “DENKA HITT PLATE” produced in the Shibukawa Plant are both certified under ISO 9001 Standards in January 1999.

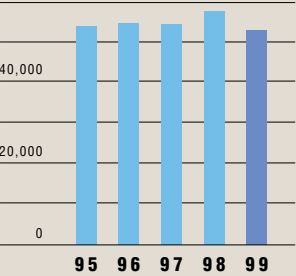
Operating Results

The sales volume for fertilizers rose slightly, although that for carbides and refractories declined. For electronic materials, sales volume of ceramic substrate grew, but we have partly shifted our exports of spherical-shaped fused silica filler to on-site production in Singapore, resulting in a general loss in revenue. The sales volume for cloroprene rubber declined in both the domestic and overseas market due to flagging automobile sales market.

As a result, consolidated net sales in the current term for the division declined ¥4,808 million (US\$39.9 million), or 8.4%, from the previous term to ¥52,759 million (US\$437.7 million).

Market Conditions and Plans for the Future

Although demand for semiconductors has leveled off, it is expected to turn upward by late this year, accompanied by an increase in demand for fused silica. DENKA has effectuated the mass production of fused silica for EMC in Singapore. Further promotion is planned for higher production schedules in liaison with the Omuta Plant. The ceramic substrate market is also expected to experience a great surge in demand in the future if it is to be mounted on hybrid cars.



Cement and Construction Materials Division

Topics

- DENKA has agreed on a broad business collaboration with Sumitomo Osaka Cement for shipment exchange, mutual use of service stations, integration and shutting down of plants, etc.

Operating Results

The cement market experienced a decline in both sales volume and sales price, due to a downturn in private demand and the rather ineffective anti-recession package for public works. For special additives, quick-setting cement additives for shotcrete “NATMIC” for highway and Shinkansen tunnel construction, and non-shrink additives for grout “PRETASCON” saw substantial increases in sales volume. There were high expectations for the concrete rehabilitation business, as a new technique for the dechlorination and realkalization of existing buildings also increased sales for construction. On the other hand, the sales volume for “DENKA CSA,” an expansive additive for cement used for filling cracks in mortar and concrete, declined due to the downturn in large-scale construction.

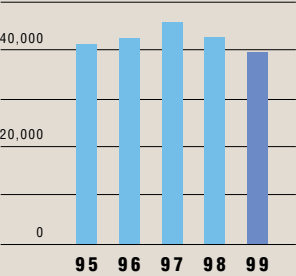
As a result, consolidated net sales in the current term for the division declined ¥2,882 million (US\$23.9 million), or 6.8%, from the previous term to ¥39,607 million (US\$328.6 million).

Market Conditions and Plans for the Future

Despite the increase in investment for public works, there are no signs of an upturn in the supply-demand situation and market conditions are stagnant. Under these conditions, a new market is emerging for special cement additives by exploring the new demands anticipating social needs. Life-expanding repair of concrete has a cost advantage over new construction, and subsequently, the demand for it has been increasing recently. DENKA has responded to this new demand by providing integrated operations from the diagnosis and presenting of a construction method to actual repair. The disaster prevention business, including revetment construction and rock mass reinforcement, also should be given attention in the future. Our task is to further enrich our lineup of products to remain on top of the market needs.



Net Sales (Millions of Yen)





Biotechnology and Other Business

Topics

• Influenza raged throughout Japan early this year and vaccinothrapy once again drew a great deal of attention in the medical field. A shortage of influenza vaccine developed in a social problem. Denka Seiken Co., Ltd. responded at full capacity as a leading producer.

Operating Results

The pharmaceutical industry is becoming a highly-competitive market, reflecting the revision of health insurance in 1997 and a price reduction in medicines early this year.

Under these circumstances, we have worked on expansion plans by uniting the forces of production and sales. This resulted in an increase in the sales volume of vaccines, diagnostic chemicals and veterinary medicines for the domestic market. We have been promoting an aggressive expansion plan for exports, mainly of diagnostic chemicals and a new product line of direct diagnostic chemicals for cholesterol, resulting in a significant increase in revenues.

For other products, the securities business and engineering business both saw a decrease in revenue due to the stagnant domestic stock market and a decline in private capital investment respectively.

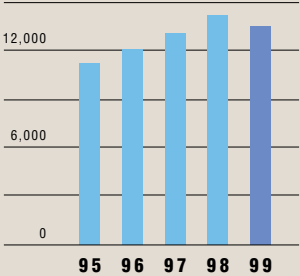
As a result, consolidated net sales in the current term for the division declined ¥687 million (US\$5.7 million), or 4.8%, from the previous term to ¥13,587 million (US\$112.7 million).

