This report was printed on Forest Stewardship Council-certified paper, which was sourced from well-managed forests and other controlled sources. In addition, the printing involved no volatile organic compounds and employed a waterless planographic process that does not create harmful water discharges.
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 KOYO KABUSHIKI KAISHA (DENKA) formulated “K07,” 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 ¥233,875 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 forte in energy conservation and 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 part of DENKA100. We would be delighted to hear your frank opinions with regard to our efforts.

September 2010
Seiki Kawabata
President
Please discuss the results for fiscal 2009 in each segment and future policies.

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 ¥11,303 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.

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 (DCHAP) to consolidate our Southeast Asian and South Asian business operations.

Our trading company Hisin 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.

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.

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.

**DENKA100 Targets**

- Double operating income between fiscal 2006 and 2015 to ¥60 billion on a consolidated basis and ¥50 billion in non-consolidated terms

**DENKA100**

A new set of challenges leading up to our centennial in 2015

- Achievement: Engineers and technicians, sales and marketing staff, and administrative staff
- Aim: To create new value from resources by fully employing technological capabilities
- Objectives: To operate honorably and foster individual talent

Pursuing New Challenges through DENKA100 for Our Centennial

**DENKA100 Guidelines**

- Become a trustworthy organization
- Identify new business opportunities
- Operate honorably and foster individual talent

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.

Under DENKA100, a management plan implemented from April 2007, our basic philosophy in the lead up to our centennial in 2015 will 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, 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 KTO9 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 effectiveness. 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.

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, flame-resistant and transparent resins, acetic acid, vinyl acetate, POVAL, chlormeprene rubber, acetylene black

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 around 200 million 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

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

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.
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.

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<tbody>
<tr>
<td>Net sales</td>
<td>307,923</td>
<td>329,262</td>
<td>363,996</td>
<td>334,130</td>
<td>323,875</td>
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<td>Operating income</td>
<td>26,069</td>
<td>29,877</td>
<td>29,912</td>
<td>10,302</td>
<td>21,655</td>
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<td>Ordinary income</td>
<td>23,913</td>
<td>26,006</td>
<td>24,918</td>
<td>3,084</td>
<td>16,888</td>
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<tr>
<td>Net income</td>
<td>15,365</td>
<td>15,734</td>
<td>6,660</td>
<td>1,439</td>
<td>10,474</td>
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<tr>
<td>Total assets</td>
<td>349,689</td>
<td>365,301</td>
<td>375,364</td>
<td>377,912</td>
<td>400,407</td>
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<tr>
<td>Total net assets</td>
<td>146,148</td>
<td>164,643</td>
<td>161,870</td>
<td>150,142</td>
<td>160,316</td>
</tr>
<tr>
<td>Total shareholders' equity ratio (%)</td>
<td>41.8</td>
<td>43.5</td>
<td>41.6</td>
<td>39.1</td>
<td>39.4</td>
</tr>
<tr>
<td>Net income per share (yen)</td>
<td>31.08</td>
<td>32.03</td>
<td>13.57</td>
<td>2.89</td>
<td>21.33</td>
</tr>
<tr>
<td>Net assets per share (yen)</td>
<td>297.23</td>
<td>323.81</td>
<td>317.91</td>
<td>300.60</td>
<td>321.46</td>
</tr>
</tbody>
</table>

Rounded down to the nearest billion.
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: 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.

Contributing to Lower CO₂ Emissions

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, y-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.
Environmental Initiatives

Special Feature: DENKA’s Environment-Friendly Products and Businesses

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.

HIGH-FLOW PNEUMA High-Pressure Pneumatic Particulate Conveyors

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 pipe. 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 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.

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

In fiscal 2009, 527 kilograms of recycled materials were used for cement production.

Fiscal 2009 Recycled Material by Category

- Fly ash
- Slag
- Waste oil, and plastic and woodchips
- Soil
- Other

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 technologies for waste materials and by-products related to its products, including cement and styrene foam packing material.

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 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. 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.
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 Promotion Committee, chaired by the president, in overall charge of technologies, the contents of specific activities being reviewed by the RC Promotion Committee.

