

DENKI KAGAKU KOGYO KABUSHIKI KAISHA CSR REPORT 2010

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Site Reports, CSR Milestones:
www.denka.co.jp/eng/topics/csr2010.htm

Editorial Policy

DENKA set up its CSR Promoting Department in April 2007 as part of DENKA100, a Companywide initiative to meet new challenges while heading toward its centennial in 2015. The department coordinates Responsible Care (see note below) and other corporate social responsibility (CSR) activities throughout the organization. The Company started publishing an annual environmental report in 2000 replacing it with a CSR report in October 2007.

Based on Companywide activities concerning DENKA100, issues of material importance to DENKA outlined in *CSR Report 2010* have been summarized into booklet form, while information on other activities that we are continuing to implement is displayed on our website. Consequently, we have focused on creating a compact booklet while displaying information in a concise and high-quality format. For this reason, our site reports, which were until last year included in our CSR reports, will be displayed on our website.

The Japan Responsible Care Council conducted a third-party audit of the report. In preparing this publication, we referred to Reports on Environmental Guidelines 2007 by Japan's Ministry of the Environment and Version 3 of the Sustainability Reporting Guidelines by the Global Reporting Initiative.

Coverage

This report generally covers fiscal 2009—April 1, 2009, through March 31, 2010—however, it also includes numerical targets and performance statistics from dates preceding that period as well as information on subsequent events.

Scope

Unless stated otherwise, the data in this report is based on information on the business sites of DENKA and key affiliates. These sites are the Omi, Omuta, Chiba, Shibukawa, Ofuna and Isesaki plants and the Central Research Institute. We also include data for the plants at which the Electronic Materials Institute and Polymer Technology Institute are located.

The key affiliates are Denal Silane Co., Ltd., Denak Co., Ltd., JUZEN Chemical Corporation at the Omi Plant, and Chiba Styrene Monomer Limited Company, TOYO STYRENE Co., Ltd., and Taiyo Vinyl Corporation at the Chiba Plant. The financial sections on pages 10 and 40 to 41 of this report present consolidated data.



To All of Our Stakeholders

The business environment in fiscal 2009, the year ended March 31, 2010, continued to be severe due to the impact of the economic crisis, which began in the latter half of fiscal 2008 and continued through to the first half of fiscal 2009.

In addition to the effects of stock adjustments and economic countermeasures, the economy in Japan saw a revival in production and exports as a result of recovery in Asian economies, chiefly China. However, difficult economic conditions continued due to sluggish capital investment and rising unemployment.

In the chemical industry, a recovery in demand both in Japan and overseas boosted sales volume and corporate earnings improved. Cause for concern, however, exists with regard to the deteriorating performance of exports as a result of yen appreciation and the rising cost of raw materials.

Operating under these conditions, DENKI KAGAKU KOGYO KABUSHIKI KAISHA (DENKA) formulated "KIT09," a management plan that had as its top priority restoring income and expenditures to the level the Company enjoyed prior to the economic crisis. To this end, we worked to reduce fixed expenses in a variety of areas, including labor and operational expenses, reviewed inventories and strived to increase sales. By business, net sales in both the inorganic and organic materials businesses declined because of a drop in sales prices and yen appreciation, although demand for electronic materials-related products rose along with a bounceback in their market following the stagnation of the second half of fiscal 2008. In addition, sales of medical and pharmaceutical products also increased.

As a result, consolidated net sales in the fiscal year under review amounted to ¥323,875 million, a decline of 3.1%, or ¥10,254 million, from the previous fiscal year. Operating income, on the other hand, increased a substantial 110.2%, or ¥11,353 million, to ¥21,655 million. Net income surged 627.5%, or ¥9,034 million, to ¥10,474 million.

With regard to the environment, the arrival of a low-carbon society will lead to the manufacturing industry being asked to shoulder even more stringent obligations and burdens. Moreover, there is a widely held belief that tackling the reduction of CO₂ emissions will be a prerequisite for corporations desiring to maintain corporate sustainability. We own and operate hydroelectric power plants, and, backed by fortes in energy conservation and environmental technologies that we have cultivated over many years, have employed life cycle assessments (LCAs) as a primary tool as we push forward with measures to reduce CO₂ emissions, including among business customers and individual consumers.

The DENKA Group Guidelines underscore our CSR commitment as a comprehensive chemical products manufacturer in 10 key respects, including safeguarding the environment, maintaining employee safety and health, ensuring security, preventing disasters and promoting compliance, employment and social initiatives. Together with autonomous management activities conducted through the implementation of Responsible Care* we have produced a medium-term environmental plan that aligns our efforts to undertake environmental preservation activities with numerical targets. Taking these activities into account, we formulated the Companywide DENKA100 management plan to take on a new set of challenges leading up to our centennial in 2015. Our goal is to take a further leap forward in order to continue to be a company that creates new value from resources by fully employing its technological capabilities.

In this report we would like to introduce the basic policies and results of our CSR activities based on DENKA100. We would be delighted to hear your frank opinions with regard to our efforts.

September 2010

Seiki Kawabata

Seiki Kawabata
 President

* Responsible Care as it pertains to the chemical industry is defined as an approach to business activities in which manufacturers and handlers of chemical substances, in line with the principles of self-determination and individual responsibility, conduct the self-management of environmental and safety issues surrounding aspects of chemical substances, from development through to disposal.



Q Please discuss the results for fiscal 2009 in each segment and future policies.

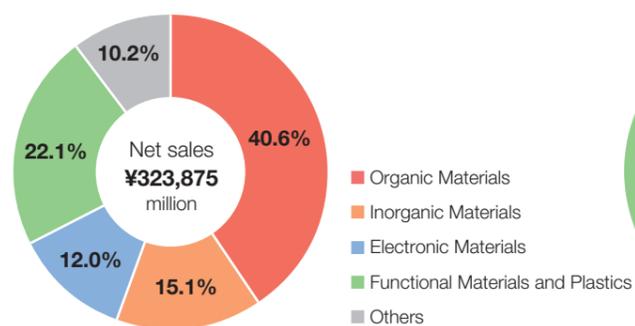
A In the organic materials business, we saw increased sales backed by a heavy sales volume of styrene monomer. Sales of styrene resins, primarily for export, recovered; however, although sales prices fell along with the declines in the cost of raw materials, sales declined. Chloroprene rubber experienced a recovery in sales volume as sales expanded in China and the rest of Asia and automobile-related applications regained lost ground. Nevertheless, the segment's net sales declined due to the impact of the strong yen. In the inorganic materials business, we saw a reluctance to purchase fertilizer as well as a price revision in the first quarter. Although the sales volume recovered after July, sales still declined. In fire-resistant materials, overall sales were sluggish for steel materials as well as cement and sales declined. Also, sales of a special cement additive increased with the rise in sales of DENKA NATMIC, a quick-setting agent for undertaking construction in tunnels. The electronic materials business saw *net* sales rise on the rapid recovery in demand for principal products, such as the industrial adhesive HARDLOC, materials for electronic component delivery, fused silica filler for IC chips and electronic circuit substrates for industrial equipment. Furthermore, we launched SiAION Phosphor, a new product for white LED modules, in the second half of the fiscal year. Taking off quickly, the new

product's sales volume soon expanded. Pharmaceuticals in the functional materials and plastics business recorded sales volume growth buoyed by demand for the influenza vaccines and diagnostic reagents offered by subsidiary company DENKA SEIKEN, Co., Ltd. This was due to the spread of the new influenza strain and was in addition to increased sales of a macromolecular sodium hyaluronate preparation that improves joint function. In addition, sales of food packaging sheets and DENKA Polymer Co., Ltd.'s processed products were brisk.

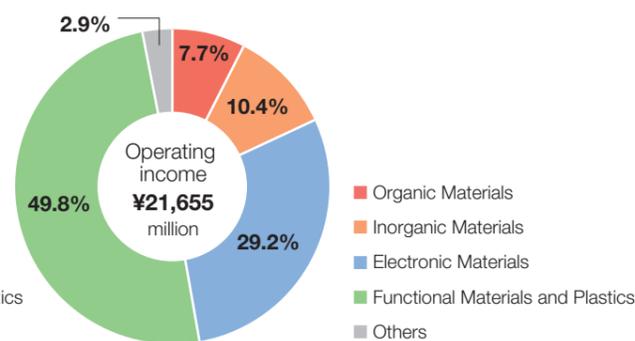
Fiscal 2009 conditions were a continuation of the severe business environment experienced in fiscal 2008. However, early recovery in the electronic materials business, extraordinary demand for new-type influenza-related products and the solid launch of phosphors for white LED modules all worked toward a year-on-year rise in operating income of ¥11,353 million.

This notwithstanding, returns from our organic and inorganic materials businesses, the backbone of the Company, fell precipitously. Going forward, we will restructure materials businesses by strengthening sales of chloroprene rubber and revamping the inorganic materials business. In this way, we intend to establish a framework to secure stable profits and to build a foundation for DENKA's growth.

■ Consolidated net sales by segment (FY2009)



■ Consolidated operating income by segment (FY2009)



Please tell us about DENKA's strategy for future growth.

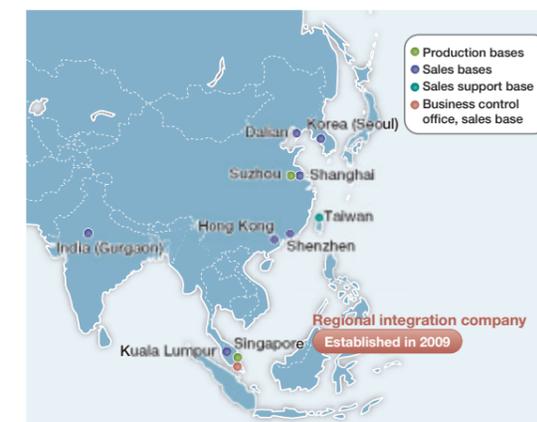
A At DENKA, we are moving forward on three strategies for growth, specifically, we are focused on expanding sales in overseas markets, strengthening competitive products and product development with a focus on growth fields.

1) Expanding sales in overseas markets

We are working with great urgency to build overseas bases, particularly in China, to meet our target of achieving an export ratio of 50% by 2015. In April 2009, we established Denka Chemicals Holdings Asia Pacific Private Limited (DCHA) to consolidate our Southeast Asian and South Asian business operations.

Our trading company Hissan Trading Co., Ltd. also established sales offices in Gurgaon, India, in November 2009 and in Seoul, South Korea, in January 2010, in order to build an even stronger sales network in Asia. These activities represent efforts to aggressively take on overseas initiatives and to meet the demand of a growing Asia.

■ Asian network



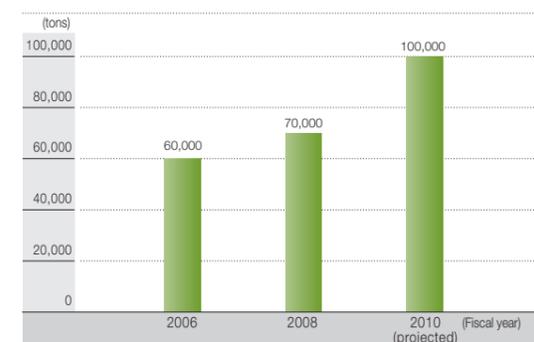
2) Strengthening competitive products

DENKA is making enormous capital investments to strengthen products in order to ensure a competitive edge. In fiscal 2009 we completed upgrades to manufacturing facilities for our mainstay product, chloroprene rubber, having thus far invested over ¥10.0 billion. In so doing we are boosting annual production capacity from 70 thousand to 100 thousand tons. In the second half of fiscal 2008, the economic crisis caused demand for chloroprene rubber to temporarily drop, however, the sales volume has now recovered to the 70 thousand ton level met by

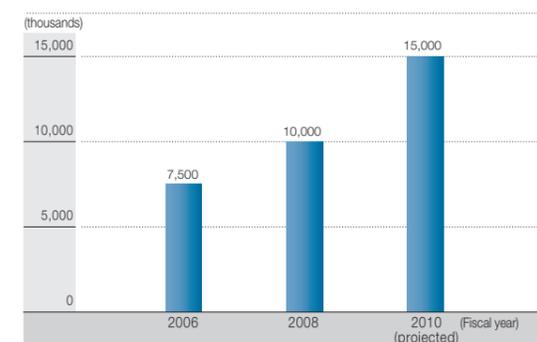
our former production capacity. We will continue to take steps to further expand sales, focusing on the Asian region.

The pharmaceutical macromolecular sodium hyaluronate is another product for which we conducted large-scale investments. From the latter half of fiscal 2010 when operations get under way we will see the production capacity increase to 15 million units, 1.5 times that currently possible. This will secure a production structure capable of meeting increased demand from a surging market.

■ Chloroprene rubber production capacity



■ Macromolecular Sodium hyaluronate production capacity



3) Product development in growth fields

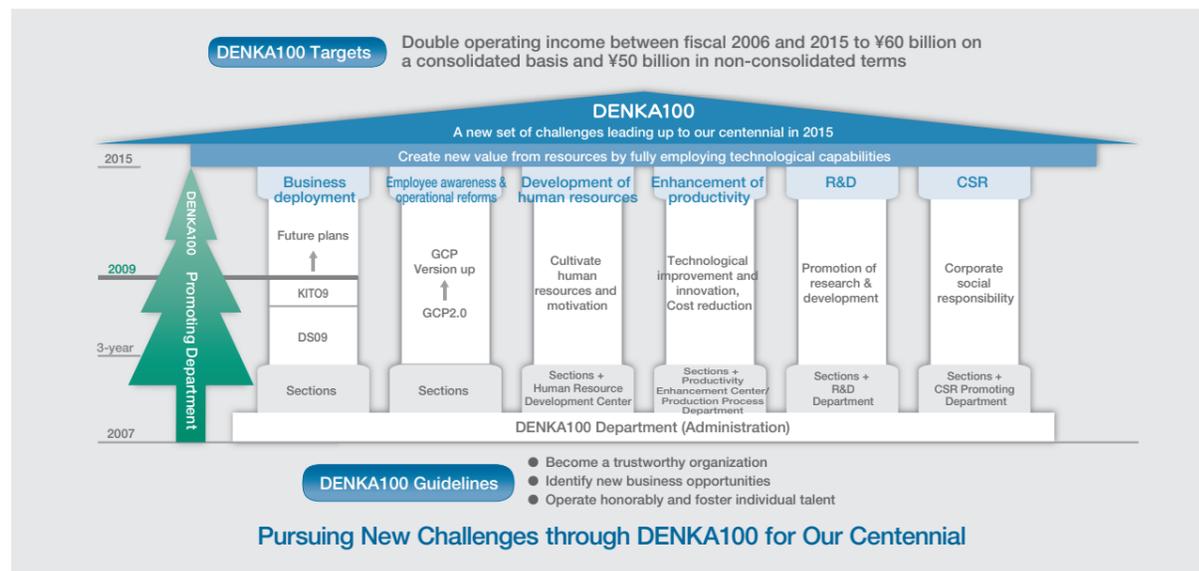
In the latter half of fiscal 2009, DENKA launched to market ALONBRIGHT, a white LED module used as a backlight for LCD TVs. Greater than expected demand for this product has made it imperative to upgrade manufacturing facilities. Moreover, we plan to conduct sales of this module for illumination applications, and in fiscal 2010 we are scheduling scaled upgrades to increase production capacity. Looking ahead, in the electronic materials business, we will reinforce the LED

products-related business, making this module a mainstay product.

Solar generation systems are another clean energy area that show promise for enormous growth. An example of this is SOLARLOC, a product we developed as an adhesive to temporarily affix processing silicon ingots for solar batteries. In addition to Japan and Taiwan, we aim to conduct aggressive sales activities of this product in China, Southeast Asia and Europe.



Would you please update us on the progress of DENKA100, as well as how it will be developed in the future.



A Under DENKA100, a management plan implemented from April 2007, our basic philosophy in the lead up to our centennial in 2015 will be to work as a company that creates new value from resources by fully employing our advanced technological capabilities. In so doing, we aim to achieve consolidated operating income of ¥60 billion by 2015.

We aim to achieve our basic philosophy in line with the three DENKA100 guidelines, namely, to “become a trustworthy organization,” to “identify new business opportunities,” and to “operate honorably and foster individual talent.” There are also six action items we are taking steps to accomplish, namely, the 1) implementation of DS09, the first three-year stage of DENKA100, which began in 2007, intended to adapt, deepen and add true value to our business development; 2) deployment of GCP2.0, an updated version of the Good Company Program that will revitalize the Company through new thinking; 3) cultivation of human resources; 4) enhancement of productivity; 5) fostering of R&D; and 6) pursuit of CSR.

Under DS09, we established numerical targets in the four categories of operating income, operating income margin, return on assets (ROA) and interest-bearing debt ratio, for which we are undertaking various measures. However, these targets were put on hold when the economic crisis broke out in 2008, spurring us to take the emergency countermeasures outlined in KIT09 to regain our sense of balance with regard to income and expenditures. This decisive action enabled us to achieve consistent results in fiscal 2009. Then, in fiscal 2010, as we returned to the path of growth we reinstated the goals set for the final year of DS09.

