



MERGING TECHNOLOGY AND A CHALLENGING SPIRIT

DENKA

DENKI KAGAKU KOGYO KABUSHIKI KAISHA

Annual Report 2002

For the fiscal year ended March 31, 2002

Profile

The Denki Kagaku Kogyo Group — consisting of Denki Kagaku Kogyo Kabushiki Kaisha, 55 subsidiaries and 56 affiliates — is active in four key business segments: petrochemicals, specialized chemicals, cement and construction materials, and pharmaceuticals.

In particular, we are focusing management resources in such key business sectors as: functional resins in the petrochemical products division, resin processed products and electronic materials sectors in the specialized chemical products division, special cement additives products in the cement and construction materials division, and all sectors of the pharmaceutical division. Our objective is to secure stable earnings and corporate growth.



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Financial Highlights

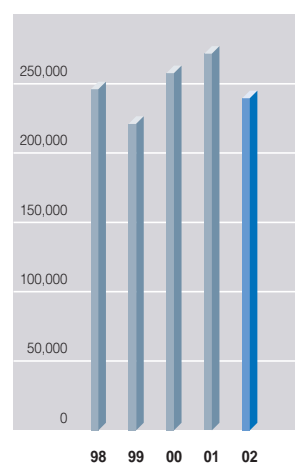
Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

	Millions of Yen		Thousands of U.S. Dollars
Years ended March 31, 2002 and 2001	2002	2001	2002
Net Sales	¥ 240,678	¥ 272,274	\$ 1,806,214
Operating Income	16,733	27,319	125,576
Income (Loss) before Income Taxes	(61)	11,098	(458)
Net Income (Loss)	(1,978)	5,636	(14,844)
Total Assets	322,808	369,029	2,422,574
Total Shareholders' Equity	93,099	92,523	698,679
Net Income (Loss) per Share (in Yen and U.S. Dollars)	(4.31)	12.27	(0.032)
Shareholders' Equity per Share (in Yen and U.S. Dollars)	202.67	201.39	1.52

Note : Yen amounts are translated into dollars at a rate of ¥133.25=U.S.\$1.

Net Sales

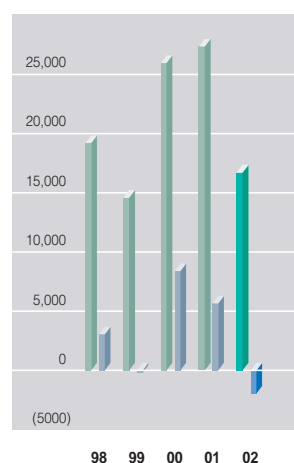
Millions of Yen



Operating Income and Net Income (Loss)

Millions of Yen

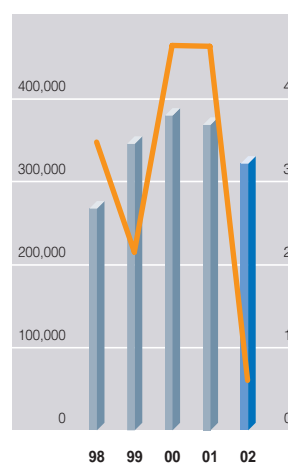
Operating Income
Net Income (Loss)



Total Assets and Return on Assets

Millions of Yen

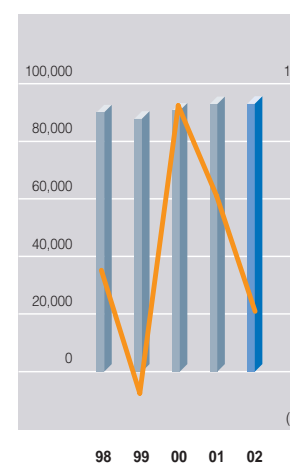
Total Assets
Return on Assets (%)



Total Shareholders' Equity and Return on Equity

Millions of Yen

Total Shareholders' Equity
Return on Equity (%)



To Our Shareholders

Focus on Stable Long-term Earnings and Continuous Growth

A photograph of two men in dark blue suits and ties standing side-by-side against a light blue background. The man on the left is older, with grey hair and glasses, wearing a light blue tie. The man on the right is younger, with dark hair, wearing a dark blue tie. Both are looking directly at the camera with neutral expressions.

At the end of fiscal year 2001, the Japanese economy continues to suffer from the collapse of the bubble economy a decade ago, as business stagnation aggravates deflation and accelerates corporate bankruptcies. In the face of these unfavorable conditions, Denki Kagaku Kogyo Kabushiki Kaisha (Denka) has consistently led the industry by pursuing a policy of strategically selected and focused business plans, and supporting them with thorough rationalization of operations. Our efforts have been rewarded with steadily improved business performance over the past several years, leading to the 2000 fiscal year's sales-to-operating income ratio of 10.0% and reduction of our interest-bearing debt to ¥150 billion (US\$1,125 million).

Despite these encouraging improvements, we are sorry to report a decline in sales and income for the 2001 fiscal year. Our consolidated sales were down 11.6% from the previous year to ¥240,678 million (US\$1,806 million), consolidated operating income down 38.8% to ¥16,733 million (US\$126 million), with consolidated net loss of ¥1,978 million (US\$15 million).

Nevertheless, last year's disappointing performance figures also signal the clearing of our way for improved results from 2002 onward. Denka has finished liquidating unprofitable operations

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



Tsuneo Yano
Chairman

and eliminated “unrealized loss,” a cause of extraordinary losses, by writing off losses in appraised value of securities and re-evaluating our real estate following adoption of current value accounting.

Freed of those burdens, Denka expects business performance to improve sharply on the basis of our relatively high level of operating income. To stabilize earnings and secure future growth, Denka will continue reforming management and sharpening the focus of our business operations.

We earnestly solicit and deeply appreciate the continued support of our shareholders and other stakeholders for these endeavors.

A Year of Adjustments

Net Sales fell because of changes in accounting procedures, as well as a sharp drop in demand for IT-related products due to inventory adjustments in Japan and abroad. In order to protect earnings in the face of these drastic developments, Denka responded in October 2001 with emergency cost-cutting measures. Nevertheless, the drop in demand reduced the ratio of sales to operating income 3.0 points from the previous year, to 7.0%.

For nonoperating income and expenses, the interest cost was lightened by reductions in interest-bearing debt, but the costs of shutting down some manufacturing facilities increased expenses.

Appraisal losses for investment securities and liquidation costs for some businesses were recorded as extraordinary loss. Although gains from sale of some of the company’s fixed assets, including land for company housing, offset a part of the loss, a net loss was inevitably recorded.

Accordingly, 2001 fiscal year saw a decline of sales and income, but, having recorded the extraordinary loss, operating income can now exert a positive effect on net income from 2002 fiscal year forward.

“Reform 22” Management Plan

In order to maintain stable long-term earnings and continuous growth from now on, we intend to strengthen our resistance to external business pressures through management reforms aimed at achieving sound, strategically focused operations.

During the fiscal year, we established new management goals: we must enhance the integration of Denka Group management, we must clarify and articulate a focused business strategy and we must modify operations as needed to achieve that strategy. Moved by an appreciation of crisis as both danger and opportunity, employees of all ranks are enrolled in this reform movement and dedicated to cutting costs at all levels.

We will measure our progress over the next two years according to the following three indexes and numerical objectives.

Ratio of sales to operating income	Over 10% yearly
Return on total assets (ROA)	Over 5% yearly
Amount of interest-bearing debt	Less than ¥120 billion (US\$900 million)

As the current business environment moves toward globalization and change accelerates, we believe that the attainment of these goals will provide the basis for a fully competitive position in the international market. Denka and the Denka Group are united in their commitment to that achievement.

Results of the Fiscal Year under Review

During the fiscal year under review, Denka executed a variety of measures aimed at the achievement of the goals of “Reform 22.”

We sharpened the focus of our business strategy with several steps. The company transferred part of company-held stocks of, and management of, our consolidated brokerage subsidiary, Naruse Securities Co., Ltd. to Phillip Brokerage Pte Ltd., headquartered in Singapore. We sold all stocks of our wholly owned consolidated subsidiary

To Our Shareholders



Toshio Hiruma
President

handling veterinary medicine, Denka Pharmaceutical Co., Ltd., to Kyoritsu Seiyaku Corporation. To reorganize and strengthen our resin processed products business, we moved to acquire Toyo Chemical Co., Ltd., a core company of the Denka Group listed on the Tokyo Stock Market, through mutual exchange of stocks. The stockholders' meeting on June 27 approved the acquisition, making Toyo a wholly owned Denka subsidiary.

In a move to expand our special cement additives business, Denka established a wholly owned new company Denka Rinotech Co., Ltd., specializing in repair and reinforcement of concrete buildings, a rapidly expanding market. Through specialty work exploiting Denka's expertise as a chemicals manufacturer, we expect sales of the new company to reach about ¥10 billion (US\$75 million) in the next five years.

Denka concluded an agreement to strengthen our alumina fiber business centering on DENKA ALCEN, a synthetic mineral fiber attracting market attention as an insulation material resistant to high temperatures, through a comprehensive business tie-up with Saffil Ltd., the world's largest alumina fiber manufacturer.

In response to expanding demand for OPS packaging, one of our main resin and processed products, Denka began work to increase production capacity and DENKA POLYMER Co., Ltd., a consolidated subsidiary, started construction of a molding plant.

The Power of Group Integration

Denka intends to accelerate the growth of such strategic businesses as resin and processed products, electronics products and special cement additives by harnessing the power of Group-wide management reform.

Denka reexamined its research and development system for the resin and processed products business in October 2001 and moved to strengthen the entire Group's R&D capability in that area. Denka will continue Group-wide adjustments of business shares, strategic planning

according to market segment, and review and modification of systems as needed to fulfill our strategy.