Denka designs and manages production workplaces with the aim of harmonizing the development of work and the well-being of employees, and to promote productivity and social contribution.

DENKA will enhance its RC policies by dialogues on distribution safety and with local communities.

DENKA will continue to support the implementation of the RC Global Charter.

DENKA CSR REPORT 2010
DENKA CSR REPORT 2010
Environmental Initiatives
Addressing Global Warming

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 (CPF), that is, the total of CO2 emitted from the manufacturing through final disposal of products. Experimental approaches to determining CPF 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 steady 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 targeted setting group in the pilot emissions trading scheme set up by the Japanese government based on a voluntary action plan. Aimed to achieve a Companywide CO2 emission intensity of 1.14 tons-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 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 CPF calculation method, at our six domestic plants from the second half of fiscal 2009. Today, we can respond to 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: 1,360 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 momentum, and we were able to almost meet our target for energy consumption intensity.

 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, SiAlON Phosphor, which is used in the LEDs of LCD TVs, boasts high heat resistance and thus enhanced brightness when the electrical current used is applied. Enabling a reduction in the number of LED backlights and thus to conserve energy, SiAlON Phosphor can also bring beautiful images for 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.
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 Kotsukiwa Power Plant. Most of our existing hydroelectric power plants were constructed before the 1960s. Today, we have six hydroelectric power plants mainly along the Hitomeka River 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 30% of our total energy consumption, these hydroelectric power plants offer clean energy that does not generate greenhouse gases, and thus make a large 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.

Power Sources in Fiscal 2009

<table>
<thead>
<tr>
<th>Power Source</th>
<th>Total Consumption (1.79 billion kWh)</th>
<th>Hydroelectric (including jointly-owned)</th>
<th>Thermal Power (natural gas)</th>
<th>Cement Process - Heat-based Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total generated in-house</td>
<td>57%</td>
<td>33% (clean)</td>
<td>17% (clean)</td>
<td>2% (clean)</td>
</tr>
<tr>
<td>Electricity purchased</td>
<td>43%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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 truck. 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

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 Kantō region. As a result, we reduced CO₂ emissions by 13 tons year on year in fiscal 2009.

Year-on-Year Reductions

<table>
<thead>
<tr>
<th>Cargo subject to modal shifts (1000t-km)</th>
<th>Fiscal 2007</th>
<th>Fiscal 2008</th>
<th>Fiscal 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO₂ emission reductions (t)</td>
<td>2,830</td>
<td>3,175</td>
<td>968</td>
</tr>
</tbody>
</table>

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 85% 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 aim to promote modal shifts, while further reinforcing our efforts in energy conservation.

TOPICS 2

Promotion of railway transportation to the Iseesaki 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 Iseesaki Plant. Aiming to shorten the land transportation distance, we devised a means of holding cargo 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.

- 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.

- 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.

- 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.

- Fiscal 2009 Substance Emissions and Transfers
  
  The following table shows emissions and transfers exceeding one ton of substances on the register.

<table>
<thead>
<tr>
<th>Substance</th>
<th>FY 2008</th>
<th>FY 2009</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zinc</td>
<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Acrylonitrile</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Acetaldehyde</td>
<td>0.9</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Ethyl benzene</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Acetaldehyde</td>
<td>0.6</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>Ethylene glycol</td>
<td>0.5</td>
<td>0.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Vinyl chloride</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Ethyl methacrylate</td>
<td>0.3</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Vinyl acetate</td>
<td>0.2</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td>Dimethylformamide</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Styrene</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Water soluble copper salt</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Toluene</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Bis (2-ethylhexyl) phthalate</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Hydrogen fluoride</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>2-ethylhexyl methacrylate</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Butyl methacrylate</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Total</td>
<td>119</td>
<td>146</td>
<td>146</td>
</tr>
</tbody>
</table>

| Total | 119 | 146 | 146 |

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 < 1). We will continue our efforts to secure this condition.

**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, employees 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.

---

**Carbon management briefing session at Shibukawa Plant**

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

Regarding carbon management, lectures were held with the theme 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 HITTPLATE.
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%.