GCP2.0 is a plan that seeks to strengthen and vitalize the Company from the inside-out by taking action to change Companywide awareness and improve operations. Based on the slogan “exceptional themes, inspirational measures, outstanding results,” DENKA has been constantly moving forward with this plan since April 2007.

The cultivation of human resources includes strengthening the activities of the Human Resource Development Center, which advances education within the Company, boosting motivation, and encouraging employees to be able to think, learn and act autonomously.

Enhancing productivity entails the effective use of resources and raw materials, improving equipment capacity, increasing the added value of products and raising the efficiency of operations and our ability to move forward based on our technological strengths while enhancing workplace and organizational capabilities.

R&D is fostered under the direction of our Research and Development Department, making strides in bolstering existing products and speeding the development of products while keeping in mind the global environment.

In our pursuit of CSR, we seriously apply our efforts related to a variety of issues, including the environment, safety, employment, compliance and social contributions. CSR activities are carried out methodically and aim for a harmonious coexistence with local communities, society and the earth.

In carrying out each of these initiatives and with the intent of realizing an image of DENKA's future as we look toward our centennial, we will continue to strive in a variety of fields.

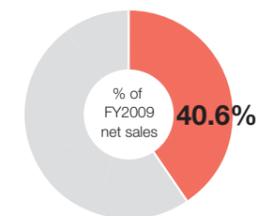


Profile

Overview of Principal Business Segments

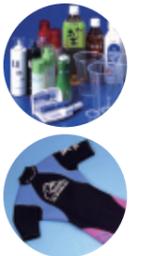
DENKA, a pioneer in electronics and chemicals, was founded in 1915 to manufacture and market calcium carbide and the chemical fertilizer calcium cyanamide. As a comprehensive chemical products manufacturer that seeks to elicit the full potential of chemicals, DENKA aims to be a company that creates new value from resources by fully employing its technological capabilities. By developing and providing an array of materials, DENKA is contributing to the development of society.

Organic Materials

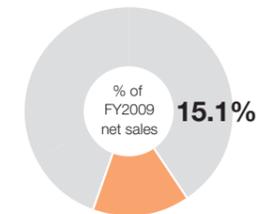


DENKA entered the petrochemicals business on the occasion of its participation in the Maruzen Petrochemical complex in 1962. Since then the Company has worked to expand its range of offerings, including styrene monomer, polystyrene resin and other functional resins. These are used in an array of products, such as home appliances, office equipment, automobiles, packaging materials and general merchandise.

Main products: styrene monomer, polystyrene resin, ABS resin, SBC resin, heat-resistant and transparent resins, acetic acid, vinyl acetate, POVAL, chloroprene rubber, acetylene black



Inorganic Materials

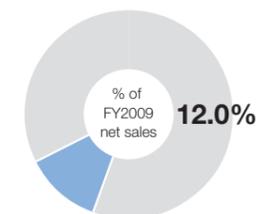


In addition to its carbide chemical business based on calcium carbide and calcium cyanamide, manufactured since 1915, the year of its founding, DENKA has developed its cement business based on limestone, a plentiful raw material extracted from mines with about five billion tons of exploitable reserves. The hydroelectric power plants constructed to support the production of calcium carbide, supply approximately 30% of DENKA's overall electric power needs.

Main products: fertilizer, calcium carbide, fire-resistant materials, cement, special cement additives



Electronic Materials

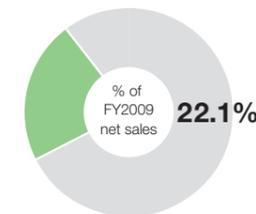


DENKA supports the development of electronics, combining expertise in organic chemistry with a long history in the area of inorganic chemistry as well as the cultivation of its polymer processing technologies. DENKA holds the top share of the market for spherical fused silica for semiconductor sealant fillers, and also provides a range of other products, such as DENKA THERMOSHEET, an electronic packaging material.

Main products: Fused silica, electronic circuit substrates, fine chemicals, electronic packaging materials



Functional Materials and Plastics



Utilizing its advanced polymer processing technologies, DENKA develops and markets an array of processing products for synthetic resins that are environment friendly and enhance convenience. In the medical science field, DENKA manufactures macromolecular sodium hyaluronate and its subsidiary DENKA SEIKEN produces vaccines and diagnostic reagents.

Main products: food packaging materials, vaccines, preparations for improving joint functions, diagnostic reagents, housing materials and environmentally friendly materials, and industrial materials



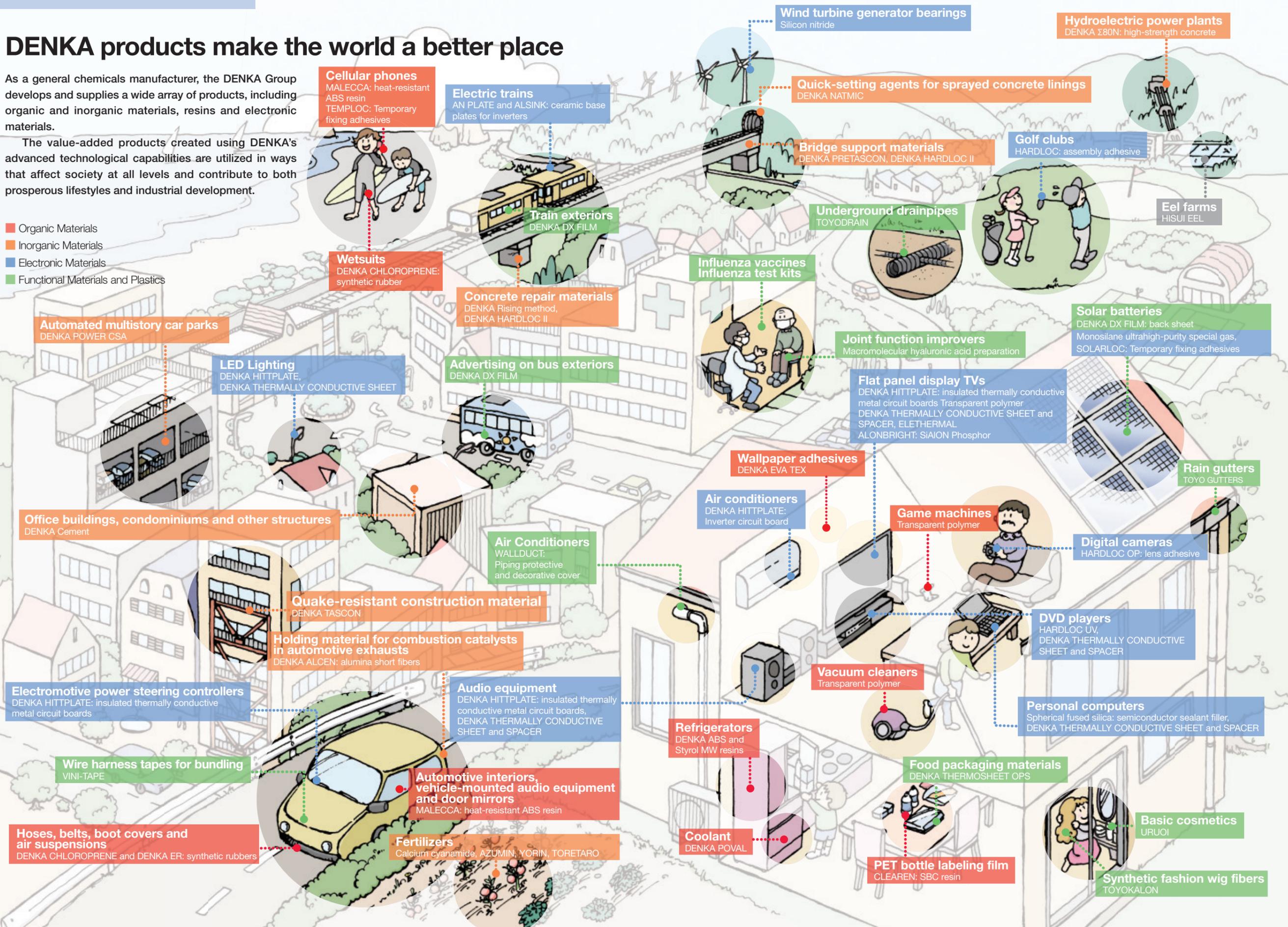
* Please see DENKA CITY on pages 8 and 9 for principal products of each segment.

DENKA products make the world a better place

As a general chemicals manufacturer, the DENKA Group develops and supplies a wide array of products, including organic and inorganic materials, resins and electronic materials.

The value-added products created using DENKA's advanced technological capabilities are utilized in ways that affect society at all levels and contribute to both prosperous lifestyles and industrial development.

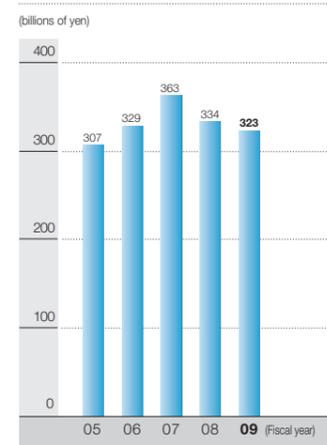
- Organic Materials
- Inorganic Materials
- Electronic Materials
- Functional Materials and Plastics



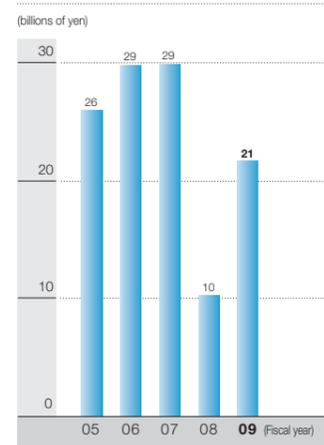
(Millions of yen)

	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009
Net sales	307,923	329,262	363,996	334,130	323,875
Operating income	26,069	29,877	29,912	10,302	21,655
Ordinary income	23,913	26,006	24,918	3,094	16,888
Net income	15,365	15,734	6,660	1,439	10,474
Total assets	349,689	365,301	375,364	377,912	400,407
Total net assets	146,148	164,643	161,870	150,142	160,316
Total shareholders' equity ratio (%)	41.8	43.5	41.6	39.1	39.4
Net income per share (yen)	31.08	32.03	13.57	2.89	21.33
Net assets per share (yen)	297.23	323.81	317.91	300.60	321.46

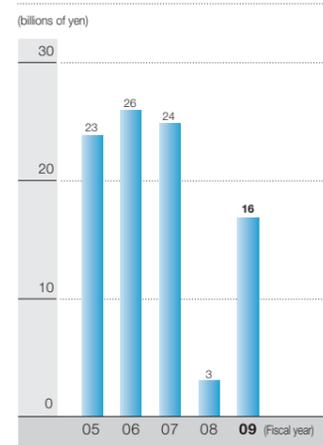
Net sales



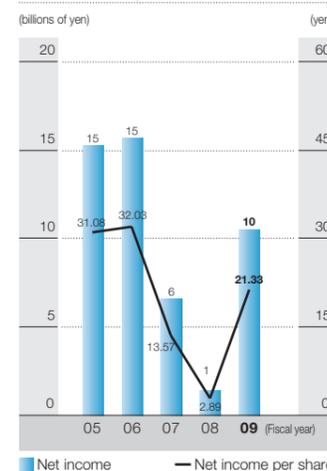
Operating income



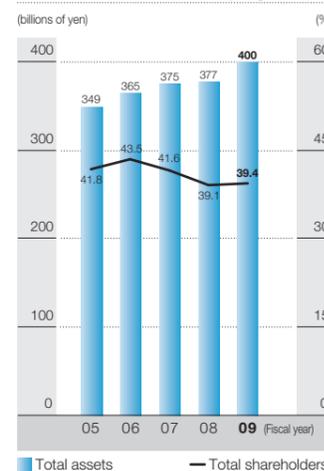
Ordinary income



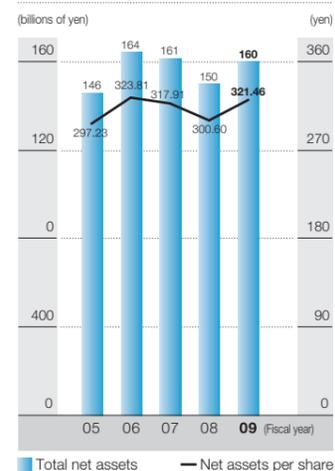
Net income/
Net income per share



Total assets/
Total shareholders' equity ratio



Total net assets/
Net assets per share



Rounded down to the nearest billion

DENKA's founder Tsuneichi Fujiyama, who pioneered the manufacture of calcium carbide in Japan, devoted himself to producing chemical fertilizers domestically to foster the nation's agricultural sector.

Ever since that time, the Company has been upholding his ethos of maintaining the high-quality, production-oriented approach demanded by society in its capacity as a creator of products and businesses.

Amid the current increasing awareness of environmental protection matters, DENKA is focusing on saving energy, the development of such clean energy-related items as solar power generation products and the expansion of its environmental business. In addition to strengthening its efforts toward global warming prevention, including the lowering of CO₂ emissions, the Company is employing LCAs to help customers reduce waste and environmental impact when using its products.

The Omi Plant's Oami power station (See p. 20)



Contributing to Lower CO₂ Emissions (1)

HARDLOC Acrylate Structural Adhesive

The fruit of in-house development focusing on organic fine chemical technologies, this adhesive has been adopted in a variety of applications that demand long-term joint reliability. From the time of its launch in 1975 until the present day, HARDLOC has been the byword worldwide for acrylate structural adhesive.



HARDLOC Modified Acrylate Structural Adhesive

HARDLOC: Used in a Variety of Applications

HARDLOC, a modified acrylate adhesive that is DENKA's mainstay product in the functional adhesives business, is a structural adhesive that reacts and hardens in a matter of minutes when its two-liquid formulation is mixed together.

A superior structural adhesive, HARDLOC can be used as an alternative to screws, bolts and welding. The product is therefore used in a wide variety of locations and products where long-term adhesion is essential, including the bonding together of elevator panels, metal construction materials for offices and private homes as well as, to give a more familiar example, in the assembly of golf clubs.

Energy-Saving Effect of the Adhesive Method

It is common to use welding when bonding pieces of metal together. The thermal distortion that occurs in metal welding

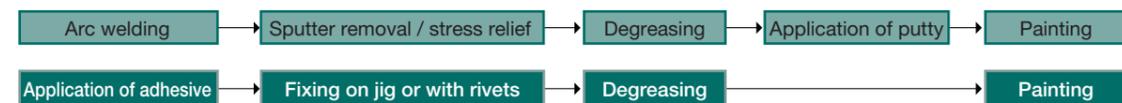
necessitates that it be followed by finishing work involving reshaping the piece with a hammer and polishing with a grinder as well as the application of finishing putty. In contrast, although it needs some time to harden, using an adhesive dispenses with the need for finishing, resulting in a labor-saving process.

Contributing to Improved Workplace Environments

In addition to the energy-saving effect from HARDLOC's abbreviated adhesive method, the product has the effect of significantly reducing noise and thereby contributing to improvements in the workplace environments.

Leveraging HARDLOC's superior adhesive qualities, DENKA will propose alternative welding methods that further contribute to improvements in energy saving and workplace environments.

Process Differences



Using bonding as an alternative to welding not only reduces noise volume, the shorter process saves on labor and reduces power consumption. The improved rigidity gained by surface adhesion using this structure enables consideration to be given to the use of thinner and lighter steel sheets.

Energy-saving effects

- Faster completion times due to shortened process
- Reduced power consumption for welding and drying after putty application stage
- Improved rigidity gained by surface adhesion also enables consideration of thinner steel sheets



Application of adhesive



Bonding elevator panels Johnson Lift (India)

Example of energy savings achieved by applying adhesive process methods for metal enclosure assemblies

- Approx. 30% reduction in work times
- Approx. 20% weight reduction from use of thinner steel sheet
- More than 30% reduction in the amount of power used in the factory



Example of adhesive method of application: Electric power distribution panels

Contributing to Lower CO₂ Emissions (2)

EIEN Long-Life Concrete

From Concrete to People.

What should concrete be to be of more direct benefit to people? DENKA thought about ways that concrete could co-exist in harmony with the global environment and jointly developed EIEN concrete, which absorbs CO₂ and lasts a very long time.



Carbonation: The Key to Longevity

Taking its name from the first letters of the words "earth," "infinity" and "environment," EIEN is a long-life concrete that DENKA jointly developed with Kajima Corporation and Ishikawajima Construction Materials Co., Ltd. Because the product is in harmony with the environment, it has been attracting a great deal of attention not only from the mass media, such as TV and the press, and concrete engineers but also from the general public.

The phenomenon known as carbonation, by which concrete absorbs CO₂ that neutralizes its alkalinity, also induces the corrosion of the steel reinforcing rods used inside concrete. Consequently, carbonation has until now been considered an undesirable aspect of reinforced concrete structures.