In the field of electronics products, Denka will speed up research and development of superfine fused silica fillers in preparation for continued technological revolution in semiconductor manufacturing. For heat-proofing products such as electronic circuit boards and electric insulating and heat dissipating sheets, Denka will organize a special team that integrates manufacturing and sales forces behind the objective of expanding uses in trains and automobiles, while pursuing rationalization measures to sharpen cost-competitiveness.

In view of projected massive increase in demand for repair and reinforcement of existing concrete buildings, Denka will promote our special cement additives business line centering on Denka Rinotech Co., Ltd. We will also continue to develop and supply such characteristic repair products as acrylic additives HARDLOC II and section repair additive SPLEET to take advantage of the synergism between materials and construction work.

Denka's management reform will center on enabling swift decisions and timely actions to anticipate changes in business environment. We also will sharpen performance evaluation in order to clarify management accountability for all divisions. By programming appropriate, specific measures in a timely manner and executing our plans consistently and persistently, we will strengthen our business structure and promote positive growth and advancement for Denka and the Denka Group.

June 2002

Tsuneo Yano
Chairman

Toshio Hiruma
President

Review of Operations



Petrochemical Products Division

Sales of the Petrochemical Products Division were ¥69,964 million (US\$525 million), a decline of ¥15,111 million (US\$113 million) or 17.8% from the previous year. However, excluding the result of changes in accounting for styrene monomer and changes in marketing of vinyl chloride monomer as stated below, the net decline was ¥4,873 million (US\$37 million) or 6.5%.

Sales of styrene monomer dropped sharply due to decreasing demand in the domestic market and declining prices in Japan and abroad. In addition, accounting changes to offset sales and cost of sales for exchange shipments (mutual shipments in the same quantity between two manufacturers) were adopted beginning this fiscal year. Sales of ABS resin at Denka and PS resin at Denka Singapore P. L. also declined.

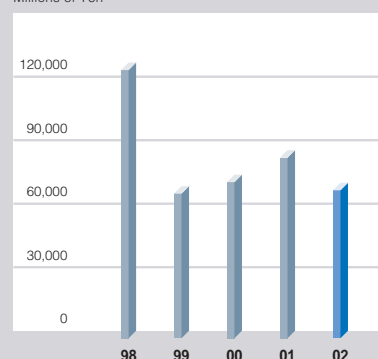
Exports of transparent polymer also declined, as did prices in Japan and abroad. Heat resistant resins enjoyed increased demand, particularly for mobile phone use, and demand also increased for our CLEAREN specialty resin, mainly as films to be used for PET bottles, so functional resins scored an overall sales increase.

Vinyl acetate and POVAL suffered a significant sales decline, due to falling demand in Japan and severe competition from imports. Sales quantities for HARDLOC structural adhesive also declined. Beginning in October 2001, the vinyl chloride monomer of Tosoh Corporation formerly supplied to Taiyo ENBI Co., Ltd. by Denka was switched to direct supply from Tosoh to Taiyo. And on December 31, 2001, Denka terminated production of vinyl chloride and vinyl acetate copolymer “#1000” used for raw materials for ship’s bottom paint and adhesive agents and withdrew it from the market.



Net Sales

Millions of Yen





Specialized Chemical Products Division

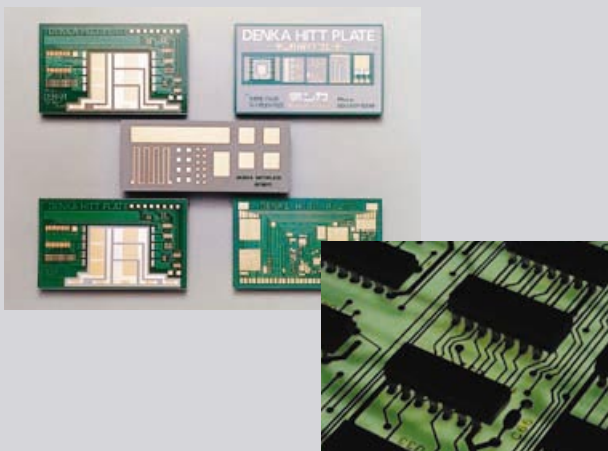
Sales of the Specialized Chemical Products Division were ¥93,058 million (US\$698 million), a decline of ¥12,784 million (US\$96 million) or 12.1% from the previous year.

As for electronic and functional materials, sales quantities of fused silica fillers used as semiconductor sealing agents declined both in Japan and at Denka Advantech P.L. of Singapore, due to a sharp drop in production of IT-related products, as well as inventory adjustments. Heatproof products, such as electronic circuit boards, electrical insulation and heat dissipating sheets, suffered a sales decline, especially those related to consumer electric products and industrial equipment.

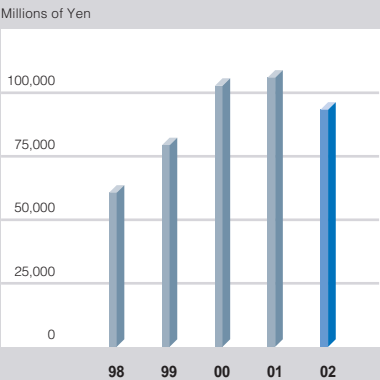
Sales of fertilizers, including nitrolime and carbide, also shrank, partly because of falling domestic demand and intense competition from Chinese imports, but also because prices of Sulfex and Firelen were depressed by stagnation in the iron and steel industry.

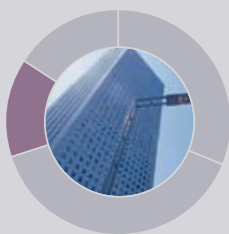
Demand was low for chloroprene rubber in the automotive industry in Japan and abroad, but sales increased somewhat thanks to rising net proceeds of exports in response to the weakening yen. Acetylene black continued to experience a decline in demand in the battery and electric wire fields and selling prices also dropped.

Denka's resin processed product sales, particularly of electronic packaging materials including conductive sheets and carrier sheets, also fell. Although Toyo Chemical Co., Ltd. expanded exports of base filaments for synthetic hair wigs and boosted sales of optical fiber products, stagnating business for such construction materials as drain spouts and eave troughs and electronic component conduit materials caused an overall sales decline. Sales of food packaging materials manufactured by Denka and DENKA POLYMER Co., Ltd. marked a slight decline, owing to decreased demand for meal and perishables packaging among major supermarkets.



Net Sales





Cement and Construction Materials Division

Sales of the Cement and Construction Materials Division stood at ¥34,912 million (US\$262 million), a decline of ¥3,438 million (US\$26 million), 9.0% from the preceding year.

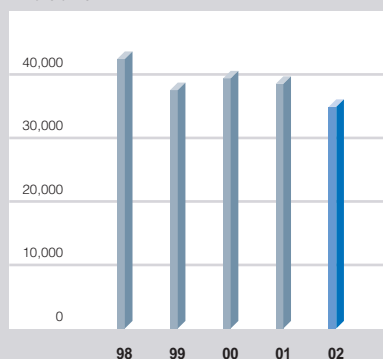
Sales of cement declined and prices dropped, because construction work led by public investment decreased sharply and demand for cement in the private sector stalled as well. Many ready-mixed concrete companies also lost sales.

Exports grew for Denka's NATMIC specialty mixing material, a hardening-accelerating additive for concrete gunning, thanks to its adoption by the Taiwan Shinkansen super-express line, while sales in the concrete renovation and reinforcement materials business also increased, once reinforcement work on existing concrete buildings at Sanyo Shinkansen line in Japan reached full scale. Sales of expansive additive CSA and our hardening-accelerating additive for mortar, on the other hand, showed a sharp decline. Overall sales of specialty mixing materials accordingly declined.



Net Sales

Millions of Yen



Pharmaceutical and Other Products Division

Sales of the Pharmaceutical and Other Products Division amounted to ¥42,744 million (US\$321 million), a decrease of ¥263 million (US\$2 million) or 0.6% from the preceding year.

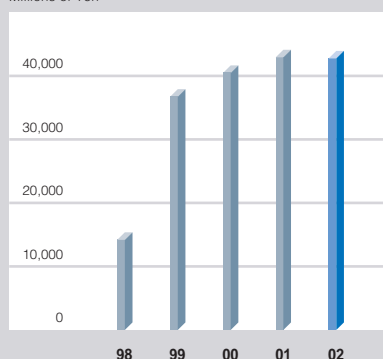
In pharmaceutical products, sales of SUVENYL articular function enhancer (high molecular weight hyaluronic acid) increased thanks to steadily growing demand, and production capacity was expanded in October 2001. DENKA Seiken Co., Ltd. also marked a substantial sales increase, thanks to two products. Sales were strong for the influenza test drug "Influ A-B Quick Seiken" we marketed in November 2001 and a public law was revised to provide influenza vaccination expenses for senior citizens by public expenditure, increasing demand for our leading influenza vaccine.

In other business, our engineering business recorded increased sales, but sales of trading and securities subsidiaries declined greatly. Since the management of The Naruse Securities Co., Ltd. and part of its stocks were transferred to another company on March 27, 2002, that company will not be listed among our consolidated subsidiaries after the end this fiscal year.



Net Sales

Millions of Yen



Research and Development

Essential Factors of Business Growth

The Denka Group endeavors to maximize the utility of our research and development power by strategically investing those resources in key business areas that demonstrate the potential for high returns. The resulting activities are grounded in the depth of our core technologies, guided by accurate assessment of our advantages over the competition, and squarely aimed at distinguishing Denka products from the rest of the market. As a corporation whose progress has been fueled by research and development, we know how to harness that power for customer satisfaction, so R&D will always be an essential factor in Denka Group's business growth.



Results for Fiscal 2001

Research and development expenditures of the entire Denka Group for the fiscal year under review were ¥8,214 million (US\$61,644 thousand). As a result, we registered 160 patents domestically, including utility model rights, and activated our rights against infringement in Japan for 511.