Market Conditions and Plans for the Future

It has been said that the domestic pharmaceutical market had become saturated, but the rage of influenza triggered attention towards the importance of inoculation. We have coped with this trend as a leading producer of influenza vaccine to satisfy the social responsibility. Also, for diagnostic chemicals, we have committed ourselves to speeding up product development and improving production efficiency and quality for existing products.



Net Sales
(Millions of Yen)



DENKA has been developing its overseas production with a focus on products that are at an international level of quality and technological competitiveness and have a high share of global sales. Through the overseas production, we are achieving rationalization of material cost, manufacturing cost and distribution cost.

The economies in Asian countries, where we have developed our major overseas operations, have been suffering since the currency crisis and are not expected to fully recover until next year at the earliest. Consequently, demand in the Asian region has declined, and an increase in exports from Korea and Thailand has led to a significant fall in the market price, which still keeps export market conditions severe. Under these circumstances, DENKA has committed itself to developing and structurally enhancing its overseas operations, mainly in Singapore. Our consolidated overseas sales for the current fiscal term was ¥25,542 million (US\$211.9 million), a ¥5,864 million (US\$48.6 million) decline (-23.0%) from the previous term.

The three plants in Singapore are the main pillars of DENKA's overseas operations, producing acetylene black, fused silica and polystyrene.

In particular, mass production system was established for fused silica for high-

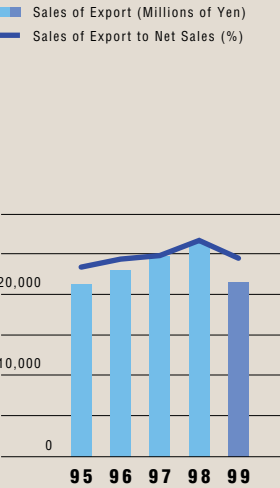
quality general use products, which have been operating at nearly full capacity. It will develop its alliance further with the Omuta Plant in order to secure its position as a top producer in the industry. For acetylene black, a decline in purchasing power in Singapore affected sales. Sales of polystyrene are also suffering from weak market conditions, mainly in China. We are not going to change our overseas operations policy drastically from the current one, which upholds the operations in Singapore as the key of our Eastern Asia operations and the main pillar for our consolidated operations.

In Taiwan, DENKA KUO SEN, a joint venture with KUO SEN ENTERPRISE, started producing special additives in July 1998. Demand has increased for special additives in Taiwan due to investments in infrastructure such as aviation, railroad and highways. It now holds non-shrink additives for grout "DENKA PRETASCON" as a main product, but is planning to broaden its production range.

We will keep our policy focused on Singapore, located in the center of our home market of Southeast Asia, in order to enrich and expand our lines of business and develop overseas operations aggressively.



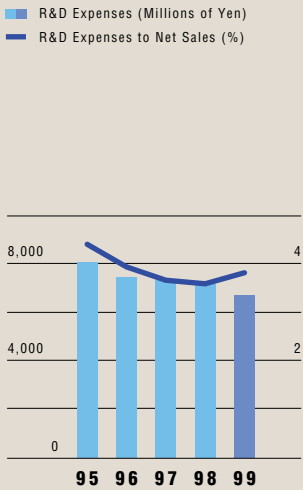
Sales of Export and Sales of Export to Net Sales (Non-Consolidated)



Reserch and Development



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



Trends and Results of the Current Fiscal Term

DENKA has been promoting the reorganization of R&D activities with a view to enhancing and expanding the existing and peripheral areas of operations. Our Research Center located in Machida, which formerly covered a relatively broad area of research, is now concentrating on basic research and analysis, while the peripheral research operations are in the process of shifting to the research offices of each plant, in order to affiliate more closely with the production field. Expenditures on R&D were approximately 7.4 billion yen and there were about 610 employees engaged in research activities. We have accomplished authentic results through our focused allocation of resources and efficient management. The major results of our R&D accomplished during the current fiscal term include the following:

- “DENKA Fused Silica”, produced in the Omuta Plant, and “DENKA HITT PLATE”, produced in the Shibukawa Plant, are both certified under ISO 9001 Standards. This was the first ISO 9001 certification for Omuta, and the second in Shibukawa, succeeding the first certification for “HARDLOC,” which is also our product. They fulfilled the ISO standards in every production process from R&D to distribution in this certification. Both products already hold the leading share in each market, but further support from the users in and out of Japan is expected as a result of this certification.
- The Product Development Center, established for the aim of vertical expansion and an increase in profits, is now promoting the broadening of the product range and develops differentiated products for food wrapping products, along with quality products used to wrap electronic components.
- It is difficult to synthesize olefins, including ethylene and propylene, with styrene monomers. However, utilizing its original technology, DENKA

accomplished the synthesis of these compounds by using a new highly-active catalyst and has successfully developed a new type of styrene resin. We will continue to design material, considering market needs and trying to look for ways to commercialize the products.