Findings from surveys of ancient Egyptian and Chinese ruins, however, have revealed a close relationship between concrete carbonation and longevity, the concrete that existed several thousand years ago sharing a common factor: advanced carbonation.

Nicknamed "10,000-Year Concrete"

In the course of EIEN's development, DENKA conducted research looking for materials that would better densify and stabilize concrete during the carbonation process. It was during this research that the effectiveness of a specific additive, γ -modification dicalcium silicate (γ -2CaO · SiO₂), was recognized.

Actively carbonizing concrete and greatly increasing its internal density by using the special additive suppresses subsequent penetration by harmful substances so that the concrete is also chemically stable.

Making reverse use of concrete's long-standing nemesis, carbonation, EIEN enables longevity far in excess of the conventional number of years of service life. Consideration is being given to using EIEN at radioactive waste treatment plants, where safety, reliability and durability are imperative; for such important structures as roads and railroads; and for the maintenance and repair of deteriorating concrete structures, such as piers.

Taking advantage of one of EIEN's special characteristics, that is, its low pH value, the Company is also studying its application in the construction of artificial coral reefs and as vegetation concrete, where ecological harmony and environmental compatibility are strongly desired, and in aquatic environments.

Use in the creation of an artificial coral reef



Coral attached to EIEN concrete



The coral's extensive growth after one year

Earth-Friendly Environmental Business (1)

DENKA's Environmental Technologies

Denka Consultant & Engineering Co. Ltd. (DCE), a DENKA Group company, markets engineering technologies, selling equipment for powder handling and wastewater treatment facilities at production plants in a wide range of fields, including steel, chemicals and foodstuffs. The company also undertakes manufacturing plant projects from the planning stage through to construction.



BIO-DYNACTOR wastewater treatment system

HIGH-FLOW PNEUMA High-Pressure Pneumatic Particulate Conveyor

HIGH-FLOW PNEUMA is an example of technology for transporting a variety of particulates by such means as high air pressure and inert gas. Representing groundbreaking technology for controlling dust emitted from plants, this system is being utilized in a wide range of fields.

Having fed the transporting air and gas that contains the particulate into the lift tank (pressure vessel), the mechanism uses that air to push the particulate through the piping. The pipe is sealed, making it difficult for dust to escape. Moreover, because there are no moving parts such as fans inside the pipe, the maintenance workload is significantly reduced.

High-hardness coke fines and silica powder are abrasive to pipes and moving parts. HIGH-FLOW PNEUMA increases wear resistance, helping to prevent pipe abrasion thanks to the pipes' interior being coated with a ceramic material that enables the transport of particulates without the need for moving equipment along the conveyor pipeline.

The Company's steelmaking plant business customers utilize the HIGH-FLOW PNEUMA system for collecting and transporting the coke fines that are produced when cooling coke. In contrast to the conventional technique of transporting the fines on a steel belt conveyor, HIGH-FLOW PNEUMA reduces the amount of dust that is released into the air and thus improves the plant environment. Unlike a conveyor, the



HIGH-FLOW PNEUMA high-pressure pneumatic particulate conveyor

HIGH-FLOW PNEUMA system allows for a high degree of design freedom in pipe routing, resulting in plants that are more compact, and also effectively reduces the amount of required maintenance work.

Our major tire manufacturer customer operates the HIGH-FLOW PNEUMA system to transport silica powder, the key technology used in eco-tires.

BIO-DYNACTOR Wastewater Treatment System and BCP Carrier

The innovative BIO-DYNACTOR wastewater treatment system, which is being independently developed and manufactured by DCE, has the ability to maximize microorganisms' efficiency in decomposing organic material.

The wastewater is treated using a long-life, porous plastic carrier known as Bio Carrier Plastic (BCP) and the superior decomposing ability of a microbial film attached in high concentrations to the carrier's surface.

The three-phase fluidized bed-type method is utilized, specifically, water and the carrier are mixed into the wastewater, which is then aerated and made to flow. Despite the compactness of the equipment, this method delivers high purification capacity. Progress is being made in installing BIO-DYNACTOR in a wide variety of production plants where high-load operations, such as those for foodstuffs, chemicals and electronic materials, are demanded.

By means of biotechnologies that utilize microbial decomposition, DCE offers technologies that return water, a limited resource, back to nature and endeavors to contribute to global environmental protection.

Earth-Friendly Environmental Business (2)

DENKA's Recycling Technologies

To ensure that it becomes a company that contributes sustainably to the world and society, the DENKA Group recognized product recycling as an important operation. Geared toward the formation of a recycling-oriented society, DENKA is honing its resource recycling techniques for waste materials and by-products related to its products, including cement and styrene foam packing material.

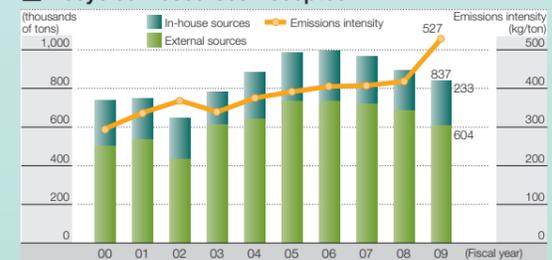
Cement Plant Recycling System

The waste material recycling business at the Omi Plant's cement plant started with the treatment of by-products generated by its in-house operations. Now accepting coal ash from the thermal power stations of electric power companies as well as waste tires and plastics, the Omi Plant is also handling the carbonization of sewage sludge and household waste from local government bodies, again for use in cement. The Omi Plant is also addressing the issue of employing as a cement material soil displaced from construction sites, the securing of final disposal landfill sites for which is presenting problems.

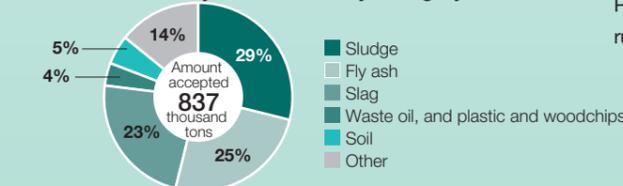
DENKA is making further advances in the use of scrap wood, plastics and other waste materials as alternative fuels. In line with its ability to reduce fossil fuel consumption, the Company is also contributing to protecting the global environment from the standpoint of helping to alleviate global warming.

In fiscal 2009, every metric ton of DENKA cement produced used 527 kilograms of recycled materials for materials and fuel.

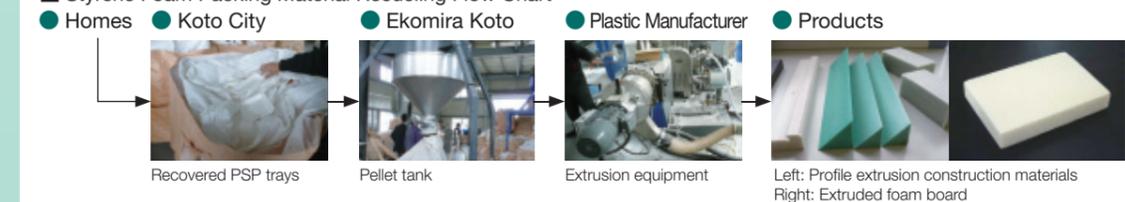
Recycled Resources Accepted



Fiscal 2009 Recycled Material by Category



Styrene Foam Packing Material Recycling Flow Chart



Involvement in Styrene Foam Packing Material Recycling Business

Founded in 1966, Denka Polymer is engaged in the manufacture and sale of plastic food containers.

By actively working to make food containers lighter, not only is the company reducing the amount of household garbage and lessening environmental impact, it is contributing to greenhouse gas reduction.

In April 2010, Ekomira Koto, a styrene foam recycling pilot business scheduled to last three years, was launched in Tokyo's Koto City. As a manufacturer of plastic molds, the company is participating and cooperating in the venture.

The business involves used styrene foam containers being collected in Koto City, taken to a recycling facility and made into pellets. As these pellets are a raw material of plastic, Denka Polymer takes over and acts as a broker to turn them back into plastic products.

This pilot business represents a unique attempt for local government, community residents, NPOs and companies to work together and support resource recycling.



Koto City Mayor Yamazaki at the completion ceremony of the Ekomira Koto styrene foam packing material recycling facility

People with intellectual disabilities are employed at the facility, which is located in Koto City's *Ekokkuru* environmental education facility, where tours and first-hand experiential learning are provided for elementary and junior high school students to deepen their understanding of recycling.

As a manufacturer of plastic food containers, Denka Polymer is actively working to get this pilot business up and running and contributing to building a recycling society.



Director, Managing Executive Officer
In overall charge of technologies
Hitoshi Watanabe

DENKA Medium-Term Environmental Plan

DENKA continues to improve and optimize its production technologies and, by promoting RC activities, its production activities so that they safely have less of an impact on the environment.

DENKA's action policies are deliberated and decided upon by the RC Committee chaired by the person in overall charge of technologies, the contents of specific activities being reviewed by the RC Promotion Committee. Matters concerning operational safety and disaster prevention as well as occupational safety and health come under the Safety and Health Management Plan. Implementing environmental measures by means of its Medium-Term Environmental Plan and RC activities, the Company oversees their implementation through internal verification systems, including safety inspections and RC audits. Although not all goals were met in fiscal 2009, the Company did achieve its targets for energy conservation and waste disposal.

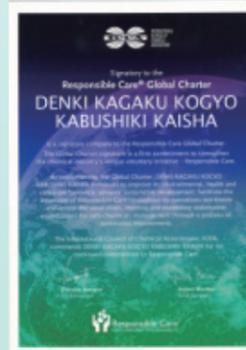
The Company will continue to reduce CO₂ emissions, cut waste and the use of valuable resources toward zero emissions* under its Fourth Medium-Term Environmental Plan (EM10), which runs for three years from fiscal 2010. DENKA will enhance its RC activities by dialogue on distribution safety and with local communities.

**The DENKA Group's
Responsible Care (RC) Activities**

- (1) In order that no fires break out or explosions occur at its points of production, DENKA maintains and improves equipment as well as ensures safety through management based on operational methods and criteria that constantly maintain safe operations.
- (2) With regard to environmental protection, DENKA invests the amounts of capital necessary to promote savings in energy and resources.
- (3) In order to continue operating workplaces in which its employees can work safely, DENKA works hard to reduce occupational hazards at points of production by such measures as improving equipment and technologies and conducting the tuition and training necessary for technical proficiency.
- (4) To contribute to the world and society, DENKA works to increase interactive exchanges, such as local briefings and chemistry classes for elementary school pupils.
- (5) In addition to maintaining safety during product distribution, from the plant until the shipment reaches the hands of the customer, DENKA also works to save energy.
- (6) DENKA will actively leverage its proprietary technologies in its products and processes to protect the Earth's environment.

* Zero Emissions Definition

$$\left[\frac{\text{Final waste disposal}}{\text{Total waste generated}} \times 100 < 1 \right]$$

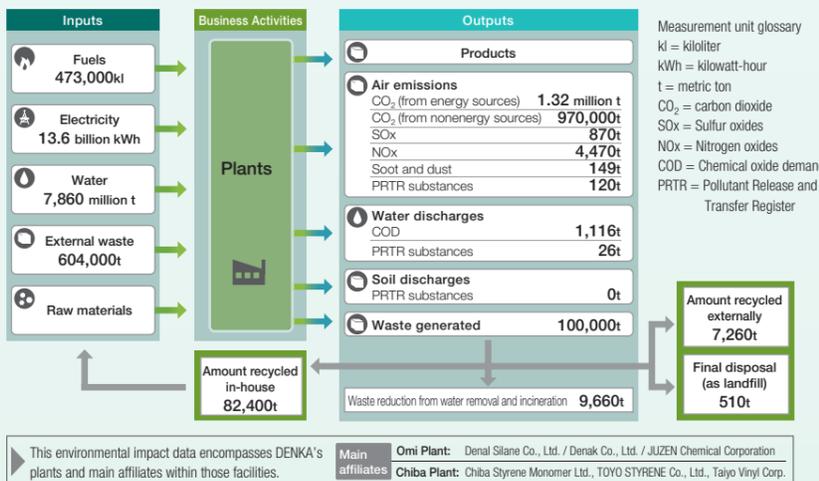


Signed certificate from the ICCA
 In February 2010, the Company received a signed certificate issued by the International Council of Chemical Associations (ICCA) for having endorsed a declaration supporting the RC Global Charter.

Medium-Term Environmental Plan Item	EM09			EM10	
	Fiscal 2008	Fiscal 2009		Fiscal 2010	Fiscal 2012
	Actual	Target	Actual	Target	Target
Energy consumption intensity (with fiscal 1990 as base year)	0.94	0.89	0.89	0.88	0.86
Emissions of PRTR substances (tons)	148	135	136	108	88
Final waste disposal (tons)	2,900	655	510	577	374

Input and Output

The main environmental impact totals of all business sites for fiscal 2009 are shown below.



Fiscal 2009 Responsible Care Objectives and Achievements

(Assessment code: A = Reached target B = Partially missed target C = Missed target)

Key Area	Fiscal 2009			Initiatives and Final-Year Targets	Relevant Page	
	Goals	Achievements	Evaluation			
Conservation	Prevent global warming and conserve energy	CO ₂ emissions intensity (from energy sources): 1.17t/t Energy consumption intensity (fiscal 1990 base): 89%	CO ₂ emissions intensity: 1.09t/t Energy consumption intensity (fiscal 1990 base): 89% We shifted fuels used in the Omi Plant's thermal power generator to natural gas, established another natural gas cogeneration facility, and improved energy efficiency by recovering productivity at the Chiba Plant. Accordingly, CO ₂ emissions intensity was improved.	A	CO ₂ emissions intensity: 0.99t/t Energy consumption intensity (fiscal 1990 base): 86% and below	16 21 24
	Prevent air and water pollution	SOx: 1,876t NOx: 5,633t Soot and dust: 116t COD-BOD: 651t	SOx: 870t NOx: 4,470t Soot and dust: 149t COD-BOD: 1,116t Reflecting the increased use of recycled resources at cement plants, the amount of soot and dust emissions increased. Also, the amount of COD and BOD emissions increased due to the increased manufacturing of rubber products at the Omi Plant. We will strive to reduce these amounts by further improving operations and facilities.	B	SOx: 121t NOx: 3,780t Soot and dust: 133t COD-BOD: 564t	16 17 22 23 24
	Reduce waste (zero emissions)	Total waste generated 124,000t	100,000t Emissions dropped because we recycled waste as resources in house and improved production processes to reduce waste.	A	103,000t Constrain and reduce wastes	15 16
		In-house and external reuse: 107,000t	89,600t We progressed in reusing resources at our cement plant and through external recycling; however, we were unable to reach our target. We will step up efforts to recycle resources.	C	90,200t Promotion of reuse	
Use resources efficiently	Recycle resources In-house and external landfill: 1,720t	510t The Omi and Omuta Plants greatly reduced final disposal by reusing more resources and achieved the targets of the Medium-Term Environmental Plan. As a result, we attained zero emissions.	A	Cut final landfill waste 374t	17 23 24	
	Further enhancement of recycled resource usage intensity from 417kg/t in fiscal 2008	Recycled resources usage intensity = 527kg/t We attained our target for recycling and reusing industrial waste.	A	By further enhancing the use of waste and byproducts per ton of cement (recycled resources usage intensity), we will contribute to the development of a recycling-oriented society.	16 17 28 29	
Product safety	Appropriate compliance with chemical substance management policies	Comply with the European Union's Registration, Evaluation, Authorization and Restriction of Chemical Substances (REACH) Accommodate Globally Harmonized System of Classification and Labeling of Chemicals (GHS) in each country	Comply with the implementation guidance for REACH regulations. We continued to follow up on GHS trends in each country.	A	Continued to supply materials safety data sheets (MSDS) and other product safety information and identify and consider complying with overseas chemical regulations, including REACH	16 17 28 29
	Manage chemical substances and suppress emissions	Companywide emissions of PRTR substances: 137t	146t Despite each plant's efforts to reduce emissions two tons per year by promoting an improvement plan, we failed to reach our overall target. Emissions at the Chiba Plant accounted for approximately 80% of the total amount, and consisted mostly of atmospheric volatile organic compound (VOC) emissions. We will strive to reduce emissions based on a facility improvement plan.	C	Emissions of PRTR substances: 98t	22 23
	Ensure safe transportation	Target a zero accident rate for in-house and off-site logistics Step up our Safe Transportation Code of Conduct as a Shipped Goods Owner	Target a zero accident rate for in-house and off-site logistics We continued to revise our yellow card system and yellow cards for containers (labels) We evaluated and analyzed transportation safety levels and instituted improvements	A	Fulfill responsibilities as an owner of shipped goods	16 17 21
Occupational Safety and health	Eliminate occupational accidents	Conduct risk assessments and identify and eliminate unsafe facilities and work practices	All business sites continued to conduct risk assessments and identified and addressed unsafe work practices. Number of incidents of lost worktime due to accidents in Group: 5 (4); accident frequency of 0.980 (0.800) Number of incidents of lost worktime due to accidents among sub-contractors: 3 (1); accident frequency of 0.750 (0.130) Note: Numbers in parentheses are for fiscal 2008.	C	Eliminate occupational accidents through education and safety management systems Attain zero accidents requiring employees to take time off	16 30 31
	Manage employee health	Maintain and improve health	We continued to focus on mental health and metabolic syndrome (through education and a follow-up structure).	A	Undertake activities to maintain and improve health	30
Disaster prevention	Eliminate major accidents	Eliminate major accidents, notably explosions, fires and large leaks of chemical substances	There were no major accidents. The number of problems impeding operations decreased from 13 to 5. Based on analysis of previous accidents, we implemented measures to prevent recurrences and stepped up preliminary safety assessments and change management.	A	Eliminate major accidents, notably explosions, fires and large leaks of chemical substances, and improve production stability (in keeping with the characteristics of specific plants, target more stable operating conditions, enhance operational techniques and facilities)	16 30 31
Community relations	Maintain community trust	Continue to engage communities and build trust	We addressed complaints about noise and odors by setting up response desks at each business site, deploying countermeasures and responding faithfully to problems to obtain understanding. We hosted business site tours and held children's chemistry classes, engaged in community dialogue and participated voluntarily in social activities to maintain community trust.	A	Target ongoing corporate activities that secure and maintain community trust	16 25 34 35

We contribute to the reduction of CO₂ emissions through the application of our accumulated technologies and products.