The following is an outline of Denka's research and development activities, by division.

Petrochemical Products Division

Denka's research and development of high value-added functional resins concentrates on constant improvement of manufacturing processes, innovation of new varieties and continual upgrading of transparent resins. In the area of general-use products, we are reducing production costs and heightening quality to sharpen their competitiveness on international markets.

Specialized Chemical Products Division

In the semiconductors and electronic materials sector, we are reinforcing the R&D system and promoting the development of new products and advanced specifications that anticipate constantly diversifying market demands. In the resin processed products sector, we've concentrated on innovative packaging products for the electronic and information fields, as well as for food. With Toyo Chemical Co., Ltd. as the core facility, we work on timely development of new construction, industrial and environmental materials.

Cement and Construction Materials Division

In the special cement additives sector, we are reducing production costs and refining key products. In particular, we are exploiting key Denka market advantages with our newly developed products and methods in anti-earthquake reinforcement and tunnel construction.

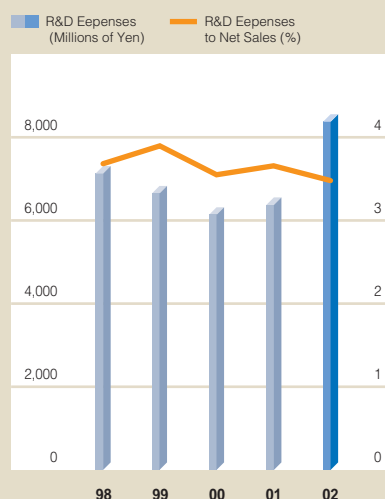
In the area of concrete reinforcement, we have popularized innovative methods. We have opened a new market in the civil engineering sector with our development of an acrylic adhesive and are expanding its applications for concrete curing, as well as repair by injection into cracks.

Pharmaceutical and Other Products Division

In the pharmaceutical products sector, Denka successfully developed, produced and introduced a new drug in 2000 to improve joint function by topical application of hyaluronic acid, cultured using our original fermentation technologies. In view of the additional potential of hyaluronic acid, work continues on the development of other pharmaceutical applications exploiting its beneficial functions. And Denka Seiken Co., Ltd. is actively promoting continued development of safe, effective vaccines of impeccable quality.

R&D Expenses and R&D Expenses to Net Sales

(Non-Consolidated)



Denka's Responsible Care

Environmental Preservation and Resource Recycling

Denka Group entered the 21st century with a deep commitment to corporate responsibility in the areas of environmental preservation and stewardship of nonrenewable resources. The chemical industry as a whole has adopted a corporate management philosophy aimed at reduction of industrial wastes and increased recycling of nonrenewable resources. Denka's work in these areas, designated as Responsible Care (RC), includes the following recycling, energy saving and PRTR (Pollutant Release and Transfer Register) activities.

Resource Recycling

From our early days as a manufacturer, Denka has recycled wastes and by-products. We have long reused blast furnace slag, coal ash, foundry sands and more as raw materials for cement, and fueled our kilns with discarded tires, used oil and similar wastes. In fiscal 2001, Denka accepted about 570,000 tons of waste and by-products generated both inside and outside the Group. In fact, about 20% of our raw materials for cement were recycled substances.

Denka also contributes to recycling by our host communities. Beginning at the end of last year, we have gradually increased our acceptance and disposal of dried sludge from sewage treatment, the carbides of municipal waste generated by neighboring self-governing bodies, and the incineration of meat and bone wastes at the request of administrative agencies. Denka's disposal of carbides of municipal wastes is a first for Japan. Furthermore, we have begun the construction of biomass boilers to recycle construction wastes (wood chips) as a fuel power generator, and it will be commenced from the beginning of December 2002.

Within the Group, Denka's recycling, by reducing generation and accumulation, is cutting the volume of final wastes disposed (the volume reclaimed).

Energy Saving Measures

Denka's energy saving drive is on schedule, as mapped

out in the Energy Saving Mid-Term Plan, toward the goal of 10% reduction of energy basic units by 2004, compared with 1990. In fiscal 2001, Denka achieved energy savings of 2% more than the previous year, a 6% decrease from 1990.

Several key constructions in 2001 include Denka's natural gas co-generation system for the No.2 thermal power plant in Chiba Plant. This system, inaugurated in December 2001, reduces the environmental load caused by SOx, NOx and other pollutants, while also saving energy.

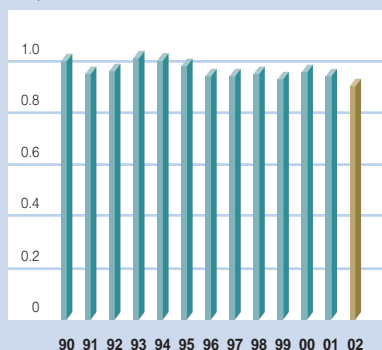
PRTR Compliance

The Pollutant Release and Transfer Register (PRTR) Law of Japan, activated in fiscal 2002, requires businesses to report the volume of chemicals wastes to the state, which in turn discloses the reported information. Denka's company-wide measures to reduce the volume of waste release—such as making manufacturing facilities airtight, changing production methods, and treating exhausted gases—restricted the volume of waste release in 2001 to 444 tons, a 58% reduction compared to 1997. Each of Denka's production facilities is actively involved in the push to further reduce the volume of wastes by half over the next three years.

Denka is determined that our RC activities will continue to contribute substantially to a cleaner, less wasteful society.

Changes in basic units of energy
(Compared with 1990)

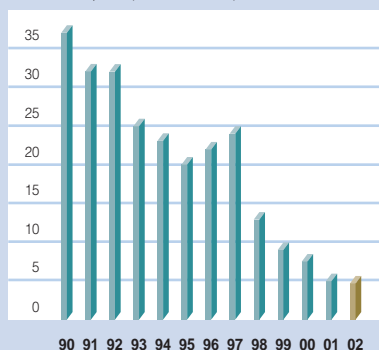
Compared with the basic units



Note: Figures for 2002 are estimates.

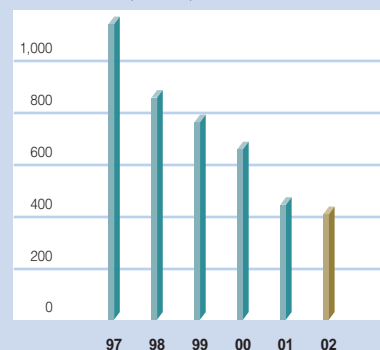
Changes in volume of final wastes

Volume of disposal (Unit: 1,000 tons)



Changes in volume of release according to PRTR

Volume of release (Unit: Ton)



Financial Review

Business Environment

The Japanese economy during the fiscal 2001 was severely depressed by a number of influences at home and abroad. The recovery of Japanese businesses was retarded as exports fell due to the slowing U.S. economy, while domestically, consumer spending remained low and capital investment fell in both the private and public sectors.

Production in the chemical industry of materials related to information technology (IT) lagged as demand in the field declined worldwide, and the entire industry endured abrupt inventory adjustments. Although crude oil and naphtha prices remained high, thanks to cooperative production reduction by oil-producing countries, product prices were still stagnant and damaging to chemical company profits.

Operating Results

Net Sales

In the face of these severe conditions, the Denka Group endeavored to expand its business scale by strategically focusing resources on certain key business sectors, among them resin finishing products, electronics materials and special cement additives. Despite these aggressive measures, demand continued to fall sharply and sales suffered in Japan and abroad.

Net sales fell 11.6% from the preceding fiscal year, to ¥240,678 million (US\$1,806 million), although some of that reflects reductions due changes in accounting standards. Net loss reached ¥1,978 million (US\$15 million), because values of investment securities were eroded by falling stock prices.

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

Operating Income

Declining sales forced operating income down by ¥10,586 million (US\$79 million) to ¥16,733 million (US\$126 million), despite the company's October 2001 emergency cost-cutting measures. The sales-to-operating income ratio was 7.0%, down 3.0% from fiscal 2000.

Net Income (Loss)

Reduction of interest-bearing liabilities continued to shrink our interest payment burden, but shutdowns of manufacturing facilities increased expenses. Investment securities of our banks and others lost value due to falling stock prices and were recorded as extraordinary losses, as were business write-off losses resulting from business withdrawals. These were partially offset by gains from the sale of fixed assets, such as property for company housing, bringing the net loss to ¥1,978 million (US\$15 million).

Financial Position

Total Assets

Total assets at the end of fiscal year 2001 were ¥322,808 million (US\$2,423 million), a decline of ¥46,221 million (US\$347 million) from the preceding year. This decrease includes the ¥24,943 million (US\$187 million) reduction in the assets of our subsidiary, Naruse Securities Co., Ltd. which were removed from the consolidated financial statements by the March 2002 sale of some of its stocks.

Current assets declined by ¥14,673 million (US\$110 million) from the previous fiscal year to ¥103,430 million (US\$776 million), due to reductions in trade receivables and advanced inventory deductions.

Fixed assets as a whole decreased ¥5,916 million (US\$44 million). The company reassessed the value of business-use land at the end of March 2002 to correct

Six-Year Summary

Years ended March 31	Millions of Yen					Thousands of U.S. Dollars	
	1997	1998	1999	2000	2001	2002	2002
Net Sales	¥247,590	¥ 246,624	¥ 221,546	¥ 256,273	¥ 272,274	¥ 240,678	\$1,806,214
Net Income (Loss)	1,009	3,020	(699)	8,319	5,636	(1,978)	(14,844)
Total Shareholders' Equity	80,201	90,035	87,526	90,195	92,523	93,099	698,679
Total Assets	367,780	367,031	345,083	379,293	369,029	322,808	2,422,574

Note: Yen amounts are translated into dollars at a rate of ¥133.25=U.S.\$1.

divergences between book value and current prices, and recorded ¥5,050 million (US\$38 million) as a balance of the land revaluation. On the other hand, investment securities values were eroded ¥9,968 million (US\$75 million) by the stagnant stock market, contributing to the overall decline.