- In the field of construction, including the repair of concrete using adhesives or by filling in the cracks, we have developed an acrylic adhesive, “HARDLOC II”, and are promoting its market development.
- We are promoting research to reduce costs and improve the quality of styrene resins and other general-use products, flame retard polystyrene resins, and transparent/heat-resistant/chemical resistant and other functional resins.

Future Policy

Our keynote for R&D would continue to be the development and exploitation of peripheral areas around existing products. To avoid deviation into application research, we are going to allocate our resources appropriately for both basic and application research to keep the best balance.

We are focusing on improving our speed in every stage of production, from R&D to distribution, and on establishing a system to ensure a speedy response to market demands. Our target is to develop new products or grades in anticipation of market needs.

We are especially targeting the substrate production field, in which we started developing ceramic-reinforced metal compound materials (MMC). These materials are now aimed at commercialization as a heat sink for power module substrate in hybrid cars. Although its market is expected to expand significantly with the increase in the number of hybrid cars, there are currently no domestic products of high quality for the heat sink. DENKA will devote itself to developing an integrated production system from material to substrate in this area by utilizing our state-of-the-art ceramic technology.

Financial Section

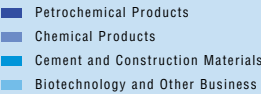
Five Years Summary
Denki Kagaku Kogyo Kabushiki Kaisha and its consolidated subsidiaries



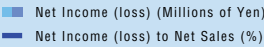
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Shareholders' equity	87,526	90,035	80,201	80,917	72,066	726,051
Total assets	345,083	367,031	367,780	387,965	384,231	2,862,578

Note: Yen amounts are translated into dollars at a rate of ¥120.55=U.S.\$1.

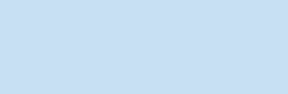
Net Sales
(Millions of Yen)



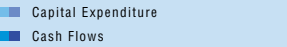
Net Income (loss) and Net Income (loss) to Net Sales



Interest-bearing Liabilities
(Millions of Yen)



Capital Expenditure and Cash Flows
(Millions of Yen)



Consolidated Balance Sheets

31st March

Denki Kagaku Kogyo Kabushiki Kaisha And Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	1999	1998	1999
Current assets:			
Cash and time deposit	¥ 4,979	¥ 14,472	\$ 41,304
Notes and accounts receivable, trade (Notes 4 and 13)	60,694	67,822	503,473
Marketable securities (Note 5)	39,037	45,688	323,826
Inventories (Note 6)	30,955	32,877	256,782
Prepaid expenses and other current assets (Note 4)	4,888	6,577	40,547
Allowance for doubtful accounts	(727)	(736)	(6,030)
Total current assets	139,826	166,700	1,159,902
Fixed assets:			
Property, plant and equipment (Note 7):			
Buildings and structures	92,610	93,134	768,231
Machinery and equipment	259,591	254,970	2,153,387
Land	38,389	29,081	318,451
Construction in progress	5,876	3,656	48,747
	396,466	380,841	3,288,816
Accumulated depreciation	(239,595)	(230,362)	(1,987,517)
Total property, plant and equipment	156,871	150,479	1,301,299
Intangible fixed assets	510	618	4,232
Investments and other assets			
Investment securities (Note 4)	16,950	18,727	140,609
Long-term loans receivable (Note 4)	1,491	3,252	12,365
Other	7,921	7,887	65,710
Allowance for doubtful accounts	(109)	(127)	(905)
Total investments and other assets	26,253	29,739	217,779
Total fixed assets	183,634	180,836	1,523,310
Deferred charges			
Research and development	3,681	3,664	30,535
Other	109	146	896
	3,790	3,810	31,431
Assets of consolidated securities company (Notes 7 and 12)	16,969	15,441	140,764
Foreign currency translation adjustments	864	244	7,171
Total assets	¥345,083	¥367,031	\$2,862,578

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	1999	1998	1999
Liabilities:			
Current liabilities			
Notes and accounts payable, trade (Note 4)	¥ 26,324	¥ 31,071	\$ 218,368
Short-term bank loans (Note 7)	73,137	75,642	606,695
Commercial paper	–	9,300	–
Current portion of long-term debt (Note 7)	18,799	24,435	155,942
Accounts payable (Note 4)	4,558	4,638	37,809
Accrued taxes on income and other (Note 7)	1,541	718	12,780
Accured expenses	11,741	14,235	97,398
Reserve for investment losses	1,341	746	11,124
Other current liabilities (Note 4)	2,998	2,551	24,867
Total current liabilities	140,439	163,336	1,164,983
Long-term liabilities			
Long-term debt (Note 7)	94,628	93,093	784,972
Accrued severance indemnities (Note 10)	3,836	3,629	31,823
Other long-term liabilities	504	666	4,183
Total Long-term liabilities	98,968	97,388	820,978
Liabilities of consolidated securities company (Note 12)	15,091	13,266	125,185
Minority interest in consolidated subsidiaries	3,060	2,996	25,381
Total liabilities	257,558	276,986	2,136,527
Shareholders' equity:			
Common stock: ¥50 par value per share			
Authorized: 1,565,000,000 shares			
Issued:			
March, 1999 and 1998–471,849,390 shares	35,303	35,303	292,846
Capital surplus	35,268	35,889	292,557
Retained earnings (Note 11)	16,955	18,843	140,648
Total shareholders' equity	87,526	90,035	726,051
Contingent liabilities (Note 13)			
Total liabilities and shareholders' equity	¥345,083	¥367,031	\$2,862,578