General Trends and DENKA's Approaches

The Basic Law for Prevention of Global Warming introduces specific measures for cutting CO₂ emissions together with basic concepts regarding global warming prevention. Among such measures, "emissions trading," an "environmental tax (carbon tax)" and a "purchase system for all renewable energy" are drawing particular attention from the public. In addition, the law introduced measures to facilitate indirect contributions, such as the "visualization of CO₂ emissions" and "international contribution evaluation system." Visualization includes determining a company's carbon footprint (CFP), that is, the totality of CO₂ emitted from the manufacturing through final disposal of products. Experimental approaches to determining CFP have already begun. "International contribution" has been removed from the scope of the Kyoto Credit system to constitute a new system that works between two countries: In this system, the amount of CO₂ emissions reduced thanks to technological expertise provided by a country to its counterpart will be regarded as the expertise-providing country's contribution. This system is implemented on a trial basis.

We proactively reduced CO₂ emissions from operations long before such measures had been established, and have recorded steadily improving results.

Fiscal 2009 Results

(1) Direct reduction of CO₂ emissions

We participated in the voluntary action plan of Nippon Keidanren through an association to which we belong. In 2009, we also participated as a target setting group in the pilot emissions trading scheme set up by the Japanese government based on a voluntary action plan. Aiming to achieve a Companywide CO₂ emission intensity of 1.14tons-CO₂/ton-CaC₂ by fiscal 2010, we strictly engage in energy conservation. As a result, we see steady progress. Although we have already attained our fiscal 2009 target, we will make continuing efforts.

(2) Indirect reduction of CO₂ emissions

Ahead of other industries, the distribution industry adopted the CPF system to display the volume of CO₂ emissions on product

CO₂ Emissions Intensity



packages on a trial basis. In order to meet demand from expanding companies, we positioned our packaging materials used in the distribution industry as well as electronic materials used in the light electric field as our key LCA-related products. Given this, we have promoted the introduction of LCA, a CFP calculation method, at our six domestic plants from the second half of fiscal 2008. Today, we can respond to almost all inquiries regarding LCAs.

(3) Educational activities

As part of our in-house education about DENKA 100, our Environmental Burdens Reduction Promoting Department played a leading role in educational activities aimed at reporting on the status of global warming prevention measures undertaken by the Japanese government and local municipalities as well as on our current activities and future plans for global warming prevention activities. In fiscal 2009, we held lectures at our research facilities, six domestic plants, domestic manufacturing affiliates, branches and three factories in Singapore.

CO₂ Emissions

Setting up the target of reducing our energy consumption intensity to 87% of the 1990 level in fiscal 2010, we are striving to reduce CO₂ emissions by promoting energy conservation activities and the use of clean energy. In fiscal 2009, our CO₂ emissions derived from energy fell 120 thousand tons to 1,320 thousand tons (target: 1,390 thousand tons), while emissions from other sources also

declined, falling 270 thousand tons to 970 thousand tons (target: 1,070 thousand tons). We thus surpassed initial targets in both categories. Furthermore, our production gained upward

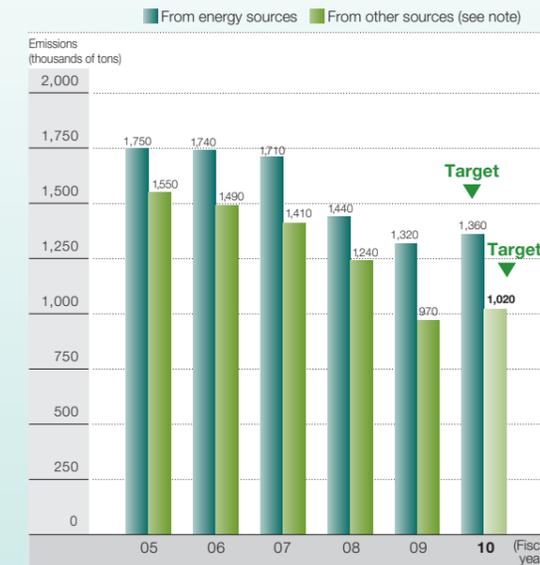
Energy Consumption and Production Intensity since Fiscal 1990



(Base year: Fiscal 1990)

momentum, and we were able to almost meet our target for energy consumption intensity.

CO₂ Emissions



* Non-energy derived CO₂ emissions are generated from raw materials processing and waste disposal during the manufacturing process.

Fiscal 2010 Initiatives

Companies will shoulder more of the environmental burden due to various measures contained in the Basic Law for Prevention of Global Warming. From the CSR perspective, companies are also required to address global warming issues as "managerial issues." The following are our major initiatives to take measures against global warming in a sustainable manner.

(1) Shifting to fuels that impose a low CO₂ emission burden

We will strive to reduce the use of fossil fuels and shift to other fuels with low CO₂ emissions. First, 33% of our electricity supply was from our hydroelectric generation plant, which uses hydropower, a renewable energy source. In addition to this, we are increasing the use of natural gas. With relatively lower CO₂ emissions compared with other fossil fuels, natural gas usage will result in lower environmental tax (carbon tax).

(2) International contributions

Over a history of nearly 100 years, we have accumulated a wealth of technologies, a number of which are expected to contribute to energy conservation and CO₂ emissions reduction in emerging countries. By offering such technological expertise, we aim to make contributions to CO₂ emissions reduction on a global scale.

(3) Contributions through environmentally friendly products

According to an analysis, our calcium cyanamide fertilizer is said to reduce the emission of nitrous oxide from the ground. Based on this report, we are carefully studying the fertilizer. The greenhouse effect from nitrous oxide is said to be 310 times more than that of CO₂; therefore, the reduction of nitrous oxide emissions by 1kg is equivalent to a 310kg reduction in CO₂ emissions.

In the Research and Development Department, we are developing new products that can contribute to environmental preservation. For example, SiAION Phosphor, which is used in the LEDs of LCD TVs, boasts high heat resistance and thus enhances brightness when the electrical current used is applied. Enabling a reduction in the number of LED backlights and thus to conserve energy, SiAION Phosphor can also bring beautiful images and longer life to LCD TVs. We have an array of other environment-friendly products and are planning for proactive promotion activities from the viewpoint of addressing global warming.

REPORT | What is Sustainability?

Kotaro Takada, Manager of Environmental Burdens Reduction Promoting Department

In recent years, we often hear the word "sustainability." Although it originally meant to preserve the natural environment, this word is now used in diverse situations.

On a global scale, economic development in China and India is anticipated along with population increase in the two countries. Together with this, a shortage of food, water, mineral resources and fossil fuels is predicted. Although water and mineral resources are recyclable, food and fossil fuels are limited. Therefore, it is necessary to break dependence on fossil fuels from overseas on the energy security front.

Building such a point of view about energy use will lead to the sustainability of companies and the earth. Based on this belief, we plan to carry out actual measures.



We are contributing to the reduction of CO₂ emissions by utilizing clean energy, mainly hydroelectric power.

DENKA's History of Hydroelectric Power Generation

When producing calcium carbide or acetylene, a certain amount of electricity is required. Founded in 1915 as a pioneer in carbide chemical foundations, DENKA faced the pressing issue of how to secure a stable electricity supply at a reasonable price. However, at that time the electricity infrastructure was underdeveloped and it was necessary to first construct a hydroelectric power plant. Energy conservation was also important to ensure product competitiveness.

Upon the commencement of manufacturing of calcium carbide at the Omi Plant in 1921, we constructed the Kotakigawa Power Plant. Most of our existing hydroelectric power plants were constructed before the 1960s. Today, we have six hydroelectric power plants mainly along the Himekawa River System and four along the Umikawa River. Combined with the five hydroelectric power plants jointly established with Hokuriku Electric Power Company, the total permitted output is approximately 110,000kW.

Accommodating approximately 33% of our total energy consumption, these hydroelectric power plants offer clean energy that does not generate greenhouse gases, and they thus make a large



- 1 Omi-gawa Power Plant (3,300kw)
- 2 Kotakigawa Power Plant (4,200kw)
- 3 Oami Power Plant (25,100kw)
- 4 Otokorogawa Power Plant (8,400kw)
- 5 Yokokawa Power Plant No. 1 (10,000kw)
- 6 Yokokawa Power Plant No. 2 (16,000kw)
- 7 Umikawa Power Plant No. 1 (3,800kw)
- 8 Umikawa Power Plant No. 2 (4,400kw)
- 9 Umikawa Power Plant No. 3 (2,600kw)
- 10 Umikawa Power Plant No. 4 (900kw)
- 11 Himekawa Power Plant No. 6 (jointly owned; 26,000kw)
- 12 Takigami Power Plant (jointly owned; 15,000kw)
- 13 Nagatsuga Power Plant (jointly owned; 5,000kw)
- 14 Sasakura Power Plant No. 2 (jointly owned; 10,200kw)
- 15 Kita-otari Power Plant (jointly owned; 10,700kw)



Kotakigawa Power Plant



Oami Power Plant

contribution to the reduction of CO₂ emissions.

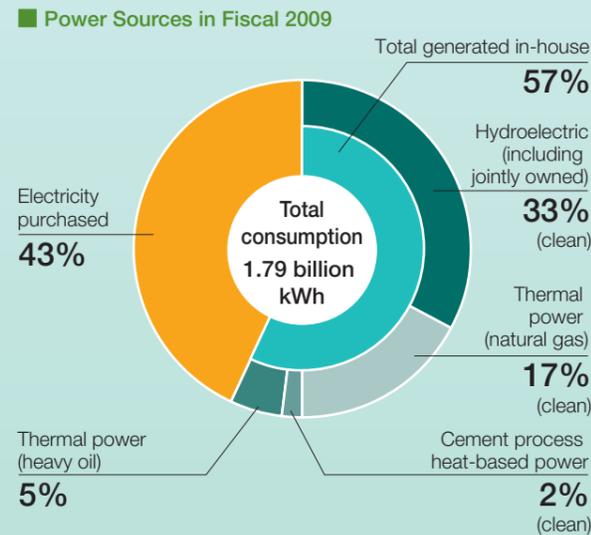
Our oldest power generation facility is approximately 90 years old. However, the electricity supply remains stable thanks to our implementation of appropriate maintenance even as we aim to increase power generation by applying leading-edge technologies.

Breakdown of Electricity Use by Power Source

We use five kinds of power sources, including our own hydroelectric power plants, three thermal power plants, a natural gas cogeneration* facility, a power generation facility using waste heat,** and purchased electricity. Looking at all our power sources, clean energy sources, such as hydroelectric, natural gas and waste heat-based generation, account for approximately 52% of our total energy consumption.

In thermal power plants, we are promoting fuel shifting from heavy oil to natural gas while increasing the number of gas turbine cogeneration facilities using natural gas. By doing so, we are enhancing the clean energy ratio to the total energy use.

* A power generation system using gas turbine that can simultaneously cater to the demand for heat by utilizing waste heat
 ** A power generation facility using waste heat from industrial furnaces



Tomi Gas Turbine at Omi Plant

Promoting modal shifts, we will contribute to CO₂ emissions reduction from the logistics front.

Complying with the Amended Law Concerning the Rational Use of Energy

As a designated emitter, we are aiming to boost transportation efficiency and improve logistics quality. To that end, we conduct Companywide activities under the leadership of the Logistics Rationalization Project Team through such groups as the RC Promotion Committee, the Earth Committee's Logistics Process Subcommittee and the Container Cargo Logistics Information Exchange Group.

Specifically, we have reviewed logistics within our plants from a manufacturer's perspective; expanded the use of local ports for container cargo transportation; increased railway container transportation; and implemented the thorough streamlining of logistics. We are also making efforts to streamline logistics at our affiliates both in Japan and overseas.

In fiscal 2009, our CO₂ emissions from logistics fell 11,500 tons from the fiscal 2006 level to 39,500 tons, reflecting a substantial drop in the cargo volume shipped by dedicated ships due to weak demand for cement. However, our energy consumption intensity (amount converted into crude oil equivalents and divided by cargo volume) deteriorated 2.5% on average over four years (it is a 1.0% improvement if cement-related transportation was excluded) due to inefficient transportation.

We will further strive to save energy by drastically reviewing the operation of dedicated ships for cement transportation.

Promotion of Modal Shifts

Since fiscal 2006, we have been promoting modal shifts for transporting large cargo lots over long distances. We switched from trucks to cargo vessels (ferries and roll-on, roll-off vessels) and railway containers for the Chiba Plant's shipments to the west of the Kansai region and for the Omuta Plant's shipments to the Kanto region. As a result, we reduced CO₂ emissions by 13 tons year on year in fiscal 2009.

Progress in Modal Shifts from Truck to Ship and Railway Container Transportation

Year-on-Year Reductions

	Fiscal 2007	Fiscal 2008	Fiscal 2009
Cargo subject to modal shifts (1000t-km)	2,830	3,175	968
CO ₂ emission reductions (t)	112	158	13

TOPICS 1 Establishment of automated constant temperature storage for chloroprene rubber at the Omi Plant

In May 2010, we commenced the utilization of large-scale automated constant temperature storage for chloroprene rubber established on the premises of the Omi Plant. This new storage facility was constructed to enable increased exports from local ports. The aim was to double our storage capacity along with the reinforcement of production capacity in early 2010 as well as the number of facilities for overseas shipments, which accounted for approximately 80% of the total shipments.

As part of these activities, we introduced a state-of-the-art transportation facility that can receive products directly from the production line via a conveyor belt and automatically controls the entry and dispatch of products using bar codes. With this system, we strived to further improve our logistics efficiency. We will aim to promote



The automated storage and equipment for direct transportation from the production line



Export container loading hatch

modal shifts, while further reinforcing our efforts in energy conservation.

TOPICS 2 Promotion of railway transportation to the Isesaki Plant from the Omuta Plant

On April 30, 2010, the Omuta Plant conducted the test loading of cargo contained in railway containers destined for the Isesaki Plant. Aiming to shorten the land transportation distance, we devised a means of holding cargo



Test loading at the Omuta Plant

inside the containers using cushioning. We commenced full-scale railway transportation on June 4, 2010.

Denka strives to reduce the emission of substances and waste generated by its production activities while pursuing the appropriate treatment of such emissions.

Emissions

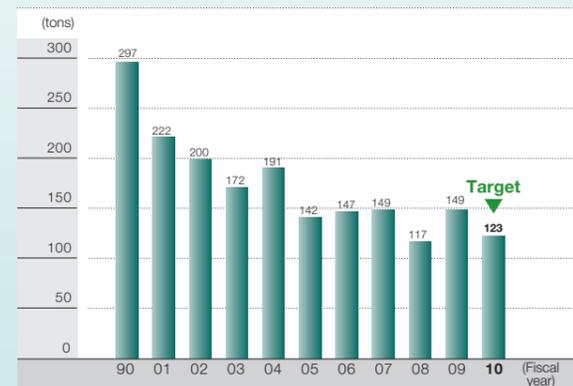
Nitrogen Oxide (NOx)

Despite a slight recovery in overall production compared with the previous fiscal year, emissions decreased approximately 11% due to reduced cement production.



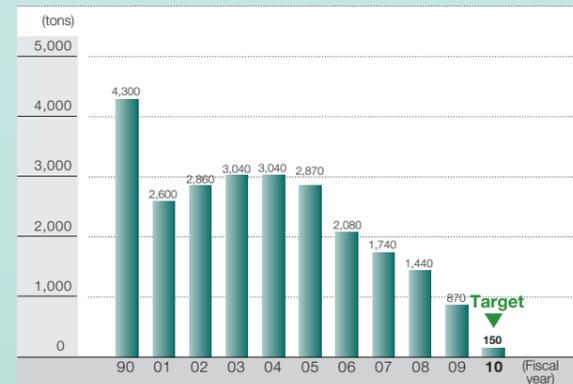
Soot and Dust

In fiscal 2009, emissions rose approximately 27% compared with the previous fiscal year due to the increase in the utilization rate of waste both from inside and outside of the Company at the Omi Plant cement facilities.