Deferred charges declined by ¥689 million (US\$5 million) as a result of amortization of research and development expenses and others.

Total Liabilities

Total liabilities were reduced ¥46,066 million (US\$346 million) from the previous fiscal year to ¥217,450 million (US\$1,632 million). The reduction included ¥21,315 million (US\$160 million) from removal of the securities subsidiary from the consolidated subsidiaries, reduction of trade payables including accounts payables, and repayment of borrowings to improve the company's financial constitution. The company recorded ¥2,070 million (US\$16 million) as "deferred tax liability on write-up of land" according to the reassessment of business-use land values.

Minority Interest

Minority interest in consolidated subsidiaries was ¥12,259 million (US\$92 million), a reduction of ¥731 million (US\$5 million) from the previous fiscal year.

Total Shareholders' Equity

Total shareholders' equity increased by ¥576 million (US\$4 million) to ¥93,099 million (US\$699 million). This figure, although the company recorded net loss for the fiscal year 2001 and paid a dividend, reflects the company's recording of ¥2,980 million (US\$22 million) as unrealized gains on revaluation of land and ¥1,782 million (US\$13 million) as unrealized gains on investment securities

according to changes in accounting rules.

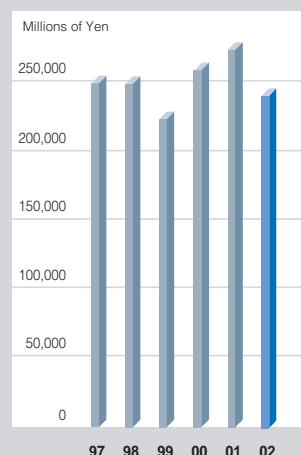
Cash Flows

Net cash provided by operating activities was ¥23,152 million (US\$174 million), a decline of ¥14,038 million (US\$105 million) from the previous fiscal year, mainly due to the aforementioned declining sales, and despite company-wide efforts to reduce inventories and shorten the period of trade receivables. Net cash used in investing activities marked net expenditures of ¥6,063 million (US\$46 million), because the company retained capital investment within its depreciation and profited from sale of investment securities, in addition to sales of fixed assets. As a result, the combined free cash flow stood at ¥17,089 million (US\$128 million), a decline of ¥3,270 million (US\$25 million) from fiscal 2000. Net cash used in financing activities was ¥17,426 million (US\$131 million), primarily due to ¥2,520 million (US\$19 million) in dividend payment and ¥14,894 million (US\$112 million) in repayment of interest-bearing debt. As a result, cash and cash equivalents at the end of the fiscal year decreased by ¥315 million (US\$2 million) to ¥6,816 million (US\$52 million).

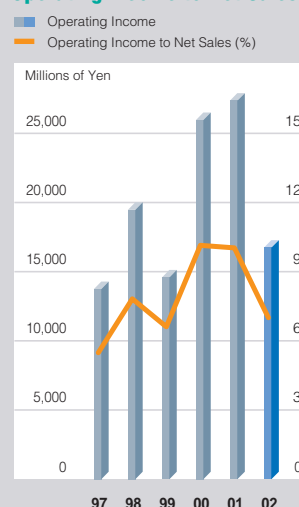
Dividends

The company recorded a net loss due to the one-time loss on devaluation of investment securities, but, taking into consideration recovery of operating results from the next fiscal year onward, we paid a year-end dividend of ¥2.50 (US\$0.02) per share in June 2002. We also paid an interim dividend of ¥2.50 (US\$0.02) per share in December 2001, bringing total dividends for fiscal year 2001 to ¥5 (US\$0.04) per share.

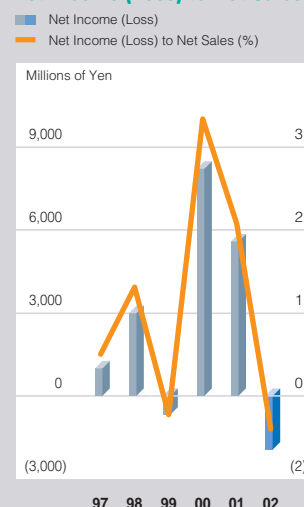
Net Sales



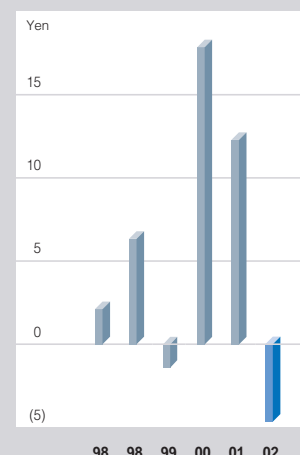
Operating Income and Operating Income to Net Sales



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



Net Income (Loss) per Share



Consolidated Balance Sheets

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2002	2001	2002
Current assets:			
Cash and time deposits	¥ 6,816	¥ 6,731	\$ 51,152
Notes and accounts receivable, trade (Note 4)	59,829	70,776	448,998
Marketable securities	372	771	2,792
Inventories (Note 7)	29,672	33,565	222,679
Deferred tax asset (Note 10)	1,565	1,321	11,745
Prepaid expenses and other current assets (Note 4)	5,947	5,736	44,630
Allowance for doubtful accounts	(771)	(797)	(5,786)
Total current assets	103,430	118,103	776,210
Property, plant and equipment (Note 8):			
Buildings and structures	99,930	99,151	749,944
Machinery and equipment	269,249	266,654	2,020,630
Land (Note 16)	59,121	54,546	443,685
Construction in progress	3,686	6,649	27,662
	431,986	427,000	3,241,921
Accumulated depreciation	(259,880)	(254,568)	(1,950,319)
Total property, plant and equipment	172,106	172,432	1,291,602
Intangible fixed assets	268	412	2,011
Investments and other assets:			
Investment securities (Notes 4 and 5)	32,608	42,576	244,713
Long-term loans receivable (Note 4)	1,221	1,350	9,163
Other	8,135	7,277	61,051
Deferred tax asset (Note 10)	5,066	1,357	38,019
Allowance for doubtful accounts	(427)	(511)	(3,205)
Total investments and other assets	46,603	52,049	349,741
Deferred charges:			
Research and development (Note 12)	332	1,012	2,492
Other	69	78	518
Total deferred charges	401	1,090	3,009
Assets of consolidated securities company (Notes 8 and 15)	—	24,943	—
Total assets	¥ 322,808	¥ 369,029	\$ 2,422,574

Thousands of
U.S. Dollars
(Note 1)

Millions of Yen

LIABILITIES AND SHAREHOLDERS' EQUITY	2002	2001	2002
Current liabilities:			
Notes and accounts payable (Note 4)	¥ 32,888	¥ 41,770	\$ 246,814
Short-term bank loans (Note 8)	60,411	63,817	453,366
Commercial paper	8,000	—	60,038
Current portion of long-term debt (Note 8)	18,431	44,888	138,319
Accrued taxes on income and other (Note 10)	4,578	3,224	34,356
Accrued bonuses	2,260	2,352	16,961
Other current liabilities (Note 4)	20,200	24,963	151,595
Total current liabilities	146,768	181,014	1,101,448
Long-term liabilities:			
Long-term debt (Note 8)	62,824	55,631	471,475
Deferred tax liability (Note 10)	975	872	7,317
Deferred tax liability on write-up of land (Note 16)	2,070	—	15,535
Accrued retirement benefits (Note 13)			
—for employees	3,582	3,499	26,882
—for directors and statutory auditors	766	700	5,748
Other long-term liabilities	465	485	3,490
Total long-term liabilities	70,682	61,187	530,447
Liabilities of consolidated securities company (Note 15)	—	21,315	—
Total liabilities	217,450	263,516	1,631,895
Contingent liabilities (Note 19)			
Minority interest in consolidated subsidiaries	12,259	12,990	92,000
Shareholders' equity:			
Common stock:			
Authorized: 1,584,070,000 shares			
Issued: 459,419,390 shares	35,303	35,303	264,938
Capital surplus	32,069	32,069	240,668
Unrealized gains on revaluation of land (Note 16)	2,980	—	22,364
Retained earnings (Notes 9 and 14)	21,667	26,026	162,604
Unrealized gains on investment securities	1,782	—	13,373
Foreign currency translation adjustments	(689)	(874)	(5,171)
Treasury stock	(13)	(1)	(98)
Total shareholders' equity	93,099	92,523	698,679
Total liabilities and shareholders' equity	¥ 322,808	¥ 369,029	\$ 2,422,574

Consolidated Statements of Income

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2002	2001	2002
Net sales	¥ 240,678	¥ 272,274	\$ 1,806,214
Cost of sales	173,896	193,266	1,305,036
Gross profit	66,782	79,008	501,178
Selling general and administrative expenses (Notes 11 and 12)	50,049	51,689	375,602
Operating income	16,733	27,319	125,576
Other income:			
Interest and dividend income	484	670	3,632
Gain on sale of investment securities	—	167	—
Gain on sale of land	—	440	—
Reversal of the exercise rights of warrants	—	291	—
Gain on sale of land and buildings	3,968	—	29,779
Other, net (Note 4)	501	1,100	3,760
	4,953	2,668	37,171
Other expenses:			
Interest expenses	2,672	3,487	20,053
Loss on disposal of property, plant and equipment	877	652	6,582
Amortization of deferred research and development costs	680	1,013	5,103
Devaluation of investment securities	11,418	5,908	85,689
Devaluation of golf memberships	—	1,890	—
Unrecognized transition amount	1,281	1,559	9,614
Equity in deficit of unconsolidated subsidiaries and affiliates	271	125	2,034
Cost during the suspension of plant operation	1,035	228	7,767
Loss on sale of investment securities	542	—	4,068
Loss on disposal of product lines	487	—	3,655
Other, net	2,484	4,027	18,640
	21,747	18,889	163,205
Income (loss) before income taxes	(61)	11,098	(458)
Income taxes (Note 10):			
Current	(6,329)	(5,249)	(47,797)
Deferred	5,098	633	38,259
	(1,231)	(4,616)	(9,238)
Income (loss) before minority interest	(1,292)	6,482	(9,696)
Minority interest in losses of consolidated subsidiaries	(686)	(846)	(5,148)
Net income (loss)	¥ (1,978)	¥ 5,636	\$ (14,844)