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

Year Ended 31st March

Denki Kagaku Kogyo Kabushiki Kaisha And Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 1)
	1999	1998	1999
Net sales	¥221,546	¥246,624	\$1,837,793
Cost of sales	157,721	176,236	1,308,345
Gross profit	63,825	70,388	529,448
Selling, general and administrative expenses (Note 9)	49,177	50,928	407,939
Operating income	14,648	19,460	121,509
Other income			
Interest and dividend income	606	708	5,027
Gain on sale of marketable securities	643	1,998	5,334
Gain on sale of land, buildings and other	2,549	5,681	21,145
Other	1,585	1,809	13,148
	5,383	10,196	44,654
Other expenses			
Interest expenses	4,923	5,511	40,838
Loss on disposal of property, plant and equipment	645	109	5,350
Amortization of prior service cost	973	767	8,071
Loss on liquidation of subsidiaries	—	12,840	—
Loss on liquidation of affiliates	1,883	—	15,620
Loss on sale of marketable securities	6,664	—	55,280
Other (Note4)	3,912	5,527	32,451
	19,000	24,754	157,610
Income before income taxes	1,031	4,902	8,553
Income taxes (Note 7)	(1,162)	(899)	(9,639)
Minority interest in losses of consolidated subsidiaries	(97)	(63)	(805)
Equity in deficit of unconsolidated subsidiaries and affiliates	(474)	(924)	(3,933)
Amortization of goodwill arising on consolidation	3	4	25
Net income (loss)	¥ (699)	¥ 3,020	\$ (5,799)
Per share	1999	1998	1999
Net Income (loss)	¥ (1.48)	¥ 6.35	\$ (0.012)
Cash dividends	2.51	5.06	0.021

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha And Consolidated Subsidiaries

	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
	(thousands)		(millions of yen)	
Balance, 31st March 1997	475,349	¥ 35,303	¥ 35,889	¥ 9,009
Net income	—	—	—	3,020
Increase in retained earnings resulting from exclusion of subsidiaries in the consolidation	—	—	—	9,451
Cash dividends	—	—	—	(2,614)
Bonuses to directors and statutory auditors	—	—	—	(23)
Balance, 31st March 1998	475,349	¥ 35,303	¥ 35,889	¥ 18,843
Net loss	—	—	—	(699)
Increase in retained earnings resulting from inclusion of a subsidiary in the consolidation	—	—	—	100
Decrease in retained earnings resulting from exclusion of an affiliate in the consolidation	—	—	—	(77)
Cash dividends	—	—	—	(1,188)
Bonuses to directors and statutory auditors	—	—	—	(24)
Stock redemption	(3,500)	—	(621)	—
Balance, 31st March 1999	471,849	¥ 35,303	¥ 35,268	¥ 16,955

	Common stock			
	Number of shares	Amount	Capital surplus	Retained earnings
	(thousands)		(thousands of U.S. Dollars) (Note 1)	
Balance, 31st March 1998	475,349	\$292,846	\$297,708	\$156,309
Net loss	—	—	—	(5,798)
Increase in retained earnings resulting from inclusion of a subsidiary in the consolidation	—	—	—	830
Decrease in retained earnings resulting from exclusion of an affiliate in the consolidation	—	—	—	(639)
Cash dividends	—	—	—	(9,855)
Bonuses to directors and statutory auditors	—	—	—	(199)
Stock redemption	(3,500)	—	(5,151)	—
Balance, 31st March 1999	471,849	\$292,846	\$292,557	\$140,648

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Note 1. Basis presenting consolidated financial statements:

The accompanying consolidated financial statements have been prepared from the accounts maintained by Denki Kagaku Kogyo Kabushiki Kaisha and its consolidated subsidiaries (the “Company”) in accordance with the provisions set forth in the Commercial Code (the “Code”) and conformity with accounting principles and practices generally accepted in Japan ,which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the “MOF”) in Japan have been reclassified for the convenience of readers outside Japan. The consolidated financial statement of cash flows is not required under accounting principles generally

accepted in Japan and accordingly is not presented herein.