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
<th>Conservation costs (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Investments</td>
</tr>
<tr>
<td>1. Business site costs</td>
<td>(1) Pollution prevention</td>
<td>Environmental burden reduction measures</td>
</tr>
<tr>
<td></td>
<td>(2) Conservation</td>
<td>Conserving energy</td>
</tr>
<tr>
<td></td>
<td>(3) Recycling resources</td>
<td>Using resources effectively</td>
</tr>
<tr>
<td>2. Upstream and downstream costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Administrative costs</td>
<td></td>
<td>Environmental education</td>
</tr>
<tr>
<td>4. R&amp;D costs</td>
<td></td>
<td>Conserving resources</td>
</tr>
<tr>
<td>5. Social activity costs</td>
<td></td>
<td>Community relations</td>
</tr>
<tr>
<td>6. Environmental damage costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Others</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Conservation Effects

We calculated the environmental load data.

<table>
<thead>
<tr>
<th>Environmental load</th>
<th>Units</th>
<th>Fiscal 2008 results</th>
<th>Fiscal 2009 results</th>
<th>Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 emissions (from energy sources)</td>
<td>10,000 t</td>
<td>268</td>
<td>229</td>
<td>△18</td>
</tr>
<tr>
<td>SOx emissions</td>
<td>1</td>
<td>1,440</td>
<td>870</td>
<td>△570</td>
</tr>
<tr>
<td>NOx emissions</td>
<td>1</td>
<td>5,010</td>
<td>4,470</td>
<td>△540</td>
</tr>
<tr>
<td>Soot and dust emissions</td>
<td>1</td>
<td>117</td>
<td>149</td>
<td>△32</td>
</tr>
<tr>
<td>COD: BOD discharges</td>
<td>1</td>
<td>991</td>
<td>1,120</td>
<td>△129</td>
</tr>
<tr>
<td>Water used</td>
<td>1,000 m³</td>
<td>81,600</td>
<td>78,600</td>
<td>△3,000</td>
</tr>
<tr>
<td>PRTR substance emissions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Waste</td>
<td>1,000 t</td>
<td>146</td>
<td>146</td>
<td>△</td>
</tr>
<tr>
<td>Final waste disposal</td>
<td></td>
<td>108</td>
<td>100</td>
<td>△8</td>
</tr>
<tr>
<td>CO2 emissions from transportation</td>
<td>1,000 t</td>
<td>48</td>
<td>40</td>
<td>△9</td>
</tr>
</tbody>
</table>

3. Economic Effects

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Item</th>
<th>Details</th>
<th>Effects (millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profits</td>
<td>Proceeds from selling waste from core operations and income from recycling waste</td>
<td></td>
<td>520</td>
</tr>
<tr>
<td>Cost reductions</td>
<td>Lowering energy costs by conserving energy</td>
<td>Conserving energy</td>
<td>264</td>
</tr>
<tr>
<td></td>
<td>Reducing waste treatment costs by conserving or recycling resources</td>
<td>Using resources effectively</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>839</td>
</tr>
</tbody>
</table>
DENKA CSR REPORT 2010

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.

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 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 contribute to society as a good corporate citizen.
9. We will contribute to social development as a good member of the global community.
10. We will contribute to social development as a good member of the global community.

CSR Initiatives

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’s CSR Vision

Pursuing lasting trust as an outstanding manufacturer

The Global Environment

Effectively use resources to help protect the global environment

Society

CSR Vision

Society

Measures to Ensure Safety and Trust

Endeavor to prevent disasters and gain the trust of members of the local community

Communication between DENKA and Society

Maintain communications with society through appropriate information disclosure

Social Contribution Activities

Actively strive to contribute to society as a good corporate citizen

Maximize customer satisfaction and contribute to society through business activities

Management/Economy

Thoroughly maintain compliance

Provide products and technologies that contribute to the development of society

Ensure a reliable level of quality

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

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. Publishing CSR activities; and 4. Internally and externally communicating CSR achievements.