	Yen		U.S. Dollars (Note 1)
	2002	2001	2002
Per share:			
Net income (loss)	¥ (4.31)	¥ 12.27	\$ (0.032)

Consolidated Statements of Shareholders' Equity

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Year Ended March 31	Thousands		Millions of Yen	
	Common stock Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2000	459,419	¥ 35,303	¥ 32,069	¥ 22,824
Net income	—	—	—	5,636
Increase in retained earnings resulting from exclusion of an affiliate	—	—	—	48
Decrease in retained earnings resulting from exclusion of a subsidiary	—	—	—	(54)
Decrease in retained earnings resulting from inclusion of an affiliate	—	—	—	(7)
Decrease in retained earnings resulting from exclusion of an affiliate	—	—	—	(7)
Cash dividends	—	—	—	(2,297)
Bonuses to directors and statutory auditors	—	—	—	(117)
Balance at March 31, 2001	459,419	35,303	32,069	26,026
Net loss	—	—	—	(1,978)
Increase in retained earnings resulting from exclusion of an affiliate	—	—	—	172
Increase in retained earnings resulting from the merger of an affiliate with a previously un-affiliated company	—	—	—	159
Decrease in retained earnings resulting from exclusion of subsidiaries	—	—	—	(310)
Cash dividends	—	—	—	(2,297)
Bonuses to directors and statutory auditors	—	—	—	(105)
Balance at March 31, 2002	459,419	¥ 35,303	¥ 32,069	¥ 21,667

	Thousands		Thousands of U.S. Dollars (Note 1)	
	Common stock Number of shares	Amount	Capital surplus	Retained earnings
Balance at March 31, 2001	459,419	\$ 264,938	\$ 240,668	\$ 195,317
Net loss	—	—	—	(14,844)
Increase in retained earnings resulting from exclusion of an affiliate	—	—	—	1,291
Increase in retained earnings resulting from the merger of an affiliate with a previously un-affiliated company	—	—	—	1,193
Decrease in retained earnings resulting from exclusion of subsidiaries	—	—	—	(2,326)
Cash dividends	—	—	—	(17,239)
Bonuses to directors and statutory auditors	—	—	—	(788)
Balance at March 31, 2002	459,419	\$ 264,938	\$ 240,668	\$ 162,604

Consolidated Statements of Cash Flows

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

Thousands of
U.S. Dollars
(Note 1)

Year Ended March 31

Millions of Yen

	2002	2001	2002
Cash flows from operating activities:			
Income (loss) before income taxes	¥ (61)	¥ 11,098	\$ (456)
Adjustments —			
Depreciation	15,011	15,047	112,656
Amortization of deferred charges	748	1,191	5,613
Devaluation of golf membership	—	1,890	—
Provision for doubtful accounts	(111)	26	(832)
Interest and dividend income	(484)	(670)	(3,629)
Interest expenses	2,672	3,487	20,051
Devaluation of investment securities	11,418	5,907	85,687
Gain on sale of investment securities	542	(167)	4,067
Equity losses of affiliated companies	271	125	2,035
Loss on sale of property, plant and equipment, net	(3,090)	211	(23,194)
Other	(114)	134	(856)
Changes in assets and liabilities:			
Receivables	11,001	1,578	82,559
Inventories	3,959	(3,921)	29,714
Notes and accounts payable	(8,924)	8,225	(66,969)
Other, net	(1,585)	2,033	(11,899)
Sub-total	31,253	46,194	234,547
Interest and dividend received	488	739	3,661
Interest paid	(3,084)	(3,547)	(23,147)
Income taxes paid	(5,505)	(6,196)	(41,312)
Net cash provided by operating activities	23,152	37,190	173,749
Cash flows from investing activities:			
Purchase of marketable securities	(372)	—	(2,790)
Sale of marketable securities	372	113	2,791
Purchases of property, plant and equipment	(13,912)	(22,816)	(104,405)
Sale of property, plant and equipment	5,616	2,129	42,146
Purchase of investment securities	(1,819)	(586)	(13,653)
Sale of investment securities	2,760	2,447	20,709
Sale of investment securities of a subsidiary which resulted in exclusion from consolidation	1,178	—	8,839
Other, net	114	1,882	861
Net cash used in investing activities	(6,063)	(16,831)	(45,502)
Cash flows from financing activities:			
Increase (decrease) in short-term borrowings	4,494	(8,181)	33,723
Proceeds from long-term debt	25,641	17,976	192,430
Repayment of long-term debt	(45,029)	(26,633)	(337,929)
Cash dividends	(2,520)	(2,526)	(18,911)
Purchase of treasury stock	(12)	—	(91)
Net cash used in financing activities	(17,426)	(19,364)	(130,778)
Effect of exchange rate changes on cash and cash equivalent	24	45	179
Net increase (decrease) in cash and cash equivalents	(313)	1,040	(2,352)
Cash and cash equivalents at the beginning of the year	7,131	6,346	53,516
Decrease of cash and cash equivalents resulting from exclusion of a subsidiary from consolidation	(2)	(255)	(12)
Cash and cash equivalents at the end of the year (Note 17)	¥ 6,816	¥ 7,131	\$ 51,512

Notes to Consolidated Financial Statements

Denki Kagaku Kogyo Kabushiki Kaisha and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements:

The accompanying consolidated financial statements of Denki Kagaku Kogyo Kabushiki Kaisha and its consolidated subsidiaries (the "Company") are basically an English version of those that have been prepared in accordance with accounting principles and practices generally accepted in Japan and filed with the Director of the Kanto Local Finance Bureau.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present these statements in a form that is more familiar to the readers of these statements outside Japan. In addition, the notes to consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan but is presented herein as additional information.

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

The U.S. dollar amounts stated in the consolidated financial statements are included solely for convenience of readers outside of Japan. Those translations should not be construed as representations that the Japanese yen amounts actually represent, or have been or could be converted into U.S. dollars. The rate of ¥133.25 = US\$1, the approximate rate of exchange as at March 31, 2002 has been used for the purpose of such translations.

2. Summary of Significant Accounting Policies:

(1) Consolidation and investments in affiliated companies —

The consolidated financial statements include the accounts of the Company and those of its subsidiaries in which it has control. The consolidated financial statements consist of, with the exception of those that are not material, those of its 27 majority and wholly owned subsidiaries (29 subsidiaries in 2001). All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation.

Investments in unconsolidated subsidiaries and affiliated companies in which the Company has significant influence are stated using the equity method. These unconsolidated subsidiaries and affiliated companies for which the equity method is applied total 18 and 19 at March 31, 2002 and 2001, respectively. Consolidated net income includes the Company's equity in current earnings after elimination of unrealized inter-company profits.

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

Thirteen subsidiaries (seven subsidiaries in 2001) were consolidated on the basis of their fiscal years ended at December 31, 2001 and 2000. The year-end data of one subsidiary was November 30, 2001 and 2000. Therefore, the subsidiary tentatively closed its account at January 31, 2002 and 2001 for consolidation purposes. Material differences in inter-company transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted in consolidation.

(2) Financial instruments —

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of adoption of the new standard, there is no material impact on income before income taxes for the year ended March 31, 2001, as compared with the amount that would have been reported if the previous standard had been applied consistently.

Securities held by the Company and its subsidiaries are, under the new standard, classified into two categories;

"Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates" are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of

application of the equity method would be immaterial.

"Other securities" are stated at cost, as stated in the paragraph below.

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

Under the new standard, other securities that have characteristics of cash equivalents are presented as marketable securities (current) and all the other securities are presented as investments in securities (non-current). The securities held by the Company and its subsidiaries have been reclassified as of April 1, 2000 (the beginning of year). As a result of such reclassification, the securities in the current portfolio have decreased by ¥34,679 million (\$279,895 thousand) and the securities in the non-current portfolio have increased by the same amount.

Effective from the year ended March 31, 2002, the Company adopted the new Japanese accounting standards for investment securities for which market quotations are available. As the result of adoption of new standards, unrealized gains on investment securities of ¥1,781million (\$13,365 thousand), net of income taxes, has been accounted for as a component of shareholders' equity, investment securities and minority interest in consolidated subsidiaries have increased by ¥3,042 million (\$22,829 thousand) and ¥11 million (\$825 thousand), respectively, and deferred tax asset (non-current) has decreased by ¥1,249 million (\$9,373 thousand).

(3) Inventories —

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

(4) Property, plant and equipment —

Property, plant and equipment, including significant renewals and improvements, are carried at cost less depreciation. Maintenance and repairs including minor renewals and betterments are charged to income as incurred. Depreciation is computed primarily on the straight-line method at rates based on the estimated useful lives of the assets, which are prescribed by Japanese income tax laws. When retired or disposed of, the difference between the net book value and sales proceeds is charged or credited to income.

(5) Accrued retirement benefits —

Employees whose service with the Company and certain domestic subsidiaries is terminated are, in most circumstances, entitled to lump-sum severance payments determined by reference to current basic rate of pay and length of service at the time when and the circumstances in which, the termination occurs. The minimum payment to employees is an amount based on voluntary termination of employment.