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

Amounts in U.S.dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.55 = U.S.\$1, the rate of exchange on 31st March 1999 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

Notes 2. Major policies followed in preparing consolidated financial statements

Consolidation and investments in affiliated companies– The consolidated financial statements consist of the accounts of the parent company and, with exceptions which are not material, those of its 32 majority and wholly-owned subsidiaries (30 subsidiaries in 1998). All significant inter-company transactions and accounts have been eliminated.

Investments in unconsolidated subsidiaries and 20% to 50% owned companies are, with minor exceptions, accounted for on an equity basis. These unconsolidated subsidiaries and 20% to 50% owned companies for which the equity method is applied total 21 and 25 at 31st March 1999 and 1998, respectively.

Note 3. Significant accounting policies:

(a) Marketable and investment securities

Marketable and investment securities, including marketable equity securities are stated at cost determined by the moving average method.

(b) Inventories

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

(c) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method based on the estimated useful lives of the assets.

(d) Deferred charges

Deferred bond issue costs are amortized on a straight-line method over three years, research and development costs and expenses incurred for opening of business are amortized on a straight-line method over five years in accordance with the provision of the Japanese Commercial Code.

(e) Accrued severance indemnities and pension plan

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 consolidated subsidiaries have provided for this liability, to the extent of 40% of the amount

Nine subsidiaries (six subsidiaries in 1998) and one subsidiary are consolidated on the basis of their fiscal years ended at 31st December and at 30th November, respectively. Material differences in inter-company transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

The excess of the cost over underlying net equity of investments in consolidated subsidiaries and other companies accounted for on an equity basis, at the date of acquisition, is deferred and amortized on a straight-line basis over a period of five years from the date of acquisition.

which would be required if all employees terminated employment voluntarily as at the relevant balance sheet date, less related benefits provided by the pension plans.

The Company and certain of its consolidated subsidiaries have non-contributory funded pension plans to cover part of their employees’ severance indemnities. The aggregate past service costs for the pension plans were ¥2,945 million (\$24,430 thousand) and ¥2,452 million at 31st March, 1999 and 1998, respectively, which are amortized by the declining-balance method at an annual rate of 30%.

In addition, 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. Accrued severance indemnities as at 31st March 1999 and 1998 include severance indemnities for directors and statutory auditors of ¥539 million (\$4,471thousand) and ¥524 million, respectively. Payment of directors’ severance indemnities is subject to shareholders’ approval.

(f) Accounting for leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are principally accounted for by the method that is applicable to ordinary operating leases.

(g) Translation of foreign currency accounts

Current foreign currency receivables and payables are translated into Japanese yen at the applicable exchange rates

at the balance sheet date except for those receivables and payables covered by forward exchange contracts which are translated at the forward exchange rates. Resulting exchange gains or losses are credited or charged to income. Non-current foreign currency receivables and payables are generally translated at historical rates.

Foreign currency financial statements have been translated into yen at the appropriate year end current rate except for common stock, capital surplus and certain other inter-company accounts. Translation differences resulting therefrom have been deferred and are reflected in the accompanying consolidated balance sheets as “Foreign currency translation adjustments”.

(h) Income taxes

Accrued taxes on income are based on taxable income for the year. In accordance with accounting principles generally accepted in Japan, deferred income tax allocation has not been

adopted in the accompanying consolidated financial statements.

(i) Appropriation of retained earnings

Cash dividends, transfer to legal reserve and bonuses to directors and statutory auditors are recorded in the fiscal year when the proposed appropriation of retained earnings is approved at the general meeting of shareholders. Interim dividends are declared by the board of directors and recognized in the period declared.

(j) Net income per share

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

(k) Research and development costs

Research and development costs are charged to income as incurred except for those related to new products and technologies, which are capitalized and amortized over five years.

Note 4. Accounts balances and transactions with affiliated companies:

Accounts balances with unconsolidated subsidiaries and 20% to 50% held companies accounted for on an equity basis at 31st March are as follows:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Notes and accounts receivable, trade	¥6,219	¥7,775	\$51,589
Short-term loans receivable	593	484	4,919
Other current assets	298	816	2,472
Investment securities	11,434	14,035	94,849
Long-term loans receivable	305	1,955	2,530
Notes and accounts payable, trade	1,652	2,294	13,704
Other current liabilities	2,405	1,091	19,950

Transactions between the parent company and its unconsolidated subsidiaries and 20% to 50% held companies accounted for on an equity basis for the years ended 31st March 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Other income-other	¥25	¥625	\$207

Note 5. Marketable securities

Marketable securities at 31st March are composed of the following:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Marketable equity securities	¥39,029	¥44,886	\$323,759
Bonds and other securities	8	802	67
	¥39,037	¥45,688	\$323,826