Sulfur Oxide (SOx)

We cut emissions about 39% by switching from heavy oil to sulfur-free natural gas. We are exerting ourselves to reduce emissions further in fiscal 2010.



Chemical and Biochemical Oxygen Demand (COD · BOD)

During the year under review, emissions climbed approximately 13%. We will strive to reduce emissions by systematically developing water treatment facilities.



City road cleaning activities by Hinode Kagaku Kogyo

We have been cleaning city roads along the nearby river for 10 years. Every spring and autumn, employee volunteers pick up trash along the roads and plant flowers. For example, tulips we planted in autumn 2009 bloomed in the spring of 2010, pleasing passers-by.



City road cleaning activity



After cleaning, we planted tulip bulbs

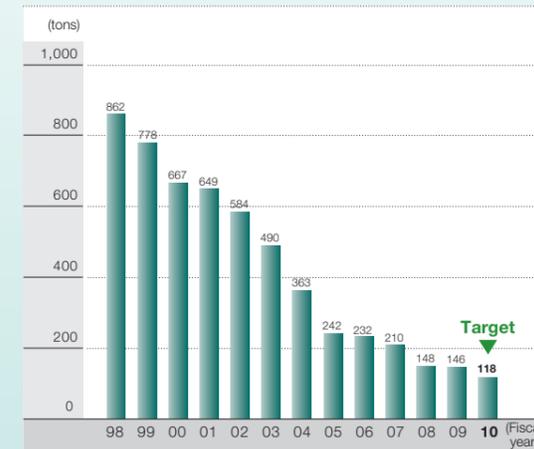


Blooming tulips along a city road

PRTR Substances Emissions

To achieve PRTR substances emissions reduction, we analyze major causes in order to determine effective measures while planning to upgrade facilities. Despite a recovery in production volume in fiscal 2009, we reduced emissions by 2 tons by improving facilities and operational efficiency.

In fiscal 2010, we will switch solvents used at the Chiba Plant to a more environment-friendly item, mainly to reduce VOC emissions by 28 tons.



Fiscal 2009 Substance Emissions and Transfers

The following table shows emissions and transfers exceeding one ton of substances on the register.

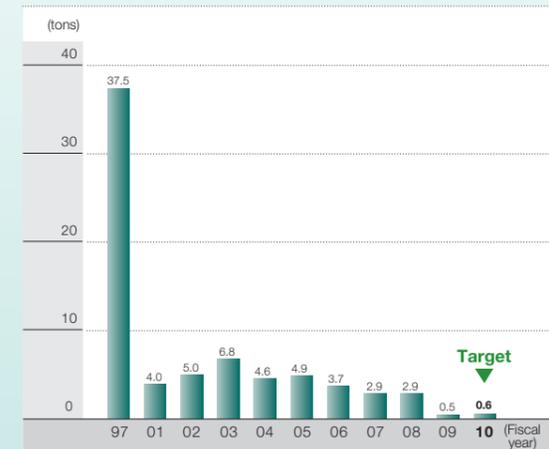
PRTR substances	Emissions					Amount transferred
	Air	Water	Soil	Landfill	Total	
Zinc	0	0	0	0	0	2
Acrylonitrile	5	0	0	0	5	12
Acetaldehyde	2	2	0	0	5	0
Aniline	0	0	0	0	0	6
Ethyl benzene	4	0	0	0	4	54
Ethylene glycol	0	9	0	0	9	6
Vinyl chloride	6	0	0	0	6	0
Cobalt and chemical compounds	0	0	0	2	2	0
Vinyl acetate	19	0	0	0	19	0
Dimethyl formamide	0	0	0	0	0	24
Styrene	28	0	0	0	28	156
Water soluble copper salt	0	3	0	0	3	5
Toluene	51	0	0	0	51	30
Bis (2-ethylhexyl) phthalate	0	0	0	0	0	2
Hydrogen fluoride	0	0	0	0	1	25
Boron and boron compounds	0	10	0	0	10	5
2-ethylhexyl methacrylate	0	0	0	0	0	2
Methyl methacrylate	2	0	0	0	2	18
Total	119	25	0	2	146	346
Dioxins (mg-TEQ) (see note)	98	42	0	0	140	0

Units: tons (excluding dioxins)
Note: Toxic equivalents

Waste

Final Disposal Amount

In fiscal 2009, we significantly reduced the amount of waste disposed of by the Omi Plant by promoting a cutback in final disposal (incineration) within the plant as well as recycling outside the plant. The total Groupwide emissions ratio dropped to 0.51%; therefore, we have achieved zero emissions (final disposal amount/amount of waste generated × 100 < 1). We will continue our efforts to secure this condition.



Carbon management briefing session at Shibukawa Plant

In November 2009, our Environmental Burdens Reduction Promoting Department held a seminar on “carbon management” and “introductory education about LCA” at the Shibukawa Plant.

Regarding carbon management, lectures were held with the themes of the Company’s global warming countermeasure situation and predictions about the possible impact of the commencement of emissions trading. The Shibukawa Plant made a start by conducting an LCA of its product DENKA HITPLATE.



Carbon management briefing session

In fiscal 2006, we began accounting for our investments and spending as well as the environmental and economic effects of our activities in order to assess the impact of our conservation investments.

1. Conservation Costs

In fiscal 2009, initiatives to save energy accounted for 60% of environmental investments, with research and development spending to conserve resources representing another 31%.

Coverage: Plants and Research Institutes

Category	Details	Conservation costs (millions of yen)	
		Investments	Expenses
1. Business site costs		1,583	2,716
	(1) Pollution prevention	203	1,890
	(2) Conservation	1,365	79
	(3) Recycling resources	15	746
2. Upstream and downstream costs	Changing raw materials	0	0
3. Administrative costs	Environmental education	0	26
4. R&D costs	Conserving resources	702	1,486
5. Social activity costs	Community relations	0	7
6. Environmental damage costs		0	170
7. Others		0	0
Total		2,285	4,406

2. Conservation Effects

We calculated the environmental load data.

△: Increase

Environmental load	Units	Fiscal 2008 results	Fiscal 2009 results	Effects
CO ₂ emissions (from energy sources)	10,000 t	268	229	39
SO _x emissions	t	1,440	870	540
NO _x emissions	t	5,010	4,470	570
Soot and dust emissions	t	117	149	△ 32
COD·BOD discharges	t	991	1,120	△ 129
Water used	1,000m ³	81,600	78,600	3,000
PRTR substance emissions	t	148	146	7
Waste	1,000 t	108	100	8
Final waste disposal	t	2,900	510	2,390
CO ₂ emissions from transportation	1,000 t	48	40	9

3. Economic Effects

We calculated proceeds from selling waste, energy savings, reductions in waste treatment costs and yield improvements.

Category	Item	Details	Effects (millions of yen)
Profits	Proceeds from selling waste from core operations and income from recycling waste	Sales profits	520
Cost reductions	Lowering energy costs by conserving energy	Conserving energy	264
	Reducing waste treatment costs by conserving or recycling resources	Using resources effectively	55
Total			839

We believe that it is important for us to be a good company that all our stakeholders, including local communities, customers, suppliers, employees, shareholders and investors, can rely on to achieve sustainable growth and create value. DENKA's concept of corporate social responsibility (CSR) encompasses tackling environmental, safety, employment, compliance and social activities issues on a Companywide basis. We must be proactive and accountable in dealing with these issues.

Children's chemistry classes (Central Research Institute) (See p. 35)





Director, Managing Executive Officer
In charge of CSR Promoting Department
Mamoru Hoshi

DENKA's CSR Vision

DENKA promotes CSR-related initiatives involving six pillars based on DENKA100, a Companywide initiative to prepare for its centennial in 2015. This initiative is founded on the DENKA100 philosophy to become a corporation that creates value from resources by fully utilizing advanced technological capabilities. DENKA undertakes CSR promotion activities for its stakeholders—local communities, customers, suppliers, employees, shareholders and investors. Such activities represent an important pillar of CSR initiatives.

In terms of DENKA's CSR promotion activities, we have positioned the concept of "pursuing lasting trust as an outstanding manufacturer" as our CSR vision. In line with this vision, we are undertaking various measures Companywide to address a wide array of CSR-related issues in areas that include the environment, safety, employment, compliance and social contributions. Based on the CSR vision, the Group's 10 CSR guidelines have been formulated as a set of CSR-related action guidelines.

Based on the DENKA100 philosophy, we will implement CSR-related measures on a daily basis for the purpose of "pursuing lasting trust as an outstanding manufacturer."

DENKA Group Guidelines

1. We will promote sustainable social and business development out of a conviction that corporate social responsibility is the essence of business.
2. While constantly ensuring quality to maintain customer trust, we will contribute to sound social progress by developing and supplying products and services that are safe and environment friendly.
3. We will operate fairly.
4. We will maintain a good level of communication with society and disclose appropriate information.
5. We will comply with laws and regulations and operate fairly according to social norms.
6. We will maintain safe, clean and comfortable workplaces and respect all basic human rights.
7. We will use, reuse and recycle resources to help protect the environment.
8. We will maintain security and disaster prevention measures, participate in environmental protection activities and communicate with society.
9. We will contribute to society as a good corporate citizen.
10. We will contribute to social development as a good member of the global community.

Established in 2007

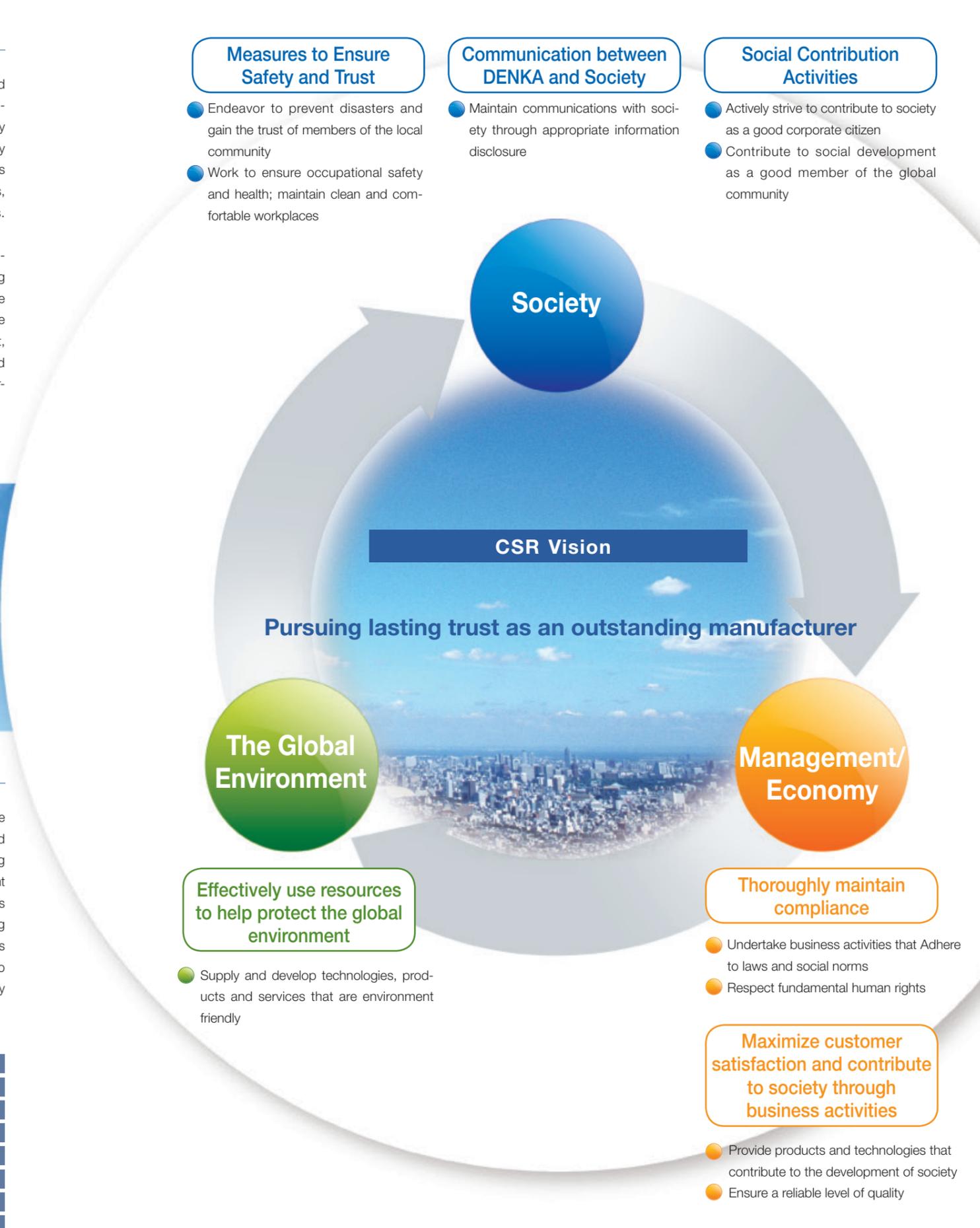
CSR Promoting Department Activities

The CSR Promoting Department was established in 2007 as an office that oversees CSR issues related to many areas of the Company and carries out CSR activities Companywide. The CSR Promoting Department collaborates with the DENKA100 Promoting Department and the Investor Relations and Corporate Communications Department to promote CSR internally and externally in the following areas: 1. Defining basic CSR policies and comprehensive solutions for the DENKA Group; 2. Educating and enlightening with regard to Group CSR activities; 3. Publicizing CSR activities; and 4. Internally and externally communicating CSR achievements.

CSR Organization



As of April 2010



Message from the President

Profile

Environmental Initiatives

CSR Initiatives

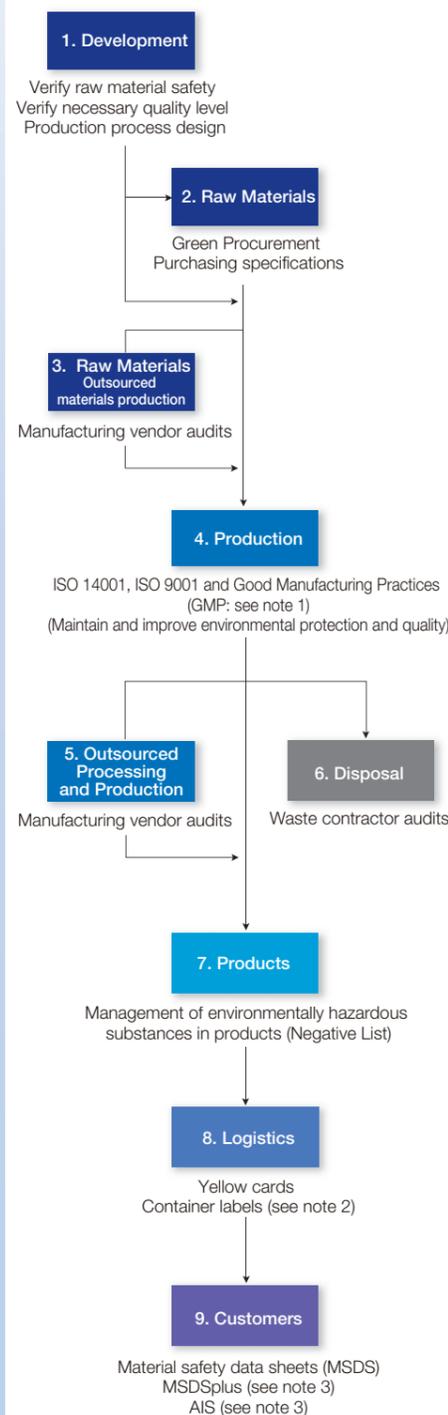
CSR Vision

Reference

We thoroughly undertake management operations that fully consider safety, environmental protection and quality in all our processes, from raw materials procurement to research, production, logistics, consumption and disposal.

■ Product Safety Management

Materials Safety and Management Flowchart



We ensure product safety at each phase—from development, production and use by customers—while focusing on maintaining and improving quality.

1. Verify the Safety of Raw Materials and Necessary Quality Level and Engage in Production Process Design

We select and use raw materials for which safety can be verified while developing products that conform with customer and legal demands. We establish production processes that ensure consistent quality and thus trust in the products we develop.

2. Green Procurement /Purchasing Specifications

We purchase and use raw materials based on the Negative List, which takes into consideration Japanese and international environmental management regulations, as well as purchasing specifications that outline the required characteristics of purchased raw materials. Consequently, we are striving to manufacture superior products from quality raw materials and production processes.

3&5. Manufacturing Vendor Audits

We outsource some raw materials production processes and the manufacture of semi-processed goods. We regularly audit manufacturing vendors based on our in-house standards for quality, logistics, environmental management and product safety.

4. Maintain/Improve the Environment and Quality

We are undertaking environmental and quality management operations; gradually expanding the scope of our efforts to include new products; and working to maintain and improve quality, environmental protection and safety.