The Company and certain of its consolidated subsidiaries have qualified pension plans to cover part of their employees' severance indemnities.

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

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the accrued retirement benefits as of March 31, 2001 represent the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognized transition amount arising from adopting the new standard of ¥12,554 million (\$94,214 thousand) at April 1, 2000 (the beginning of year) is amortized on a straight-line basis over 10 years, and the unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise. As a result of adopting the new standard, net pension and severance costs for the year ended March 31, 2001 have increased by ¥1,092 million (\$8,814 thousand) and income before income taxes has

decreased by ¥1,050 million (\$8,475 thousand) as compared with the amounts which would have been reported if the previous standard had been applied consistently.

The Company and certain of its consolidated subsidiaries provide for severance indemnities for directors and statutory auditors in accordance with their rules for directors' severance indemnities. Payment of directors' severance indemnities is subject to shareholders' approval.

(6) Accounting for leases —

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

(7) Income taxes —

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Income taxes are determined using the assets and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax bases of assets and liabilities and those as reported in the consolidated financial statements.

(8) Appropriation of retained earnings —

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

(9) Cash and cash equivalent —

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuation in value.

(10) Net income per share —

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

(11) Re-classification —

Certain reclassifications of the financial statements for the year ended March 31, 2001 have been made to conform to the presentation for the year ended March 31, 2002.

3. Accounting change:

Until the year ended March 31, 2001, the Company had accounted for as sales and cost of sales, respectively, borrowing and loan transactions of Styrene Monomer, the company's petrochemical products, with other companies. Effective from the year ended March 31, 2002, the Company changed its method of accounting to offset sales and cost of sales, as it was considered that the prior method of accounting was not properly presenting results of operation because of given increase in these transactions. As the result of the change of accounting method, sales and cost of sales have decreased by ¥6,498 million (\$48,768 thousand), respectively, but income before income taxes for the year ended March 31, 2002 has not been impacted, as compared with the amount which have been reported if the previous accounting method had been applied consistently.

4. Accounts balances and transactions with affiliated companies:

Account balances with unconsolidated subsidiaries and affiliated companies accounted for on an equity basis at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Notes and accounts receivable, trade	¥ 7,711	¥ 12,822	\$ 57,869
Short-term loans receivable	668	346	5,016
Other current assets	400	1,030	2,968
Investment securities	10,429	11,139	78,265
Long-term loans receivable	387	443	2,908
Notes and accounts payable, trade	2,701	4,812	20,273
Other current liabilities	279	488	2,096

Transactions between the parent company and its unconsolidated subsidiaries and affiliated companies accounted for on an equity basis for the years ended March 31, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Other income — other	¥ 1,273	¥ 3,322	\$ 9,551

5. Investment securities:

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Investment securities:			
Market value	¥ 17,568	¥ 25,388	\$ 131,843
Carrying amount	14,523	27,793	108,989
Unrealized gain (loss)	¥ 3,045	¥ (2,405)	\$ 22,854

6. Derivative financial instruments:

The company enters into derivative financial instruments of foreign exchange forward contracts. The company does not hold or issue derivatives for trading purposes and it is the company's policy to use derivatives only for the purpose of reducing market risk and financing costs in accordance with internal criteria. The company does not anticipate any losses resulting from default of the counter-parties as they are limited to major domestic financial institutions with sound operational foundations.

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts. The related hedging items are foreign currency receivables and payables.

The company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of exchange rate fluctuation. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related items from the commencement of the hedges.

7. Inventories:

Inventories at March 31 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Finished products	¥ 15,384	¥ 17,869	\$ 115,451
Semi-finished products	6,415	7,121	48,142
Work in process	2,084	1,880	15,639
Raw materials	3,790	4,684	28,447
Supplies	1,999	2,011	15,000
	¥ 29,672	¥ 33,565	\$ 222,679

8. Short-term bank loans and long-term debt:

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Bank overdrafts with interest ranging from 0.906% to 6.50% per annum	¥ 1,303	¥ 11,185	\$ 9,779
Short-term bank loans with interest ranging from 0.017% to 3.79% per annum represented by short-term notes maturing at various dates within one year	59,108	52,632	443,587
	¥ 60,411	¥ 63,817	\$ 453,366

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Loans, principally from banks and insurance companies, maturing serially to 2010 with interest ranging from 0% to 7.031% per annum:			
Secured	¥ 1,795	¥ 1,833	\$ 13,471
Unsecured	26,460	25,686	198,575
2.00% bonds due 2001	—	10,000	—
2.95% bonds due 2001	—	10,000	—
2.10% bonds due 2002	—	10,000	—
2.20% bonds due 2002	5,000	5,000	37,523
2.275% bonds due 2002	5,000	5,000	37,523
2.40% bonds due 2003	5,000	5,000	37,523
1.59% bonds due 2004	10,000	10,000	75,047
0% Convertible bonds due 2004	3,000	3,000	22,515
1.12% bonds due 2006	5,000	5,000	37,523
1.83% bonds due 2007	10,000	10,000	75,047
1.30% bonds due 2008	10,000	—	75,047
	81,255	100,519	609,794
Less-current portion of long-term debt	18,431	44,888	138,319
	¥ 62,824	¥ 55,631	\$ 471,475

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Property, plant and equipment — at book value	¥ 86,032	¥ 87,146	\$ 645,644
Assets of consolidated securities company	—	2,581	—

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31:		
2003	¥ 18,431	\$ 138,319
2004	11,700	87,805
2005	16,466	123,572
2006	7,955	59,700
2007	2,906	21,809
2008 and thereafter	23,797	178,589
	¥ 81,255	\$ 609,794

9. Retained earnings:

The Japanese Commercial Code provides that an amount equal to at least 10 percent of cash dividends and bonuses to directors and corporate auditors shall be appropriated as a legal reserve until such reserve is equal to 25 percent of the capital stock account. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to stated capital.

Under the Japanese Commercial Code, the appropriation of retained earnings for a fiscal year is made by resolution of shareholders at a general meeting to be held after the balance sheet date, and the accounts for the year do not reflect such appropriations.

However, the Company may pay interim dividends by resolution of Board of Directors once a fiscal year in accordance with the Japanese Commercial Code and the Company's Articles of Incorporation.

The proposed appropriation of retained earnings of the Company for the year ended March 31, 2002, which was approved on June 27, 2002, at the general shareholders' meeting is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends at ¥ 2.50 per share	¥ 1,148	\$ 8,615

10. Income taxes:

The Company is subject to a number of different income taxes which, in the aggregate, indicate a statutory tax rate in Japan of approximately 41.0 percent for the years ended March 31, 2002 and 2001.

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Deferred tax assets:			
Allowance for doubtful accounts	¥ 320	¥ 314	\$ 2,400
Enterprise income taxes	329	265	2,470
Accrued severance cost for directors and statutory auditors	315	288	2,363
Accrued severance and pension costs for employees	607	442	4,553
Accrued bonus	625	490	4,689
Inter-company profit on inventories and fixed assets	835	840	6,266
Devaluation of investment securities	5,039	422	37,821
Devaluation of golf memberships	746	785	5,598
Other	636	522	4,774
Gross deferred tax assets	9,452	4,368	70,934
Deferred tax liabilities:			
Unrealized gains on investment securities	1,234	—	9,260
Retained earnings appropriated for special reserve (Note 13)	2,473	2,488	18,558
Other	89	74	670
Gross deferred tax liabilities	3,796	2,562	28,488
Net deferred tax assets	¥ 5,656	¥ 1,806	\$ 42,446

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

	Year ended March 31, 2002	Year ended March 31, 2001
Statutory tax rate	(41.0)%	41.0 %
Increase (reduction) in taxes resulting from:		
Loss on sale of securities	764.1 %	—
Reversal of affiliated company stock devaluation	(222.1)%	—
Unrecognized deferred taxes for net loss carry-forward of subsidiaries	640.6 %	—
Non deductible expenses	636.6 %	—
Non taxable income	(148.9)%	—
Inhabitant taxes (Per capita levy)	203.0 %	—
Equity in deficit of unconsolidated subsidiaries and affiliates	192.8 %	—
Other	1.5 %	0.5 %
Effective income tax rate	2,026.5 %	41.5 %

11. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended March 31, 2002 and 2001 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Selling expenses:			
Carriage and shipping	¥ 15,840	¥ 17,447	\$ 118,873
Sales commission	5,175	5,245	38,838
Other	3,134	3,076	23,520
	24,149	25,768	181,231
General and administrative expenses:			
Salaries and remuneration	11,323	11,411	84,976
Employees' welfare	331	329	2,484
Research and development	4,498	4,404	33,756
Other	9,748	9,777	73,155
	25,900	25,921	194,371
	¥ 50,049	¥ 51,689	\$ 375,602

12. Research and development expenses:

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the year ended March 31, 2002 and 2001, approximated ¥8,214 million (\$61,644 thousand) and ¥8,107 million, respectively.

13. Retirement and severance benefits:

The Company and its domestic subsidiaries have defined benefit retirement plans and qualified pension plans covering substantially all employees. Some domestic subsidiaries have entered into a small-enterprise mutual aid system for retirement fund contract with the Small-Enterprise Mutual Aid System for Retirement Fund Corporation to fund retirement payments for employees.

The accrued retirement benefits as of March 31, 2002 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Projected benefit obligations	¥ 28,562	¥ 30,848	\$ 214,351
Plan assets	12,787	14,937	95,966
Net unreserved projected benefit obligations	15,775	15,911	118,385
Unrecognized transition obligations	9,715	10,996	72,908
Unrecognized actuarial losses	2,478	1,416	18,595
Accrued retirement benefit	¥ 3,582	¥ 3,499	\$ 26,882

(Note: Some domestic subsidiaries adopted the simple method for retirement benefits.)