Note 6. Inventories

Inventories at 31st March are as follows:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Finished products	¥16,380	¥17,850	\$135,878
Semi-finished products	6,764	6,660	56,109
Work in process	989	1,065	8,204
Raw materials	5,027	5,410	41,701
Supplies	1,795	1,892	14,890
	¥30,955	¥32,877	\$256,782

Note 7. Short -term bank loans and long-term debt

Short-term bank loans at 31st March comprised the following:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Bank overdrafts with interest ranging from 0.694 per cent to 6.500 per cent per annum	¥ 2,800	¥ 2,103	\$ 23,227
Short-term bank loans with interest ranging from 0.696 per cent. to 6.800 per cent. per annum represented by short-term notes maturing at various dates within one year	70,337	73,539	583,468
	¥73,137	¥ 75,642	\$606,695

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

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Loans, principally from banks and insurance companies, maturing serially to 2010 with interest ranging from 1.11per cent. to 7.50 per cent. per annum:			
Secured	¥ 104	¥ 311	\$ 863
Unsecured	43,323	52,217	359,378
6.00 per cent. bonds due 1998	–	10,000	–
7.20 per cent. bonds due 1999	10,000	10,000	82,953
2.65 per cent. bonds due 2000	10,000	10,000	82,953
2.00 per cent. bonds due 2001	10,000	10,000	82,953
2.35 per cent. bonds due 2001	5,000	5,000	41,477
2.95 per cent. bonds due 2001	10,000	10,000	82,953
2.10 per cent. bonds due 2002	10,000	10,000	82,953
2.20 per cent. bonds due 2002	5,000	–	41,477
2.40 per cent. bonds due 2002	5,000	–	41,477
2.275 per cent. bonds due 2002	5,000	–	41,477
	113,427	¥117,528	940,914
	18,799	24,435	155,942
	¥ 94,628	¥ 93,093	\$784,972
Less-current portion of long-term debt			

A summary of assets pledged as collateral for short-term bank loans and long-term debt at 31st March 1999 is as follows;

	Millions of yen	Thousands of U.S.dollars
Property, plant and equipment - at book value	¥ 86,787	\$719,925
Assets of consolidated securities company	1,366	11,331

The aggregate annual maturities of long-term debt subsequent to 31st March 1999 are as follows:

	Millions of yen	Thousands of U.S.dollars
Year ending 31st March:	¥ 18,799	\$155,942
1999	25,513	211,638
2000	44,569	369,714
2001	13,827	114,699
2002	10,719	88,921
2003 and thereafter	¥113,427	\$940,914

Note 8. Income taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a normal tax rate of approximately 48 per cent in 1998 and 42.1 per cent in 1999.

In the accompanying consolidated statement of income, the income tax expense amounts differ from the amounts

computed by applying the aggregate statutory income tax rate to income before income taxes. These differences result from non-recognition of tax effects relating to certain differences between tax and financial accounting and differences relating to intercompany profits and other items eliminated in the consolidation.

Note 9. Selling, general and administrative expenses

Selling,general and administrative expenses for the years ended 31st March 1999 and 1998 comprised the following:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Selling expenses:			
Carriage and shipping	¥17,935	¥19,055	\$148,776
Sales commission	5,373	5,986	44,571
Other	1,920	1,909	15,927
	25,228	26,950	209,274
General and administrative expenses:			
Salaries and remuneration	10,157	10,172	84,255
Employees' welfare	468	633	3,882
Research and development	3,899	3,801	32,343
Other	9,425	9,372	78,185
	23,949	23,978	198,665
	¥49,177	¥50,928	\$407,939

Note 10. Retirement and severance benefits

The total charges to consolidated income for all retirement and pension plans for the years ended 31st March 1999 and 1998 amounted to ¥1,842 million (\$ 15,280 thousand) and

¥1,458 million, including a credit of ¥315 million (\$ 2,613 thousand) and a charge of ¥184 million, respectively, for directors.

Note 11. 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 31st March 1999 and 1998 were ¥4,510 million(\$37,412 thousand), and ¥3,853 million, respectively.

Note 12. Analysis of assets and liabilities of securities company

An analysis of assets and liabilities at 31st March 1999 and 1998 of a securities company, which have been recorded in accordance with the provisions of “Uniform Accounting

Standards for Securities Companies” issued by Japan Securities Dealers Association, is shown below. Intercompany assets and liabilities are eliminated.