6. Waste Contractor Audits

We commission waste contractors in keeping with the Waste Management and Public Cleansing Law, requiring them to issue manifests and confirm collection. We regularly evaluate the operations and financial positions of these vendors and visit their waste processing sites.

7. Management of Environmentally Hazardous Substances in Products

We established the Negative List, which lists substances that are considered to be harmful to people and the environment. We are taking steps to ensure product quality and safety while reducing environmental load by placing restriction on usage during the raw material phase and by decreasing the residual volume of harmful substances in our products. The Denka Analysis Center (which is in charge of certifying measurements) analyzes the amount of residual substances harmful to the environment contained within raw materials and products. Analytical data on items that do not meet regulatory standards is shared with production, sales, and the analysis and product management departments.

8. Displaying Yellow Cards and Yellow Card Container Labels

We require drivers to carry yellow cards that explain post-accident procedures. We also label containers to ensure swift and proper remediation. We regularly inform drivers of our requirements and conduct emergency drills.

9. Material Safety Data Sheets (MSDS)

We produce these sheets for all products to ensure proper handling according to physical and chemical hazards and health and environmental risks. The sheets inform customers and help educate employees. We have begun disseminating information on environmentally hazardous substances contained in our products to customers through the MSDS plus—which supplements information conveyed on MSDS sheets—and Article Information Sheet systems.

■ Collaborating in Chemical Industry Initiatives

● High Production Volume Program (HPV) and the Japan Challenge Program

Through the HPV Program, we and other companies collaborate under the auspices of the International Council of Chemical Associations to evaluate the safety of around 1,000 substances that the Organisation for Economic Co-operation and Development has designated. These substances are used heavily worldwide. In addition, under the Japan Challenge Program, manufacturers are working with the Ministry of Health, Labour and Welfare, the Ministry of Economy, Trade and

Industry and the Ministry of the Environment to collect, disseminate and assess safety information. We are participating in areas of the program that relate to the substances that we use.

● Long-Range Research Initiative

The Japan Chemical Industry Association, the American Chemistry Council and the European Chemical Industry Council oversee this program. The program entails conducting long-term basic research to correctly determine if and/or in what manner chemical substances affect human health and the environment. We are cooperating fully in the implementation of this program.

- Notes 1. Good Manufacturing Practices (GMP) refers to standards that Japan's Ministry of Health, Labour and Welfare established in its Ministerial Ordinance on Standards for Manufacturing Control and Quality Control for Drugs and Quasi-drugs.
2. The Japan Chemical Industry Association created a labeling format to augment the Yellow Card system. The labels present emergency guideline numbers and United Nations identification numbers for different chemicals transported in relatively small amounts on the same vehicle. The labels aid in the proper handling of these chemicals in emergencies.
3. The Joint Article Management Promotion-consortium (JAMP)'s* Material Safety Data System plus (MSDSplus) and Article Information Sheet systems provide standardized formats for presenting information on substances subject to management. MSDSplus is mainly for substances and agents that are upstream in the supply chain. Article manufacturers produce Article Information Sheets based on that information. JAMP aims to spread its systems throughout Japan and Southeast Asia.

* JAMP is a cross-industry association established in Japan in 2006 to encourage companies to properly manage information on substances and compounds as well as on chemical substances in parts, plastics and other articles. JAMP also establishes mechanisms to disclose and present information on supply-chain products.

We are pursuing ongoing improvement based on our quality and environmental management systems. We have secured ISO certifications as follows:

■ Management Systems

■ Status of ISO Certification Acquisition

	ISO 14001		ISO 9001	
	Date certified	Registration number	Date certified	Registration number
Omi Plant	October 16, 1999	187071/A (BV)	August 19, 1994	275156 (BV)
Omuta Plant	October 28, 2000	284330 (BV)	November 7, 1998	439189 (BV)
Chiba Plant	May 31, 1999	180943 (BV)	March 22, 1995	155885 (BV)
Shibukawa Plant	May 21, 2001	363444 (BV)	October 23, 1996	484541 (BV)
Ofuna Plant	November 9, 2001	JQA-EM1895 (JQA)	October 25, 1996	JQA-1429 (JQA)
Iesaki Plant	September 30, 2003	1090712 (BV)	February 28, 2008	428794 (BV)
Central Research Institute	July 5, 2004	352185 (BV)	—	—

Note: Only the ISO9001 certification excludes the Central Research Institute.

■ Companywide Quality Activities

We make innovative use of our organizational structure in order to ensure an appropriate level of safety for each product. Established in April 2010, the Electronic Materials Division's Quality Assurance Department oversees the quality assurance of electronic materials produced Companywide. Particularly with regard to pharmaceuticals, for which quality is strictly checked, the Omi Plant's Quality Assurance Department of Pharmacy—an independent organization established from the Manufacturing Division's Pharmaceutical Department—controls the quality of pharmaceuticals.

In accordance with its Fiscal 2010 Companywide Quality Policy, DENKA aims to further increase quality assurance Companywide from all aspects.

Fiscal 2010 Companywide Quality Policy

1. Strengthen quality-assurance systems for each product
Bolster collaboration between departments and plants for each product
2. Increase technological quality
Boost the level of quality of our manufacturing technologies through the cooperation of relevant departments
3. Increase awareness among employees engaged in manufacturing
Maintain a high level of awareness and workmanship among employees in order to improve quality.

We endeavor to maintain safe and comfortable workplaces and prevent disasters for society's peace of mind.

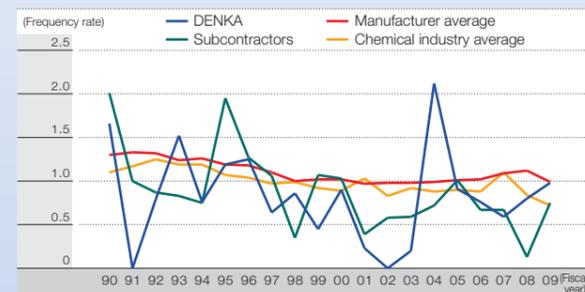
Occupational Safety Record

The number of people involved in occupational accidents requiring time off in fiscal 2009 was as follows. The figures in parentheses are the accident frequency rates.

DENKA: 5(1.00) Subcontractors: 3(0.62)



The graph below plots the accident frequency rates.



Aiming strictly to ensure safety, we revised our aggregate total of internal accidents in fiscal 2009 to include accidents in which injuries were not severe enough require medical attention or time off. We are building occupational health and safety systems at each business site while continuing to strengthen basic safety measures.

Occupational Safety and Health Management System

The Chiba Plant is operating a system based on its OHSAS 18001 certification. In March 8, 2010, the Omi Plant acquired OSHMS certification, while the Omuta Plant is currently developing such a system. The Central Research Institute will upgrade its system in fiscal 2010 as a "Safety Model Business Site" established by the local labor standards inspection office.

Manager Report

Hideobu Tajima, Manager, Environment and Safety Section, Omi Plant

Making effective use of the OSHMS system at the Omi Plant, we are creating an environment that prevents occupational accidents from occurring, taking steps to increase safety and health, and promoting a cheerful and active workplace.



Ceremony held to present the Omi Plant with an OSHMS certificate

Occupational Safety Activities

Risk Assessment

We perform risk assessments to evaluate the level of danger at each business site. Based on the results of such assessments, we comprehensively manage risks while making systematic improvements.

Activities to "Cultivate Safety-Conscious Employees" at the Ofuna Plant

In order to fully instill a culture of safety, we are undertaking activities to "cultivate safety-conscious employees" who make safety their highest priority. The goal of these activities is to go 1,000 days without a single accident as well as to create a plant that we can be proud of. We are expanding activities so that all employees can play a key role in under the slogan "cultivating safety-conscious employees who do not get hurt or cause others to be harmed."

Overview of Safety-Conscious Employees

1. Safety training sessions
2. Environmental Activities
3. 3S Activities
4. Safe Work Environments
5. Key Safety Strategies
6. Safety Patrols

Fostering Safety-Related Communication

- The "Safety Bell" (bell patrol) involves the plant's general manager conducting safety inspections while ringing a bell
- Department manager bell patrol strategy



Bell patrol



Safety training (Safety Meister)

Manager Report

Hisao Nishimura, Manager, Environment and Safety Section, Ofuna Plant

Activities related to "cultivating safety-conscious employees" have increased our ability to predict danger and safety awareness, while incorporating elements of our studies of past accidents. Through safety-related training, I believe that our efforts to point out safety are beginning to be fully embraced by employees. Consequently, we will continue these efforts in the years ahead.



Occupational Health

We provide guidance to individual employees by working together with industrial physicians and health care institutions. Such activities include following up on medical examination results, implementing mental health-related measures and providing health-related education. We are working to create a workplace that is safe from a mental-health perspective through the early detection and prevention of illnesses.

Security and Disaster Prevention

During fiscal 2009, we experienced no fires, explosions or leaks of hazardous materials that would significantly affect the communities in which we operate. However, there were five safety-related problems, primarily involving leaks. We experienced fewer problems compared with the previous year. Despite this, we will continue to investigate safety techniques by holding safety management conferences, which serve as important venues for clarifying safety conditions and educating employees about safe operating methods. Moreover, we will conduct fire drills at business sites in conjunction with local communities.

Comprehensive Emergency Drills Held at the Omuta Plant

We conducted joint drills on March 17, 2010 with the municipal fire department in anticipation of an electrical leakage-related disaster at the Omuta Plant. During the post-drill evaluation, we received the comment that our primary focus should be fire prevention. Based on such input, we will conduct further disaster prevention activities.



Comprehensive emergency drills held at the Omuta Plant

Manager Report

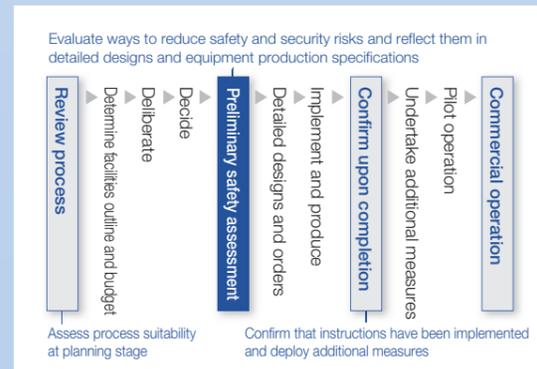
Yutaka Hirashima, Manager, Environment and Safety Section, Omuta Plant

A comprehensive emergency drill is systematically conducted jointly with the municipal fire department once a year, with a variety of flammable and hazardous materials placed throughout the factory's storage facilities and general work spaces. This drill helps to increase our in-house fire-fighting abilities, which we develop with the goal of first preventing fires from occurring. If a fire does take place, we want to be able to prevent it from spreading by extinguishing it during the initial stage.



Change Management

This encompasses establishing rules to assess risks and implement measures where needed for changes in the 4Ms* during production. Preliminary safety assessments are important when building plants that use new processes. Change management



comes into play when we upgrade or modify facilities. Facilities and operations departments conduct preliminary safety assessments and gather with in-house third parties to discuss risks relating to fires, explosions and worker safety.

In particular, we emphasize preventing key lapses in areas concerning disaster prevention and occupational health.

*The 4Ms: man, machines (facilities, equipment, tools) materials (raw materials and components) and methods (including work methods/operations, processing conditions and formulas)

Improving Production Stability

Our security standards ensure not only that we operate within predetermined limits but also that we maintain optimal operating conditions by reviewing the operations and facilities. For example, we rigorously investigate the operational causes of warnings and make improvements to prevent fluctuations that lead to such circumstances.

Safety Education

We provide programs that are specific to each business site. We are improving experiential education and teaching materials.

Experiential Education

We devote considerable effort to educating our employees to identify risks and respond appropriately. Examples include simulations of the dangers of ignition from static electricity, being caught in machinery, cuts and falls, so employees learn the importance of following procedures and using the correct protective equipment.

Report Safety Education (rolling forklifts)

At the Shibukawa Plant, we continue to implement safety education through a wide array of curricula. To that end, we carried out an experiential education program on February 18, 2010 related to being caught or pinned down by machinery that has rolled over during a major disaster.



Experiential education on being caught or pinned down by machinery at the Shibukawa Plant

At the Isesaki Plant as well, we continue to conduct various types of safety education for employees. During a refresher course on forklift operations, employees received instructions by the forklift manufacturer to reinforce correct operating techniques.



Forklift operation refresher course at the Isesaki Plant

Producing Teaching Materials

We ensure through teaching materials that everyone can work safely, even people newly assigned to work areas.

We are building a highly transparent corporate structure to earn the trust of all stakeholders.

■ Corporate Governance

We must meet the expectations and respect of shareholders, customers, local communities, employees, and other stakeholders. Corporate governance underpins social respect and support. We have thus taken steps to improve both the Board of Directors and our auditing system, while streamlining our management organization and bolstering our compliance system.

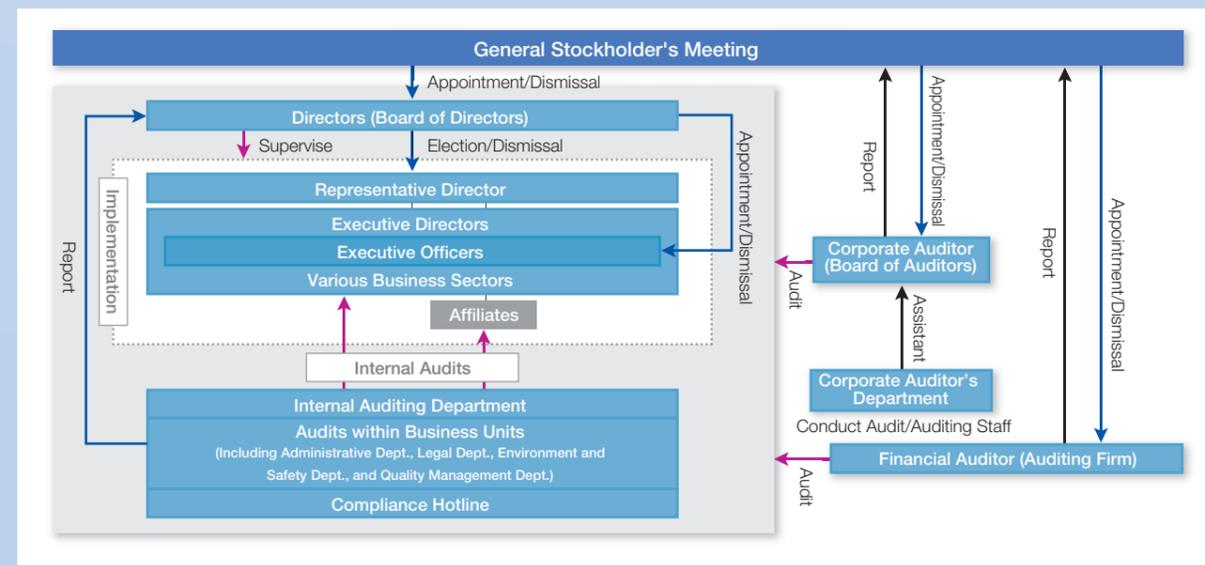
■ Corporate Governance Structure

We adopted a Corporate Auditor System as the basis of our Corporate Governance System. The Board of Auditors includes two independent members assessing our operations and management to ensure that our business properly serves stakeholders.

The Board of Directors similarly has two external members. We ensure management transparency by separating that board's oversight from executive implementation.

The chart below shows our corporate governance structure, including the Internal Auditing System.

■ Corporate Governance Overview



■ Internal Controls

Internal control systems are fundamental to meeting society's expectations and gaining its respect. We will continue to improve our systems in line with the policies of the Board of Directors. The following outlines details of the system.

1. Board of Directors and Executive Officers

Two of our ten directors are external. In April 2008, we reformed this body to separate oversight and implementation by eliminating ranks within the board while reinforcing its supervisory functions. The Board of Directors appoints executive officers to run operations under the leadership of the president.

2. Internal Auditing System

The Internal Auditing Department conducts our in-house checks, with assistance from the Legal, Environment and Safety, and Quality Management departments. It also works closely with our Product Liability, Responsible Care and other committees based on their specific functions. Each department and committee collaborates to educate on legislation and audit operations. The results are reported to the Board of Directors as needed.

We inaugurated the Compliance Hotline System to supplement internal audits by swiftly identifying and addressing any violations (see page 33).

3. Internal Controls Reporting System

This system under Japan's Financial Services and Exchange Act aims to ensure that financial statements are reliable.

We conduct checks of Groupwide business procedures to reduce mistakes and possible risks in keeping with the implementation standards of this system, swiftly addressing any problems that are discovered. We issued an internal control report following the system's implementation in fiscal 2008. In fiscal 2009, this document declared the effectiveness of our internal controls based on an evaluation in line with assessment standards for generally accepted financial reports.

An independent accounting firm (ERNST & YOUNG SHINNIHON LLC) audited our report and determined that all significant aspects of our disclosure were proper. We will continue to maintain internal controls for the purpose of ensuring the reliability of our financial reports.