Net pension and severance cost related to the retirement benefit plan for the year ended March 31, 2002 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Service cost	¥ 1,272	¥ 1,278	\$ 9,546
Interest cost	577	628	4,330
Expected return on plan assets	(292)	(296)	(2,191)
Amortization of transition obligations	1,281	1,558	9,613
Amortization of actuarial losses	202	223	1,516
Net pension and severance cost	¥ 3,040	¥ 3,391	\$ 22,814

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

	Year ended March 31, 2002
Method of attributing the projected benefits to periods of services	straight- line basis
Discount rate	1.7 %
Expected rate of return on plan assets	1.7 %
Amortization of unrecognized actuarial gains and losses	10 years
Amortization of transition obligations	10 years

14. Special reserves:

Under the Japanese tax regulations, certain special reserves, which are not required for financial accounting purposes, are deductible for income tax purposes if recorded on the books of account. Such reserves are directly appropriated from retained earnings as part of shareholders' equity.

Special reserves included in retained earnings at March 31, 2002 and 2001 were ¥3,599million (\$27,006 thousand), and ¥3,369 million, respectively.

15. Analysis of assets and liabilities of a securities company:

An analysis of assets and liabilities at March 31, 2001 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. Inter-company assets and liabilities are eliminated.

	Millions of Yen
	2001
Current assets:	
Cash and deposits	¥ 3,519
Margin transaction account	4,721
Securities under the company's custody	11,848
Other	4,483
	24,571
Non-current assets	372
Total assets	¥ 24,943
Current liabilities:	
Short-term loans	¥ 1,010
Margin transaction account	3,017
Guarantee money	246
Securities received in lieu of Guarantee money	8,398
Other	8,476
	21,147
Non-current liabilities	113
Reserves	55
Total liabilities	¥ 21,315

Net sales for the two years ended March 31, 2002 and 2001 include operating revenue (including financial revenue) of the securities subsidiary amounting to ¥975 million (\$7,317 thousand) and ¥1,833 million and selling, general and administrative expenses for the two years ended 31 March 2002 and 2001 include operating expenses (including financial expenses) of the securities subsidiary amounting to ¥1,052 million (\$7,895 thousand) and ¥1,365 million, respectively.

Investments in the securities company, the Naruse Securities Co., Ltd., were sold during the year ended March 31, 2002. The assets and liabilities of the securities company at the time when the investments were sold and the effect to the consolidated cash flow statement, selling price and sales revenue were as follows:

	Millions of Yen
Assets	¥ 7,793
Liabilities	(4,416)
Minority interest	(1,181)
Unrealized gain on investment securities	(3)
Increase of fixed assets	(161)
Decrease in consolidated retained earnings	(310)
Loss on sale of securities	(541)
Sales price of security of Naruse Security K.K.	1,177
Sales revenue	¥ 1,177

16. Land revaluation:

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

Land before revaluation:	¥54,071 million
Land after revaluation:	¥59,121 million
Land revaluation gain:	¥2,980 million
	(net of income taxes of ¥2,070 million)

17. Cash and cash equivalents:

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Cash and cash equivalents as of March 31 consist of:			
Cash and bank deposits	¥ 6,816	¥ 6,731	\$ 51,152
Marketable securities	—	400	—
	¥ 6,816	¥ 7,131	\$ 51,152

18. Leases:

1) Finance Lease

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

(1) Leased assets under finance leases, if capitalized, at March 31, 2002 and 2001 comprise the following:

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

March 31, 2001			
	Millions of Yen		
	Acquisition Cost	Accumulated depreciation	Net book Value
Buildings and structures	¥ 707	¥ —	¥ 707
Machinery and equipment	5,520	3,482	2,038
Vehicles and delivery equipment	342	163	179
Tools, furniture and fixtures	2,401	1,532	869
Intangible assets	43	28	15
	¥ 9,013	¥ 5,205	¥ 3,808

March 31, 2002			
	Thousands of U.S. Dollars		
	Acquisition Cost	Accumulated depreciation	Net book Value
Buildings and structures	\$ 5,310	\$ 1,062	\$ 4,248
Machinery and equipment	40,046	26,567	13,479
Vehicles and delivery equipment	2,514	1,285	1,229
Tools, furniture and fixtures	15,817	10,553	5,264
Intangible assets	344	274	70
	\$ 64,031	\$ 39,741	\$ 24,290

Depreciation expenses of those leased assets for the year ended March 31, 2002 and 2001 are computed by the straight line method over the periods of those finance leases with no remaining value.

20. Business Segment Information:

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

Information by business segment for the years ended March 31, 2002 and 2001 is summarized as follows:

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

Year ended March 31, 2001							
	Millions of Yen						
	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical and Other Products Division	Total	Elimination	Consolidation
Sales:							
Outside customers	¥ 85,075	¥ 105,842	¥ 38,350	¥ 43,007	¥ 272,274	—	¥ 272,274
Inter-segment	5,147	5,275	2,594	4,960	17,976	¥ (17,976)	—
Total	90,222	111,117	40,944	47,967	290,250	(17,976)	272,274
Operating costs and expenses	86,536	95,059	36,348	45,137	263,080	(18,125)	244,955
Operating income	¥ 3,686	¥ 16,058	¥ 4,596	¥ 2,830	¥ 27,170	¥ 149	¥ 27,319
Assets	¥ 74,856	¥ 110,614	¥ 47,850	¥ 60,204	¥ 293,524	¥ 75,505	¥ 369,029
Depreciation cost	4,986	6,291	2,819	966	15,062	(16)	15,046
Capital expenditure	2,948	8,279	4,652	1,326	17,205	9,833	27,038

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Future lease payments			
Within one year	¥ 1,166	¥ 1,223	\$ 8,755
Over one year	2,070	2,585	15,535
	¥ 3,236	¥ 3,808	\$ 24,290

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2001	2002
Lease rental expenses	¥ 1,348	¥ 1,434	\$ 10,116
Depreciation cost corresponding amounts	1,348	1,434	10,116

2) Operating Lease

Operating leases are accounted for as rental transactions.

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

	Millions of Yen		Thousands of U.S. Dollars
	2002	2002	
Future lease payments:			
Within one year	¥ 617	\$ 4,634	
Over one year	566	4,247	
	¥ 1,183	\$ 8,881	

19. Contingent liabilities:

Contingent liabilities at March 31, 2002 and 2001 for notes receivable discounted and endorsed and loans guaranteed were approximately ¥2,826 million (\$21,208 thousand) and ¥1,919 million, respectively.

Year ended March 31, 2002

Thousands of U.S. Dollars

	Petrochemical Products Division	Specialized Chemical Products Division	Cement and Construction Materials Division	Pharmaceutical and Other Products Division	Total	Elimination	Consolidation
Sales:							
Outside customers	\$ 525,057	\$ 698,371	\$ 262,003	\$ 320,783	\$ 1,806,214	—	\$ 1,806,214
Inter-segment	30,102	32,845	17,636	33,029	113,612	\$ (113,612)	—
Total	555,159	731,216	279,639	353,812	1,919,826	(113,612)	1,806,214
Operating costs and expenses	552,597	654,508	255,887	332,237	1,795,229	(114,591)	1,680,638
Operating income	\$ 2,562	\$ 76,708	\$ 23,752	\$ 21,575	\$ 124,597	\$ 979	\$ 125,576
Assets	\$ 475,850	\$ 784,929	\$ 327,674	\$ 264,514	\$ 1,852,967	\$ 569,611	\$ 2,422,574
Depreciation cost	37,627	44,318	21,882	8,981	112,807	(151)	112,655
Capital expenditure	16,025	45,111	16,706	11,775	89,617	(259)	89,358
Business	Product line		Major products				
Petrochemical Products Division	Styrene and ABS Products Chemical Synthetic Products Functional Resins		Polystyrene, ABS resins, Styrene Monomer, and other Acetic Acid, Vinyl Acetate and other CLEAREN, Transparent Polymers and Heat-Resistant Resins and other				
Specialized Chemical Products Division	Resin-Processed Products Fertilizers and Inorganic Chemical Products Organic Chemical Products Electronic and Functional Materials		Electronic Wrapping Products, Food Wrapping Products and other Fertilizers, Carbide, Refractory and other Chloroprene, Acetylene Black and other Fused Silica Filler, Electronic Circuit Boards, Fine-ceramics and other				
Cement and Construction Materials Division	Cement and Special Additives		Cement and Special Additives and other				
Pharmaceutical and Other Products Division	Pharmaceutical, Engineering Business and Other Products		Vaccines, Joint Function Improvement Agent SUVENYL, Diagnostic Chemicals, Veterinary Chemicals, Engineering Business, and other				

As described in Note 3, until the year ended March 31, 2001, the Company had accounted for as sales and cost of sales, respectively, borrowing and loan transactions of Styrene Monomer, the company's petrochemical products, with other companies. Effective from the year ended March 31, 2002, the Company changed its method of accounting to offset sales and cost of sales, as it was considered that the prior method of accounting was not properly presenting results of operation because of given increase in these transactions. As the result of the change of accounting method, sales and cost of sales have decreased by ¥6,498 million (\$48,768 thousand), respectively, but income before income taxes for the year ended March 31, 2002 has not been impacted, as compared with the amount which have been reported if the previous accounting method had been applied consistently.