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Current assets:			
Cash and deposits	¥ 1,684	¥ 1,271	\$ 13,969
Margin transaction account	3,985	4,960	33,057
Securities under the company's custody	10,100	7,492	83,783
Other	556	601	4,612
	16,325	14,324	135,421
	644	1,117	5,343
	¥16,969	¥15,441	\$140,764
Non-current assets			
Total assets			
Current liabilities:			
Short-term loans	¥ 930	¥ 1,080	\$ 7,715
Margin transaction account	2,354	3,332	19,527
Guarantee money	340	396	2,820
Securities received in lieu of guarantee money	6,000	7,441	49,772
Other	5,400	729	44,796
	15,024	12,978	124,630
	25	28	207
	42	260	348
	¥15,091	¥13,266	\$125,185
Non-current liabilities			
Reserves			
Total liabilities			

Net sales for the two years ended 31st March 1999 and 1998 include operating revenue (including financial revenue) of the securities subsidiary amounting to ¥1,312 million (\$ 10,883 thousand) and ¥1,443 million and selling, general and

administrative expenses for the two years ended 31st March 1999 and 1998 include operating expenses (including financial expenses) of the securities subsidiary amounting to ¥1,756 million (\$ 14,567thousand) and ¥1,792 million, respectively.

Note 13. Contingent liabilities

Contingent liabilities at 31st March 1999 and 1998 for notes receivable discounted and endorsed and loans guaranteed

were approximately ¥3,730 million (\$30,942 thousand) and ¥6,842 million, respectively.

Note 14. Business Segment Information

The Companies are primarily engaged in the manufacture and sale of products in the two major segment of chemicals and other business.

Information by business segment for the years ended March 31st 1999 and 1998 is summarized as follows:

Year ended March 31 1998	Millions of yen				
	Chemicals	Other	Total	Elimination	Consolidation
Sales					
Outside customers	¥241,370	¥ 5,254	¥246,624	–	¥246,624
Inter-segment	161	222	383	(383)	–
Total	241,531	5,476	247,007	(383)	246,624
Operating costs and expenses	222,046	5,666	227,712	(367)	227,345
Operating income(loss)	¥ 19,485	¥ (190)	¥ 19,295	¥ (16)	¥ 19,279
Assets	¥290,067	¥ 18,197	¥308,264	¥ 58,767	¥367,031
Depreciation cost	14,680	63	14,743	(14)	14,729
Capital expenditure	24,675	9	24,684	–	24,684

Year ended March 31 1999	Chemicals	Other	Total	Elimination	Consolidation
Sales					
Outside customers	¥217,922	¥ 3,624	¥221,546	–	¥221,546
Inter-segment	128	690	818	(818)	–
Total	218,050	4,314	222,364	(818)	221,546
Operating costs and expenses	203,043	4,656	207,699	(801)	206,898
Operating income(loss)	¥ 15,007	¥ (342)	¥ 14,665	¥ (17)	¥ 14,648
Assets	¥281,349	¥ 22,722	¥304,071	¥ 41,012	¥345,083
Depreciation cost	14,456	78	14,534	(9)	14,525
Capital expenditure	23,148	2,528	25,676	–	25,676

Year ended March 31 1999	Thousands of U.S.dollars				
	Chemicals	Other	Total	Elimination	Consolidation
Sales					
Outside customers	\$1,807,731	\$ 30,062	\$1,837,793	–	\$1,837,793
Inter-segment	1,062	5,724	6,786	\$ (6,786)	–
Total	1,808,793	35,786	1,844,579	(6,786)	1,837,793
Operating costs and expenses	1,684,305	38,623	1,722,928	(6,644)	1,716,284
Operating income(loss)	\$ 124,488	\$ (2,837)	\$ 121,651	\$ (141)	\$ 121,509
Assets	\$2,333,878	\$ 188,486	\$2,522,364	\$ 340,214	\$2,862,578
Depreciation cost	119,917	647	120,564	(75)	120,489
Capital expenditure	192,020	20,971	212,990	–	212,991

Note: Major products and sales

Business	Product line	Major products	Millions of yen	
			1999	1998
Chemicals:	Petrochemicals Chemicals	Polystyrene, ABS resins, Polyvinyl chlorides and other Fertilizer, Carbide, Materials for refractory bricks, Electronic materials, Fine-ceramics, Chloroprene rubber, Acetylene black and other	¥115,591	¥132,294
			52,759	57,567
		Cement, Special cement products and other	39,607	42,489
Other:	Cement and Building materials Pharmaceuticals and other Service and engineering	Vaccine, Diagnostic drugs and Veterinary drugs Real estate, Lease, Meditation, Administration of buildings, Plant planning, Securities business and other	9,963	9,020
			3,624	5,254

Note15.Overseas Sales Information

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended 31st March 1999 and 1998 are summarized as follows:

	Millions of yen						Thousands of U.S.dollars		
	1999			1998			1999		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	¥18,031	¥7,511	¥ 25,542	¥23,600	¥7,806	¥ 31,406	\$149,573	\$62,306	\$ 211,879
Consolidated sales	–	–	¥221,546	–	–	¥246,624	–	–	\$1,837,793
Percentage of overseas sales over consolidated sales	8.1%	3.4%	11.5%	9.6%	3.1%	12.7%	8.1%	3.4%	11.5%

Notes 16. Leases

Finance leases that do not transfer ownership of the leased property to the lessee are accounted for as rental transaction.