■ Compliance

Compliance is essential for sustainable growth. We accordingly adhere to internal rules and legislation and refrain from acts that violate moral and ethical norms. In 2002, we codified conduct standards in the DENKA Group Ethics Policy.

We established the Ethics Committee, which the president chairs, to oversee compliance and enforce the policy. We adopted compliance policies for the Legal, Environmental and Safety, Intellectual Property and other departments.

We educate employees on compliance through programs run by the Human Resources Development Center.

■ Compliance Hotline System

This system covers any shortfalls in our internal control and compliance systems by enabling us to fix organizational problems that may arise. We set up the Compliance Hotline in keeping with the DENKA Group Ethics Policy. The hotline accepts calls on actions that may or do violate that policy. The Ethics Committee quickly addresses reports.

The hotline's mandate is to be fair and swift. It receives reports from the Corporate Auditors' Office and the labor union, which operate independently, as well as from the Ethics Committee Administrative Office and general affairs sections within all offices. People can send reports to an external law firm. They can also e-mail reports to internal auditors.

The DENKA Group Ethics Policy specifically safeguards whistleblowers from discrimination and mistreatment.

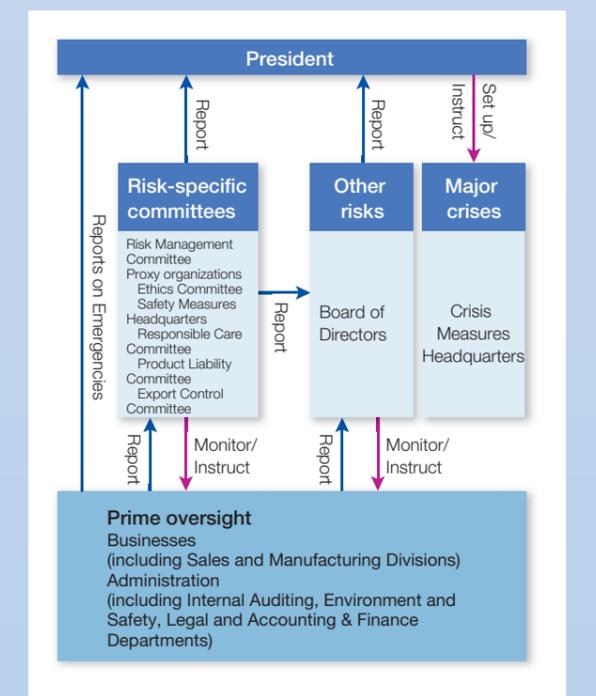
■ Risk Management

It is important to understand the diverse and numerous hazards of corporate activities through proper risk control.

In general, each business unit is responsible for identifying and managing its specific risks. We maintain special sections and permanent committees to handle environmental, safety, product liability and export control issues that affect the entire Company.

We formulated our Risk Management Guidelines to comprehensively tackle incidents that greatly affect corporate activities. We also set up the Crisis Measures Headquarters and the permanent Risk Management Committee.

■ Risk Management Overview



Based on the DENKA100 Guidelines, we continue to communicate with people in local communities so as to be a trusted company.

Omi Plant Hisui-no-Sato Mountain Marathon

Hisui-no-Sato Mountain Marathon, held every June in Itoigawa City, is open to all comers and offers competitions in five categories, from a grueling 30km course with an elevation difference of 650 meters to a 3km course intended for grade school children.

This marathon attracts over 700 hardy competitors from throughout Japan. Operated by the public, the marathon welcomes volunteers and many Omi Plant employees participated in the 2009 event. We will continue this support in the future as a way to promote sports in the region.



Company employees participated as volunteers (June 21, 2009)

Omuta Plant Interacting with the Community

Omuta Plant employees interact with the local community in a variety of ways, including joining in the Omuta Daijayama Matsuri, a summer festival held in Omuta, by donating blood and, together with the local civic center, volunteering for cleanup drives that are conducted twice annually, in the spring and fall. Omuta Plant also invites local residents for plant tours and conducts children's chemistry classes to promote understanding about plant operations and the products made.



Children's chemistry class (March 30, 2010)

Plant tour offers a look at heat-sink and ceramics testing room (January 25, 2010)

Chiba Plant Joining in the Local Neighborhood Goi Rinkai Festival

Every year the Chiba Plant deepens communication with the local community by setting up a booth at the Goi Rinkai Festival, which is sponsored by the local neighborhood association and companies located along the Goi seafront. Approximately 20 thousand people enjoyed themselves at the 35th Goi Rinkai Festival held on June 6, 2009.



The Denka booth

Shibukawa Plant The Shibukawa Bellybutton Festival and Hydrangea Cultivation

On July 24 and 25, 2009, the Bellybutton Festival held in Shibukawa City was the scene of "belly dancing," with people painting unique drawings on their stomachs and putting on an enjoyable show as they danced in the streets. Many participants from the Shibukawa Plant were among those covered by the local TV news as they celebrated the festival.

Employees also helped out with hydrangea cultivation by participating in pulling weeds from the residents' association-managed hydrangea beds in the median strip of National Highway 17. In addition, employees are helping to maintain these flower beds.



Hydrangea cultivation



"Belly dancing" at the Shibukawa Bellybutton Festival

Ofuna Plant Engaging with the Community through the Summer Festival

Every year, the Ofuna Plant makes the grounds in front of its main entrance available to the Fujimicho Town Association for the enjoyment of local residents on the day of the Summer Festival. On the evening of July 10, the first day of the festival this year, neighborhood residents arrived in the early evening to hear a brass band from a local primary school, which received great applause. Members of the plant's popular music club also performed for the enjoyment of the public. On the following day, local children carried the Shiogama Shrine's mini-shrine around the town, visiting the plant along the route.



Children carrying the mini-shrine during the Summer Festival

Isesaki Plant Neighborhood Cleanup Program

The Isesaki Plant has from 2008 performed beautification day activities beyond its premises. All Isesaki plant employees work to clean up nearby Bando Park and the roadsides around the plant. In this effort to contribute to the community, all employees take part in weeding and collecting empty beverage cans, fallen leaves and other waste. By undertaking beautification day activities—which promote efforts to beautify the premises—every month and by participating in cleanup activities in and around the plant, we are enabling employees to broaden their relationships with neighborhood residents.



Cleanup activities along a road outside the plant area

Central Research Institute Holding Children's Chemistry Classes

As part of its enthusiastic participation in community exchanges as well as efforts to contribute to society, the Central Research Institute held a children's chemistry class on August 5, 2009. In this class, fifth and sixth graders from a local Machida elementary school were able to experience firsthand the characteristics of shrinking plastic film.

On September 24, 2009, on a social studies field trip, approximately 120 third graders from the same school visited the institute to observe testing equipment and an electron microscope. The students asked numerous questions in what turned out to be a meaningful trip outside of the classroom. The institute plans to expand the number of schools that visit, starting with a different school in June 2010, making such visits a regular part of its contribution activities to the community.



Making personal PET bottles with the shrinking film CLEAREN to create their own packages



Taking a look at the micro-world using an electron microscope



Children paying close attention to an explanation by institute staff

Positioning the development of human resources—one of the key DENKA100 priorities—as a basic policy, the Human Resource Development Center is taking a central role as it aims to create a workplace where each and every employee can realize their full potential.

Employee Education

The programs of our Human Resource Development Center help employees develop their career paths.

Educational Objectives of the Human Resource Development Center

Personnel Requisites

- (1) Strive constantly to better yourself through business and social activities
- (2) Always respect others and remain humble and positive
- (3) Always be selfless
- (4) Drive change through teamwork
- (5) Gain broad insights, superior problem-solving skills and the ability to transform potential into reality
- (6) Be cost-conscious

Anticipated Fruits of Training

- Personal Growth:**
Harness greater skills, knowledge, techniques and performance to boost profits
- Organizational Growth:**
Improve team performance through collaboration within and between business units
- Corporate Growth:**
Enhance DENKA's profitability, brand and reputation

Key Programs

1. Mandatory Job Level-Based Training

Under these programs, employees acquire the knowledge they need to fulfill their duties. We train new managers, young employees in their fifth year with DENKA, and other employees. The main focuses are such business fundamentals as compliance and other legal areas, as well as safety initiatives. We trained nearly 230 employees in fiscal 2009.

2. Specialist Courses

In fiscal 2009, 568 employees took accounting, business, information technology, trade, investor relations, corporate social responsibility and purchasing courses, with the purpose of acquiring the specialized knowledge required to undertake business operations.

3. Educational Support

We assist employees taking language classes and correspondence courses. We also support those seeking to acquire certain formal qualifications.

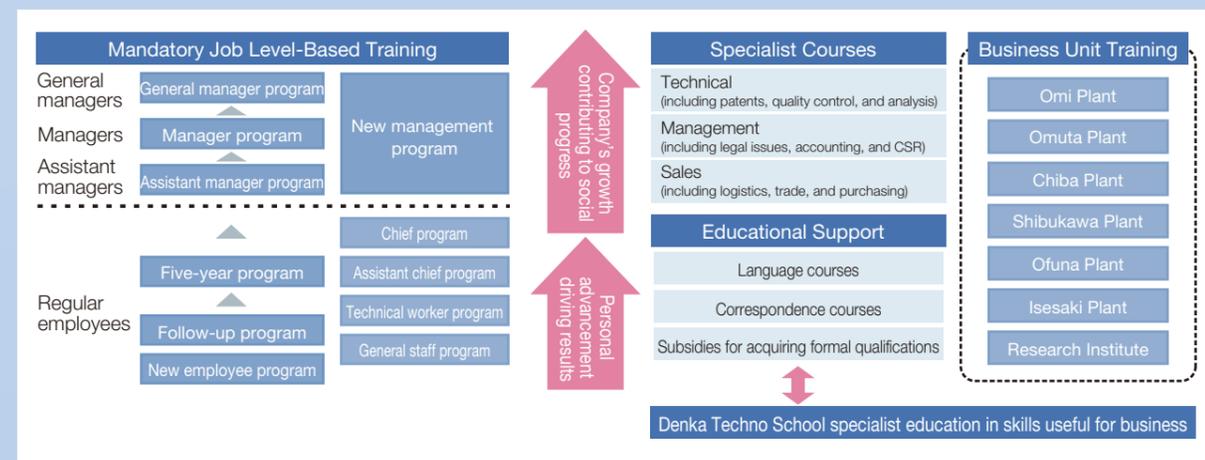
4. Business Unit Training

Each business unit identifies areas needing improvement and formulates and implements its own programs. There is a constant focus on establishing, planning and executing original educational and training programs according to each operation to help improve the knowledge and skills of every individual employee.

5. DENKA Techno Schools

Each business unit has opened a techno school to preserve our technological and skills resources and provide employees with expert and practical knowledge.

The schools encourage employees to grow by making it fun to learn and use their capabilities in the workplace.



Good Company Program 2.0 Initiatives in Fiscal 2009

For society, for the environment, for customers and shareholders, and for DENKA associates, Good Company Program (GCP) activities hone on-site capabilities by changing the way employees think and by encouraging autonomy and proactivity. Participation is on a group basis, with groups consisting of employees from the same unit and all employees attending.

Implementation of the GCP is the responsibility of managers and requires 100% participation. Every six months, all employees from a division will come together to clarify their priority issues and are united in their efforts to find solutions.

By promoting GCP 2.0 along with DENKA100, DENKA aims to attain its Good Company objectives by taking steps to reform awareness and improve operations while finding solutions to problems. In this way DENKA is working to strengthen and vitalize the Company from the inside out.

To deepen understanding of GCP activities and share information, DENKA issues the DENKA100 News, shares information Companywide via the GCP website, and puts up GCP 2.0 posters.



DENKA100 News



GCP website where information is shared Companywide



GCP 2.0 poster

Respecting Diversity

We maintain various programs to provide comfortable working environments for all employees.

Employing People with Disabilities

We are creating safe workplaces so people with disabilities can realize their potential.

Percentage of Employees with Disabilities

2006	2007	2008	2009
1.85%	2.02%	1.93%	1.82%

Note: Figures for parent company only

Reemploying Retirees

In April 2004, we launched a program to rehire retirees in order to harness their technological knowledge and skills and pass them on to younger employees. At the end of May 2010, we had 277 employees who were retirees we reemployed on a nonconsolidated basis.

Preventing Sexual Harassment

We formulated a policy to prevent sexual harassment and have thoroughly informed employees about it through our in-house newsletter and our electronic bulletin board. The Ethics Committee maintains a consultation desk to handle employee concerns.

Our work rules and labor agreements contain disciplinary regulations regarding sexual harassment.

Work-Life Balance

DENKA is aware that securing a balance between life and work is an expectation of society.

We will continue our ongoing efforts to raise productivity by improving or revamping operations while moving forward on creating a comfortable workplace that takes into account the balance between work and private life.

Labor and Management Relations

Maintaining Good Relationships

Management maintains positive relationships with employee organizations, regularly meeting with officials of The Denki Kagaku Labor Union and The Head Office Labor Union based on mutual good faith and otherwise negotiating with these bodies. On August 27, 2010, with the sponsorship of the Head Office Labor Union, the DENKA100 Promoting Department supported a head office summer party.



The head office summer party

We will take measures to enhance productivity by promoting technological innovation and by strengthening our productive and organizational capabilities.

Aiming to Enhance Productivity

The aim of our efforts to Enhance Productivity, one of the six pillars of DENKA100, is to increase our abilities in this area primarily by improving production technology, introducing technological innovations and reducing costs.

Until now, technological upgrading was accomplished through the accumulated efforts of individual departments, including each plant's engineering department. Such efforts, in turn, led to a steady stream of results. However, we now need to address issues that individual departments cannot solve by themselves due to such factors as insufficient technological capabilities and personnel.

To address major issues that can be solved only by concentrating Companywide technological capabilities, we are removing barriers between organizational and business sites and bringing together our business resources.

Build a System to Use Resources Effectively

As an organization dedicated to enhancing productivity, we established the Production Process Department at the Omi, Omuta and Chiba plants in fiscal 2009. Through the Production Process Department, we have built a system that facilitates production enhancement activities Companywide. In addition, we have pooled the skills possessed by personnel from both inside and outside the Company, regardless of organizational affiliation, in order to create an organization that is able to help solve problems in this area.

Beyond these initiatives, we are actively participating in the design of test facilities and product improvement activities owing to collaboration between the Research and Development and the Quality Management departments.

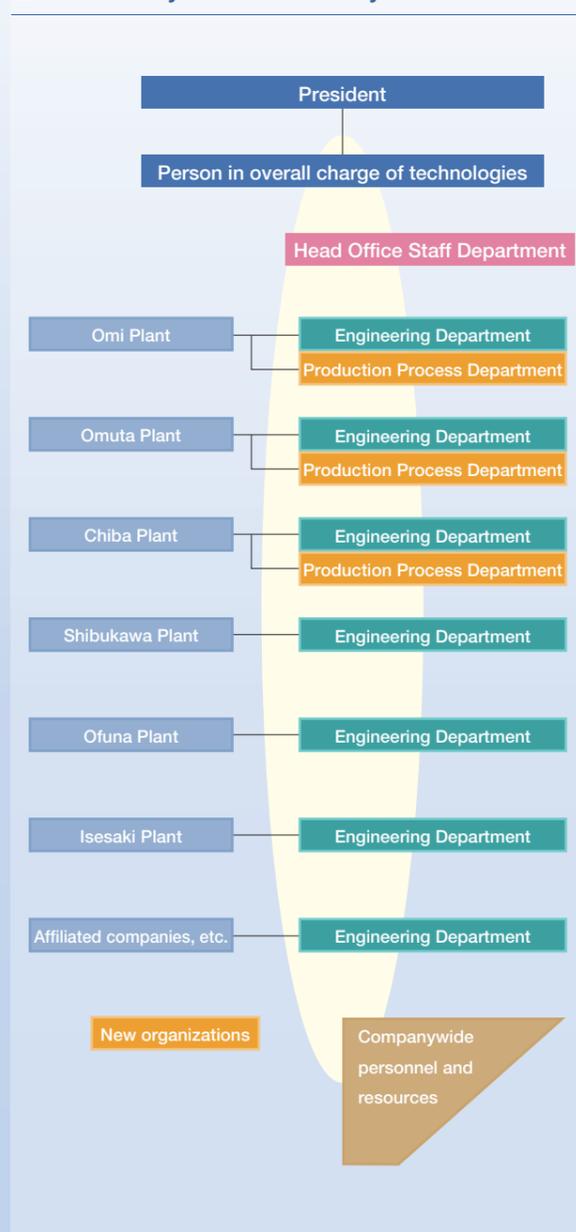
Cultivating Next-Generation Engineers

We encourage young engineers to participate in projects that involve solving various issues in order to pass along technological knowledge and further their overall education.



The Omi Plant's new chloroprene plant, which has achieved enhanced productivity

Productivity Enhancement System



We undertake the reinforcement of in-house technologies to facilitate further improvements to our high-quality products. At the same, we focus on developing highly functional products in growth areas centered on these technologies; strive to rapidly meet market demands; and work to position our R&D operations toward the aim of achieving the early commercialization of products.