CSR Organization

- President
- Person in charge of CSR Promoting Department
- Responsible Care (RC) Committees
- Safety Management Headquarters
- Product Liability (PL) Committee
- Ethics Committee
- Responsibility for Corporate Communication Department
- Security Export Control Committee
- Risk Management Committee
- Internal Auditing Department
- Strategic Relations and Corporate Communications Department
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**

1. **Development**
   - Verify raw material safety
   - Verify necessary quality level
   - Production process design
2. **Raw Materials**
3. **Materials Safety Data Sheets**
4. **Production**
   - ISO 14001, ISO 9001 and Good Manufacturing Practices
   ( Maintain and improve environmental protection and quality)
5. **Outsourced Processing and Production**
   - Manufacturing vendor audits
   - Waste contractor audits
6. **Disposal**
   - Management of environmentally hazardous substances in products (Negative List)
7. **Products**
8. **Logistics**
   - Yellow cards
   - Container labels (see note 2)
9. **Customers**
   - Material safety data sheets (MSDS)
   - MSDSPlus (see note 3)

**Notes**

1. **Material Safety Data Sheets (MSDS)**
   - 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 MSDSPlus—plus—which supplements information conveyed on MSDS sheets—and Article Information Sheets 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 in what manner chemical substances affect human health and the environment. We are cooperating fully in the implementation of this program.

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

#### Management Systems

<table>
<thead>
<tr>
<th>ISO 14001</th>
<th>ISO 9001</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date certified</td>
<td>Date certified</td>
</tr>
<tr>
<td>Name of Plant</td>
<td>Name of Plant</td>
</tr>
<tr>
<td>Omi Plant</td>
<td>October 18, 2007</td>
</tr>
<tr>
<td>Omuta Plant</td>
<td>October 28, 2008</td>
</tr>
<tr>
<td>Chiba Plant</td>
<td>May 31, 1999</td>
</tr>
<tr>
<td>Shibukawa Plant</td>
<td>May 21, 2007</td>
</tr>
<tr>
<td>Ofuna Plant</td>
<td>November 5, 2001</td>
</tr>
<tr>
<td>Iwaki Plant</td>
<td>September 30, 2003</td>
</tr>
<tr>
<td>Central Research Institute</td>
<td>July 5, 2004</td>
</tr>
</tbody>
</table>

Notes:

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.

### 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)**

<table>
<thead>
<tr>
<th>Accident type</th>
<th>Frequency rate</th>
<th>Manufacturer average</th>
<th>Subcontractors</th>
<th>Chemical industry average</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.5</td>
<td>0.6</td>
<td>0.6</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>1.0</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
</tr>
<tr>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>2.0</td>
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<td>2.5</td>
<td>2.5</td>
<td>2.5</td>
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<td>2.5</td>
</tr>
<tr>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
<tr>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

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 battling 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 OHSMS 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.

### Activities to “Cultivate Safety-Conscious Employees” at the Omi 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 upholding 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. Behavior drills
3. Change Management
4. Fire drill
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. The department manager bell patrol strategy

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

### 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
Comprehensive emergency drills held at the Omuta Plant

### Manager Report
Hidemitsu 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.

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

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

### CSR Initiatives
Occupational Safety and Health, Security and Disaster Prevention

### Profile
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.

### Occupational Health
We are engaged in analyzing trends in occupational accidents and the results of our accident prevention programs. We are also engaged in studies on the effects of various factors on employees and we are taking steps to prevent accidents at each business site. Based on the results of such assessments, we comprehensively manage risks while making systematic improvements.
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.

#### 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).

#### 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

- **General Stockholder’s Meeting**
- **Directors (Board of Directors)**
- **Representative Director**
- **Executive Directors**
- **Executive Officers**
- **Various Business Sectors**
- **Internal Auditing Department**
- **Corporate Auditor (Audit) (Board of Auditors)**

---

### 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 SHINNHN) 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 actions 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.