1) Leased assets , if capitalized, at 31st March 1999 comprises the followings

	Millions of yen		
	Cost	Accumulated depreciation	Net amount
Machine and equipment	¥ 6,592	¥ 3,748	¥ 2,843
Vehicles and delivery equipment	320	212	107
Tools, furnitures and fixtures	1,873	972	900
Intangible assets	38	11	27
Other	2,028	1,449	578
	¥10,851	¥ 6,392	¥ 4,455

	Thousands of U.S. dollars		
	Cost	Accumulated depreciation	Net amount
Machine and equipment	\$54,683	\$31,091	\$23,584
Vehicles and delivery equipment	2,655	1,759	888
Tools, furnitures and fixtures	15,537	8,063	7,466
Intangible assets	315	91	224
Other	16,823	12,020	4,795
	\$90,013	\$53,024	\$36,957

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

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Future lease payments			
Within one year	¥1,466	¥1,525	\$12,161
Over one year	2,991	3,800	24,811
	¥4,457	¥5,325	\$36,972

3)Lease rental expenses on such finance lease contracts for the years ended 31st March 1999 and 1998 are as follows:

	Millions of yen		Thousands of U.S.dollars
	1999	1998	1999
Lease rental expenses	¥1,626	¥1,784	\$13,488
Depreciation cost corresponding amounts	1,626	–	13,488

Report of Independent Certified Public Accountants

To the Board of Directors of
Denki Kagaku Kogyo Kabushiki Kaisha

We have audited the accompanying consolidated balance sheets of Denki Kagaku Kogyo Kabushiki Kaisha and its unconsolidated subsidiaries as of 31st March 1999 and 1998, and the related consolidated statements of income and of shareholders' equity for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Denki Kagaku Kogyo Kabushiki Kaisha and its consolidated subsidiaries as of 31st March 1999 and 1998, and the consolidated results of their operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

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

Tokyo, Japan
29th June 1999

Chuo Audit Corporation
Chuo Audit Corporation

Notice to Readers

The accompanying consolidated financial statements are not intended to present the consolidated financial positions and results of their operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. The standards' procedures and practices to audit such financial statements are those generally accepted and applied in Japan.

Corporate Data

Established
Paid-in Capital
Employees
Directory

1st May, 1915
¥35,303 million (US\$284.7 million)
3,138
Head Office
Sanshin Bldg., 1-4-1, Yurakucho,
Chiyoda-ku, Tokyo 100-8455, Japan
Telephone: (03)3507-5071
Facsimile: (03)3507-5059
Branches
Osaka, Nagoya, Fukuoka, Niigata,
Toyama, Sapporo, Nagano, Sendai,
Takasaki, Shizuoka, Akita, Hachinohe,
Hiroshima, Takamatsu, Kagoshima
Production Facilities
Omi(Niigata), Omuta(Fukuoka), Chiba,
Shibukawa(Gunma)

Overseas Subsidiaries

Denka Corporation
780 Third Avenue, 32nd Floor, New York, NY 10017, U.S.A.
Telephone: 1(212)688-8700 Facsimile: 1(212)688-8727
E-mail: sat-yamamoto@email.msm.com

Denka Chemicals GmbH
Köigsallee 60, 40212 Düsseldorf, F.R. Germany
Telephone: 49(211)130990 Facsimile: 49(211)329942
E-mail: denkaszk@doitsu.de

Denka Chemical Asia Private Limited
Denka Singapore Private Limited
Denka Advantech Private Limited
Hong Leong Building, 16 Raffles Quay #18-03,
Singapore 048581
Telephone: 65-2256120 Facsimile: 65-2243840
E-mail: yamamoto@denka.com.sg

Board of Directors and Auditors

President
Senior Managing Directors

Managing Directors

Directors

Standing Auditors

Auditors

Tsuneo Yano*
Takashi Matsukami*
Michio Nishimura*
Takeshi Furuya*
Mitsuru Nakashima
Tadashi Ozawa
Toshio Hiruma
Yukihide Kondo
Goro Ohe
Takao Hayashi
Seiji Takigawa
Yukinori Tohtake
Michio Ohtake
Higashi Ito
Masaji Ishii
Seiki Kawabata
Yoshiaki Mikami
Shunichi Hayashi
Hisao Wakuri
Kenichi Tsuchigame
Kelsuke Takagi
Shinichiro Asai
Takakazu Koyama
Akira Shimizu
Masakazu Koma
Kenji Fujinuma

*Representative Director

(As of 29th June, 1999)