21. Overseas sales information:

Overseas sales of the Companies (export sales of the Company and domestic subsidiaries) for the years ended March 31, 2002 and 2001 are summarized as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2002			2001			2002		
	Asia	Others	Total	Asia	Others	Total	Asia	Others	Total
Overseas sales	¥ 28,852	¥ 9,395	¥ 38,247	¥ 32,768	¥ 8,399	¥ 41,167	\$ 216,529	\$ 70,504	\$ 287,033
Consolidated sales	—	—	¥ 240,678	—	—	¥ 272,274	—	—	\$ 1,806,212
Percentage of overseas sales over consolidated sales	12.0%	3.9%	15.9%	12.0%	3.1%	15.1%	12.0%	3.9%	15.9%

22. Related party transactions:

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial statements and other than those disclosed elsewhere in these financial statements, for the years ended March 31, 2002 and 2001 were as follows:

Millions of Yen									
Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Transactions			Resulting Accounting Balance		
				Description of the Company's Transactions	Year ended March 31		Account	March 31	
					2002	2001		2002	2001
TOYO STYRENE CO., LTD.	¥ 5,000	Produce and Sale of Polystyrene	50%	Sales	¥ 9,411	—	Accounts receivable, trade	¥ 3,496	—
				Supply of utility	¥ 596	—	Accounts receivable, other	¥ 412	—
TAIYO ENBI CO., LTD.	¥ 6,000	Produce and Sale of Vinyl	16%	Supply of utility	—	¥ 1,721	Accounts receivable, other	—	¥ 497

Thousands of U.S. Dollars							
Name of Related Company	Paid-in Capital	Principal Business	Equity Ownership Percentage by the Company	Transactions		Resulting Accounting Balance	
				Description of the Company's Transactions	Year ended March 31	Account	March 31
					2002		2002
TOYO STYRENE CO., LTD.	\$ 37,523	Produce and Sale of Polystyrene	50%	Sales	\$ 70,627	Accounts receivable, trade	\$ 26,236
				Supply of utility	\$ 4,473	Accounts receivable, other	\$ 3,092

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

23. Event subsequent to March 31, 2002:

The Company entered into a mutual contract with TOYO CHEMICAL Co., Ltd. of stock exchange on May 2, 2002, stipulating that TOYO CHEMICAL Co., Ltd. becomes a wholly owned subsidiary of our own, for the purpose of deepening mutual cooperation, establishing an environment where mutual operating strategy can be executed promptly, clarifying operating strategy as a group and expanding mutual operating performance, which the general meeting of shareholders of the Company and TOYO CHEMICAL Co., Ltd. approved on June 27, 2002.

(1) The summary of the contract is as follows:

1) The contents of stock exchange

The Company and TOYO CHEMICAL Co., Ltd. exchange stocks each other in compliance with the methodology specified in Article 352 or 363 of the Commercial Code.

2) The date of stock exchange

October 1, 2002

3) Stocks to be issued for the exchange and apportionment

The Company issues its own common stocks equal to the total number of stocks owned by the shareholders excluding the Company on the shareholders' list of TOYO CHEMICAL Co., Ltd. the date before stock exchange date multiplied by 1.15 and apportions them to the shareholders in the proportion of 1.15 stocks to the common stock of TOYO CHEMICAL Co., Ltd.

4) Amount of Capital and Additional paid-in capital to be increased

(a) Capital

¥0

(b) Additional paid-in capital

The amount of net assets of TOYO CHEMICAL Co., Ltd. multiplied by the ratio of the number of stocks to be transferred to the Company to the total number of issued stocks of TOYO CHEMICAL Co., Ltd. as of the stock exchange date

(2) Information on TOYO CHEMICAL Co., Ltd.

Representative: Muneo Maekawa (Representative director)

Capital: ¥4,383 million

Address: 2-13-1, Dai, Kamakura Kanagawa

Business line: Construction materials, Industry materials, Artificial fiber, Environment materials and Development line

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

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 subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards generally accepted 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 subsidiaries as of March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the two years in the period ended March 31, 2002 in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for those described in the next paragraph.

As described in Note 3, Denki Kagaku Kogyo Kabushiki Kaisha has changed its method of accounting for sales and cost of sales with regard to borrowing and loan transactions of Styrene Monomer, the company's petrochemical products, with other companies. We have concurred that the change in accounting is appropriate.

In addition, as described in Note 2 (2), effective for the year ended March 31, 2002, Denki Kagaku Kogyo Kabushiki Kaisha and its subsidiaries have adopted the new Japanese Accounting Standard for financial instruments.

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

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2002

Notice to readers

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

Corporate Data

Established

May 1, 1915

Paid-in Capital

¥35,303 million (US\$264.9 million)

Employees

2,944

Directory

Head Office —

Sanshin Bldg., 1-4-1, Yurakucho,
Chiyoda-ku, Tokyo 100-8455, Japan
Telephone: (03) 3507-5055

Facsimile: (03) 3507-5059

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

Branches —

Osaka, Nagoya, Fukuoka, Niigata,
Toyama, Sapporo, Nagano, Sendai,
Takasaki, Shizuoka, Hiroshima,
Takamatsu, Kagoshima, Akita,
Hachinohe

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: Denka Corporation@aol.com

Denka Chemicals GmbH

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

Denka Singapore Private Limited

Denka Advantech Private Limited

Hong Leong Building, 16 Raffles Quay
#18-03, Singapore 048581
Telephone: 65-224-1305
Facsimile: 65-224-3840
E-mail: toshio-imai@denka.co.jp

Board of Directors and Corporate Auditors

(As of June 27, 2002)

Chairman

Tsuneo Yano*

President

Toshio Hiruma*

Senior Managing Director

Takeshi Furuya*

Managing Directors

Michio Ohtake
Higashi Ito
Seiki Kawabata
Yoshiaki Mikami
Shunichi Hayashi
Kenichi Tsuchigame

Directors

Hisao Wakuri
Keisuke Takagi
Shinichiro Asai
Kei Hayashi
Hideki Matsumura
Akira Kobayashi
Kohji Minai

Standing Corporate Auditors

Takakazu Koyama
Yukinori Tohtake
Hideo Kitahara

Corporate Auditor

Kenji Fujinuma

*Representative Director

Shareholder Information

(As of March 31, 2002)

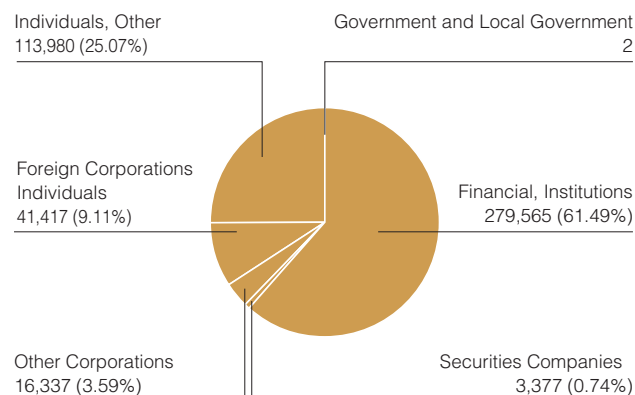
Total Number of Authorized Shares Shares of Common Stock Issued Shareholders

1,584,070,000
459,419,390
59,064

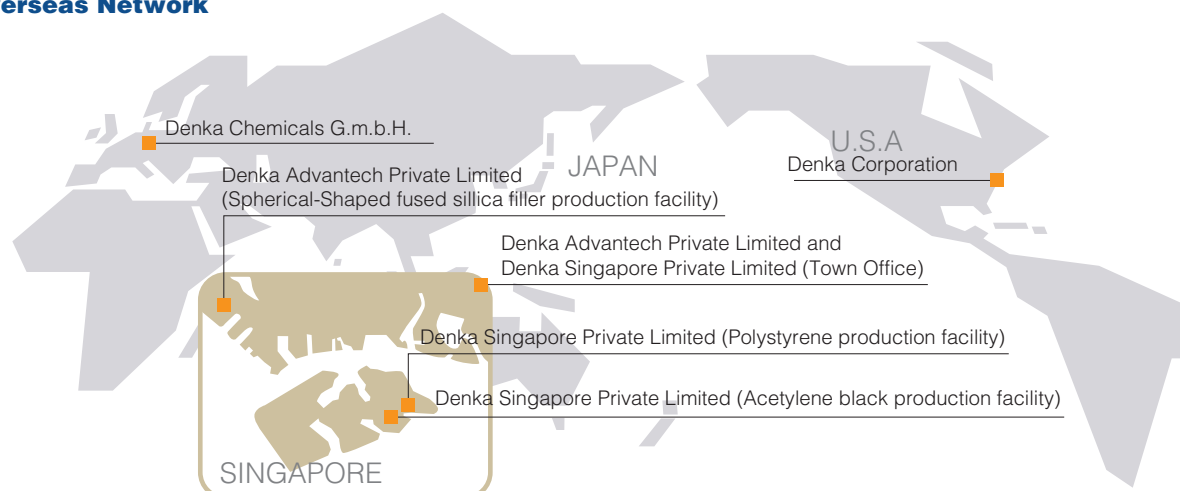
Major Shareholders

	Number of shares held (thousands)	Ratio of total shares outstanding (%)
Japan Trustee Services Bank, Ltd. (Trust account)	59,072	12.85
The Mitsubishi Trust and Banking Corporation (Trust account)	20,228	4.4
Mitsui Mutual Life Insurance, Co.	16,840	3.66
Trust & Custody Services Bank, Ltd. (Mizuho Corporate Bank, Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.)	16,079	3.49
UFJ Trust Bank Limited	12,747	2.77
Sumitomo Mitsui Banking Corporation	10,280	2.23
Blanket Trust Trustee Mitsui Asset Trust and Banking Limited (Trustor: Chuo Mitsui Trust and Banking Co., Ltd.)	10,100	2.19
Specified Unit Trust Trustee Mitsui Asset Trust and Banking Limited, Account A	10,000	2.17
Mitsui Marine and Fire Insurance Co., Ltd.	9,777	2.12
The Sumitomo Trust & Banking Co., Ltd.	9,740	2.12

Breakdown of Shareholders (thousands)



Overseas Network





Sanshin Bldg., 1-4-1,
Yurakucho, Chiyoda-ku,
Tokyo 100-8455, Japan