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### 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

- **President**
- **Risk Management Committee**
- **Other risks**
- **Major crises**

---

### Reference

- **Message from the President**
- **CSR Initiatives**
- **Environmental Initiatives**
- **Profile**
- **Corporate Governance and Compliance**
Based on the DENKA100 Guidelines, we continue to communicate with people in local communities so as to be a trusted company.

**Interacting with the Community**

_Omura Plant_

Omura Plant employees interact with the local community in a variety of ways, including joining in the Omura Dajiayama Matsuri, a summer festival held in Omura. By donating blood and, together with the local civic center, volunteering for cleanup drives, employees are helping to maintain these flower beds.

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

*Children’s chemistry class (March 30, 2010)*

**Chiba Plant**

Chiba Plant continues to keep the community informed about its activities in the form of booth displays at the Goh Rinkai Festival, which is sponsored by the local neighborhood association and companies located along the Goh seashore. Approximately 20 thousand people enjoyed themselves at the 35th Goh Rinkai Festival held on June 6, 2009.

*Making personal PET bottles with the shrink-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*

**Shibukawa Plant**

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.

*“Belly dancing” at the Shibukawa Bellybutton Festival*

*Children carrying the mini-shrine during the Summer Festival*

**Isesaki Plant**

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.

**Central Research Institute**

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.

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

*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

1. Personal Requisites
   - Strive constantly to better yourself through business and social activities
   - Always be selfless
   - Always be responsible and remain humble and positive
   - Drive change through teamwork
   - Gain broad insights, superior problem-solving skills and the ability to transform potential into reality
   - Be cost-conscious

2. Anticipated Fruits of Training
   - Personnel 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

3. 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 first 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.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>1.85%</td>
<td>2.02%</td>
<td>1.93%</td>
<td>1.82%</td>
</tr>
</tbody>
</table>

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 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 resuming 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 those bodies. On August 27, 2010, with the sponsorship of the Head Office Labor Union, the DENKA100 Promoting Department supported a 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, now we 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 company-wide 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 Company-wide. In addition, we have posted the skills possessed by personnel from both inside and outside the Company to positions of leadership, 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.

---

**Productivity Enhancement System**

President

Person in overall charge of technologies

Head Office Staff Department

Engineering Department

Production Process Department

Omi Plant

Omuto Plant

Chiba Plant

Shibukawa Plant

Okama Plant

Iwaseki Plant

Affiliated companies, etc.

Company-wide personnel and resources

---

**Research and Development Activities**

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.

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**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.

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**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.

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**Electronic Materials**

In Electronic Materials, we are focused on developing product lines concentrated particularly in the LED and power device segments. In the LED segment, we received a basic patent license for SiAlON 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 SiAlON Phosphor. We aim to make SiAlON Phosphor the de facto standard as a fluorescent material for the white LEDs used in LCD TV backlights—for which demand is expected to grow rapidly, while moving forward on the development of fluorescent materials that are suitable for use with LED lights.

---

**Functional Materials and Plastics**

In polymer processing products for industrial materials, packaging and construction materials, we are taking advantage of these high-growth areas, and are removing barriers between organizational and business sites and bringing together our business resources.

In functional ceramics, we have pursued higher performance in spherical fused silica for semiconductor sealants and spherical alumina for thermal materials and semiconductor sealants.

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**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.

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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 Financial Statements