In fiscal 2009, we allocated ¥9,615 million to R&D operations, which employed 629 researchers. During the year, we had 193 outstanding applications in Japan and registered 263 patents (including for utility models) domestically.

Organic Materials

In the styrene-based functional resin segment, we are furthering research with the goal of developing appealing products. To that end, we are reinforcing production technologies, particularly for transparent resins, thermal resins and shrink materials. At the same time we are redoubling our efforts to further differentiate and increase the functionality of these products.

We are also taking steps to improve production technologies in order to expand our business in the organic chemicals segment, which includes overseas markets. Amid these efforts, we are developing new processes and grades based on facilities upgrade plans to enhance our competitive edge, particularly with regard to increasing our global share of chloroprene rubber.

Inorganic Materials

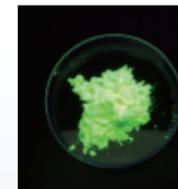
In special cement additives, we are seeking to differentiate ourselves further and propose new technologies that include overseas expansion. New product development focuses on the maintenance and repair market and ultra-high strength, high-durability concrete products, notably ultra-high strength fiber-reinforced concrete.

In fertilizers and inorganic products, we are conducting R&D to strengthen our operations.

Electronic Materials

In Electronic Materials, we are focused on developing product lineups concentrated particularly in the LED and power device segments. In the LED segment, we received a basic patent license for SiAION Phosphor, a material owned by the non-governmental organization, National Institute for Materials Science (NIMS), for use in white LEDs. Subsequently, we undertook research into the practical applications for this fluorescent material using synthesis technologies used for our

nitride-type ceramics. Owing to these efforts, we achieved the world's first practical application of SiAION Phosphor. We aim to make SiAION Phosphor the de facto standard as a fluorescent material for the white LEDs used in LCD TV backlights—for which demand is expected to rise rapidly—while moving forward on the development of fluorescent materials that are suitable for use with LED lights.



SiAION Phosphor for white LEDs

In power devices, we have until now conducted R&D that focused on thermal materials (substrates, organic and inorganic compound materials). We have received assistance in this area from the Ultra-Hybrid Material Technology Development Project of the New Energy and Industrial Technology Development Organization (NEDO). As result, we have developed organic and inorganic compound materials that have the world's highest heat conductivity level (36.2W/mK). This was achieved by manipulating advanced orientation technology related to our boron nitrate (BN) powder, which is used in epoxy resin. In the years ahead, we will promote research into practical applications for this material.

In electronic packaging, we have focused on developing new products related to tapes for transporting electronic components and process tape for manufacturing semiconductors. In functional ceramics, we have pursued higher performance in spherical fused silica for semiconductor sealants and spherical alumina for thermal materials and semiconductor sealants.

Functional Materials and Plastics

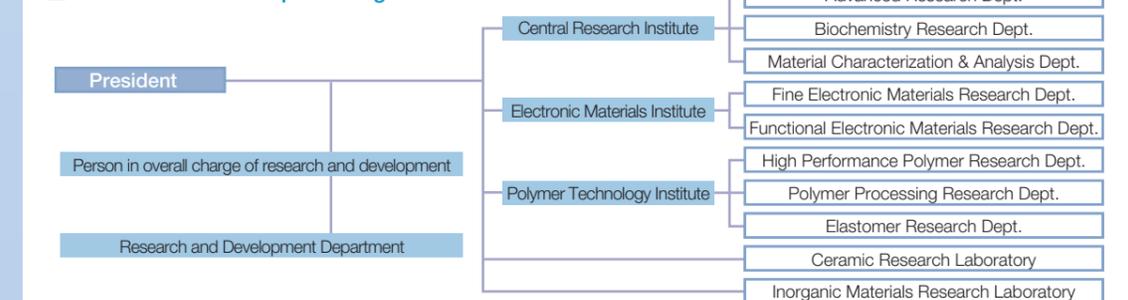
In polymer processing products for industrial materials, packaging and construction materials, we are taking advantage of our capabilities in adhesive coating, film and sheet and profile extrusion technologies to join hands with Group companies and drive expansion. In particular, we are focusing on upgrading production technology and capabilities for such new products as weather-resistant films for solar cells and synthetic fibers

In pharmaceutical products, we are improving production technology and developing new applications for fermented high molecular hyaluronan, which improves joint function. Denka Seiken is developing high-quality vaccines while developing bacteriological diagnostic reagents to detect infectious diseases and viruses, clinical chemistry diagnostic reagents and immunochemistry diagnostic reagents that are vital for health management.

Other Businesses

Denka Engineering Co., Ltd. designs and installs industrial equipment. Its R&D is focusing on more efficient pneumatic transfer equipment for powders and wastewater treatment facilities.

Research and Development Organization



Note: The person in overall charge of research and development oversees research policies, resource allocation and other areas for all of the Company's research departments.

Consolidated Balance Sheets (Summary)

Account item	Millions of yen		
	Amount	As of March 31, 2010	As of March 31, 2009
Assets			
Current assets	¥138,360	¥122,862	
Cash and time deposits	6,856	6,126	
Notes and accounts receivable, trade	74,843	55,396	
Inventories	44,413	48,973	
Other current assets	13,017	12,618	
Allowance for doubtful accounts	(770)	(253)	
Non-current assets	262,046	255,049	
Property, plant and equipment	207,005	202,310	
Intangible fixed assets	3,476	4,956	
Investment securities	39,492	34,036	
Other	12,383	14,035	
Allowance for doubtful accounts	(310)	(288)	
Total assets	¥400,407	¥377,912	

Account item	Millions of yen		
	Amount	As of March 31, 2010	As of March 31, 2009
Liabilities			
Current liabilities	¥150,689	¥137,034	
Notes and accounts payable, trade	45,499	27,246	
Short-term bank loans	48,709	49,730	
Commercial paper	9,000	11,000	
Current portion of corporate bonds	—	10,000	
Other current liabilities	47,480	39,057	
Long-term liabilities	89,401	90,734	
Corporate bonds	25,000	20,000	
Long-term debt	37,866	45,034	
Other long-term liabilities	26,534	25,700	
Total liabilities	240,091	227,769	
Net Assets			
Shareholders' equity	147,190	139,186	
Common stock	36,998	36,998	
Capital surplus	49,303	49,303	
Retained earnings	64,550	56,581	
Treasury stock, at cost	(3,662)	(3,697)	
Valuation and translation adjustments	10,634	8,414	
Minority interests	2,491	2,542	
Total net assets	160,316	150,142	
Total liabilities and net assets	¥400,407	¥377,912	

Consolidated Statements of Income (Summary)

Account item	Millions of yen		
	Amount	Fiscal 2009	Fiscal 2008
Net sales	¥323,875	¥334,130	
Cost of sales	251,411	271,590	
Selling, general and administrative expenses	50,809	52,237	
Operating income	21,655	10,302	
Non-operating income	1,543	1,968	
Non-operating expense	6,310	9,176	
Ordinary income	16,888	3,094	
Extraordinary gains	—	—	
Extraordinary losses	1,048	1,132	
Income before income taxes	15,839	1,961	
Income taxes—current	6,960	1,322	
Income taxes—deferred	(1,644)	(787)	
Minority interest in earnings of consolidated subsidiaries	49	(13)	
Net income	¥ 10,474	¥ 1,439	

Consolidated Statements of Cash Flows (Summary)

Account item	Millions of yen		
	Amount	Fiscal 2009	Fiscal 2008
Net cash provided by operating activities	¥46,418	¥ 5,794	
Net cash used in investing activities	(28,377)	(33,876)	
Net cash (used in) provided by financing activities	(17,262)	31,096	
Effect of exchange rate changes on cash and cash equivalents	(40)	(71)	
Net increase in cash and cash equivalents	738	2,942	
Cash and cash equivalents at the beginning of the year	6,077	3,162	
Increase of cash and cash equivalents resulting from inclusion and exclusion of subsidiaries from consolidation	—	(27)	
Cash and cash equivalents at the end of the year	6,815	6,077	

Consolidated Statements of Shareholders' Equity for Fiscal 2009

(April 1, 2009, to March 31, 2010)

	Shareholders' equity					Valuation and translation adjustments				Minority interests	Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Total shareholders' equity	Unrealized gain on securities	Revaluation reserve for land	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance at March 31, 2009	¥36,998	¥49,303	¥56,581	¥(3,697)	¥139,186	¥2,314	¥7,610	¥(1,510)	¥ 8,414	¥2,542	¥150,142
Changes of items during the term											
Issue of new shares											
Dividends from retained earnings			(2,455)		(2,455)				—		(2,455)
Net income			10,474		10,474				—		10,474
Net increase in treasury stock				(21)	(21)				—		(21)
Gain on sales of treasury stock		0		57	57				—		57
Change in scope of consolidation			—		—				—		—
Changes in the equity method application scope			(63)		(63)				—		(63)
Reversal of revaluation reserve for land			13		13				—		13
Net changes of items other than shareholders' equity					—	3,046	(13)	(813)	2,219	(50)	2,168
Total changes of items during the term	—	0	7,968	35	8,004	3,046	(13)	(813)	2,219	(50)	10,173
Balance at March 31, 2010	¥36,998	¥49,303	¥64,550	¥(3,662)	¥147,190	¥5,361	¥7,597	¥(2,323)	¥10,634	¥2,491	¥160,316

Corporate Data (as of March 31, 2010)

Established: May 1, 1915
Paid-in capital: ¥36,998,436,962
Employees: 4,742 (consolidated) and 2,718 (non-consolidated)

Directory

Head Office:

Nihonbashi Mitsui Tower, 1-1, Nihonbashi Muromachi
 2-chome, Chuo-ku, Tokyo 103-8338, Japan
 Tel: +81-3-5290-5055

Branches

Osaka, Nagoya, Fukuoka, Niigata, Hokuriku (Toyama), Sapporo and Tohoku (Sendai)

Sales Offices

Nagano, Gunma, Hiroshima, Shikoku (Takamatsu), Akita

Overseas Sales Office

Taiwan (Taipei)

Plants

Omi (Itoigawa Niigata), Omuta, Chiba (Ichihara, Chiba),
 Shibukawa, Ofuna (Kamakura, Kanagawa) and Isesaki

Research Institutes

Central Research Institute (Machida, Tokyo)
 Electronic Materials Institute (Shibukawa, Gunma)
 Polymer Technology Institute (Ichihara, Chiba)

Major Affiliates

DENKA Polymer Co., Ltd. (Koto-ku, Tokyo)
 DENKA SEIKEN Co., Ltd. (Chuo-ku, Tokyo)
 CRK Corporation (Takasaki, Gunma)
 Hinode Kagaku Kogyo (Maizuru Kyoto)
 DENKA Azumin Co., Ltd. (Hanamaki, Iwate)

Overseas Subsidiaries

New York, Düsseldorf, Singapore, Shanghai, Suzhou and Hong Kong

Shareholder Information (as of March 31, 2010)

Total number of authorized shares 1,584,070,000
Shares of common stock issued 505,818,645
Number of shareholders 50,354

Major Shareholders

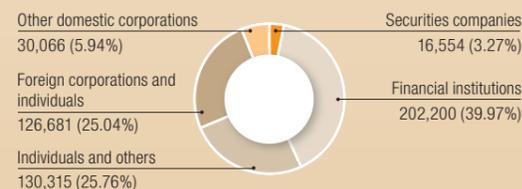
	Number of shares held (thousands)	Percentage of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	38,784	7.66
Japan Trustee Service Bank, Ltd. (Trust Account)	38,383	7.58
Japan Trustee Service Bank, Ltd. (Trust Account 9)	17,010	3.36
National Mutual Insurance Federation of Agricultural Cooperatives	15,965	3.15
Trust & Custody Services Bank, Ltd., as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.	15,275	3.01
DENKI KAGAKU KOGYO KABUSHIKI KAISHA	14,738	2.91
Mitsui Life Insurance, Co., Ltd.	12,908	2.55
Government of Singapore Investment Corporation Pte Ltd.	7,819	1.54
Mitsui Sumitomo Insurance Co., Ltd.	6,916	1.36
Mitsui & Co., Ltd.	5,437	1.07
Citibank Hong Kong S/A Fund 115	5,398	1.06

Board of Directors (as of June 22, 2010)

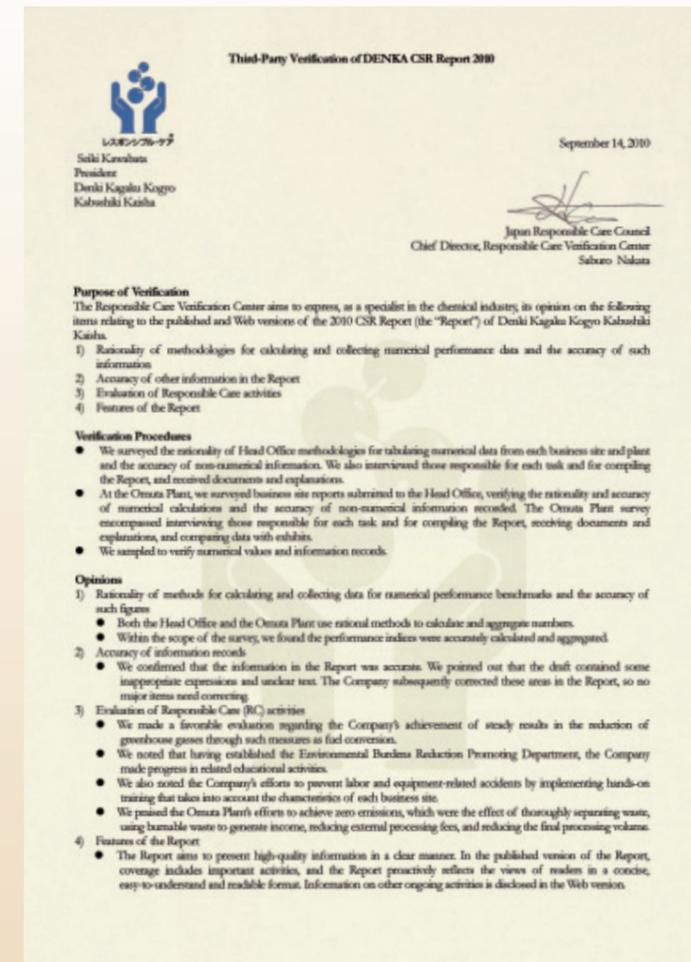
Directors, Corporate Auditors and Executive Officers

Seiki Kawabata President and Representative Director, Chief Executive Officer
 Tetsuro Maeda Representative Director, Senior Managing Executive Officer
 Shinsuke Yoshitaka Representative Director, Managing Executive Officer
 Mamoru Hoshi Director, Managing Executive Officer
 Nobuyoshi Sakuma Director, Managing Executive Officer
 Hitoshi Watanabe Director, Managing Executive Officer
 Kenichi Ono Director, Managing Executive Officer
 Daiichiro Uematsu Director, Managing Executive Officer
 Kozo Tanaka Outside Director
 Tadasu Horikoshi Outside Director
 Hideo Oishi Senior Executive Officer
 Tatsuhiro Aoyagi Senior Executive Officer
 Mitsukuni Ayabe Senior Executive Officer
 Shotaro Fujii Senior Executive Officer
 Shinji Sugiyama Senior Executive Officer
 Shohei Tamaki Executive Officer
 Hideyuki Udagawa Executive Officer
 Norihiro Shimizu Executive Officer
 Manabu Yamamoto Executive Officer
 Toshiharu Kano Executive Officer
 Kazuyuki Koyama Executive Officer
 Akihiko Okuda Executive Officer
 Sanshiro Matsushita Executive Officer
 Yukinori Totake Standing Corporate Auditor
 Takayasu Tanaka Outside Standing Corporate Auditor
 Kenichi Tsuchigame Corporate Auditor
 Toshiaki Tada Outside Corporate Auditor

Shareholder Composition (Thousand shares)



Shareholder Composition by Number of Shares Held (persons)



Editorial Afterword

Thank you for reading *CSR Report 2010*

CSR Report 2010 includes special feature sections on businesses that aim to make a contribution to the environment and society. *CSR Report 2010* also introduces a variety of businesses that utilize energy conservation-related and numerous environmental technologies cultivated over many years by the Group. In order to sustainably grow along with society, we will continue to hone technologies that contribute to the environment and society. We believe that cultivating such businesses is our corporate mission.

Furthermore, we will continue to promote Responsible Care activities, which involve implementing initiatives as a global chemical company while voluntarily and actively taking action to address environmental as well as safety- and health-related issues. *CSR Report 2010* provides a detailed explanation of

such activities. Against this backdrop, the Environmental Burdens Reduction Promoting Department announced the measures we are taking to reduce greenhouse gasses as well as our LCA activities. We are redoubling our efforts in both of these areas.

We would greatly appreciate your candid feedback on this report. We would like the opinions of as many stakeholders as possible and aim to reflect those views in our CSR activities.

We look forward to your guidance and encouragement in the years ahead.

Mamoru Hoshi
 Director, Managing Executive Officer
 In charge of CSR Promoting Department

For More Information

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