#### Consolidated Balance Sheets (Summary)

<table>
<thead>
<tr>
<th>Account Item</th>
<th>Amount</th>
<th>As of March 31, 2010</th>
<th>Amount</th>
<th>As of March 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>¥138,360</td>
<td></td>
<td>¥137,034</td>
<td></td>
</tr>
<tr>
<td>Cash and time deposits</td>
<td>6,126</td>
<td></td>
<td>6,126</td>
<td></td>
</tr>
<tr>
<td>Notes and accounts receivable,</td>
<td>55,396</td>
<td></td>
<td>74,843</td>
<td></td>
</tr>
<tr>
<td>trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>48,973</td>
<td></td>
<td>44,413</td>
<td></td>
</tr>
<tr>
<td>Other current assets</td>
<td>12,618</td>
<td></td>
<td>13,017</td>
<td></td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(253)</td>
<td></td>
<td>(770)</td>
<td></td>
</tr>
<tr>
<td><strong>Non-current assets</strong></td>
<td>255,049</td>
<td></td>
<td>262,046</td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>207,310</td>
<td></td>
<td>202,310</td>
<td></td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>4,966</td>
<td></td>
<td>3,476</td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>34,036</td>
<td></td>
<td>39,492</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>240,091</td>
<td></td>
<td>227,769</td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>139,186</td>
<td></td>
<td>147,190</td>
<td></td>
</tr>
<tr>
<td>Common stock</td>
<td>36,998</td>
<td></td>
<td>36,998</td>
<td></td>
</tr>
<tr>
<td>Capital surplus</td>
<td>49,303</td>
<td></td>
<td>49,303</td>
<td></td>
</tr>
<tr>
<td>Retained earnings</td>
<td>56,581</td>
<td></td>
<td>64,550</td>
<td></td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(3,697)</td>
<td></td>
<td>(3,062)</td>
<td></td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>227,769</td>
<td></td>
<td>240,091</td>
<td></td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>¥400,407</td>
<td></td>
<td>¥377,912</td>
<td></td>
</tr>
</tbody>
</table>

#### Consolidated Statements of Income (Summary)

<table>
<thead>
<tr>
<th>Account Item</th>
<th>Fiscal 2009</th>
<th>Fiscal 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥333,875</td>
<td>¥334,130</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>251,411</td>
<td>271,590</td>
</tr>
<tr>
<td>Selling, general and administrative expenses</td>
<td>50,809</td>
<td>52,237</td>
</tr>
<tr>
<td>Operating income</td>
<td>21,655</td>
<td>10,302</td>
</tr>
<tr>
<td>Non-operating income</td>
<td>1,543</td>
<td>1,968</td>
</tr>
<tr>
<td>Non-operating expenses</td>
<td>6,310</td>
<td>9,176</td>
</tr>
<tr>
<td>Ordinary income</td>
<td>16,888</td>
<td>3,094</td>
</tr>
<tr>
<td>Extraordinary gains</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Extraordinary losses</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>15,839</td>
<td>1,961</td>
</tr>
<tr>
<td>Income taxes—current</td>
<td>6,960</td>
<td>1,322</td>
</tr>
<tr>
<td>Income taxes—deferred</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Minority interest in earnings of consolidated subsidiaries</td>
<td>49</td>
<td>(13)</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td>¥10,474</td>
<td>¥1,439</td>
</tr>
</tbody>
</table>

#### Consolidated Statements of Cash Flows (Summary)

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

#### Consolidated Statements of Shareholders’ Equity for Fiscal 2009

<table>
<thead>
<tr>
<th>Account Item</th>
<th>Fiscal 2009</th>
<th>Fiscal 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ equity</td>
<td>¥150,142</td>
<td>¥139,186</td>
</tr>
<tr>
<td>Common stock</td>
<td>¥36,998</td>
<td>¥36,998</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>¥49,303</td>
<td>¥49,303</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>¥56,581</td>
<td>¥64,550</td>
</tr>
<tr>
<td>Treasury stock, at cost</td>
<td>(¥3,697)</td>
<td>(¥3,062)</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>¥150,142</td>
<td>¥139,186</td>
</tr>
<tr>
<td>Issue of new shares</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Dividends from retained earnings</td>
<td>(¥2,455)</td>
<td>(¥2,455)</td>
</tr>
<tr>
<td>Net income</td>
<td>10,474</td>
<td>10,474</td>
</tr>
<tr>
<td>Net increase in treasury stock</td>
<td>(¥21)</td>
<td>(¥21)</td>
</tr>
<tr>
<td>Gain on sales of treasury stock</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Change in scope of consolidation</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Change in the equity, vested cap.</td>
<td>(89)</td>
<td>(89)</td>
</tr>
<tr>
<td>Unrealized gain on securities</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total changes of items other than shareholders’ equity</strong></td>
<td>—</td>
<td>3,046</td>
</tr>
<tr>
<td><strong>Total changes of items during the term</strong></td>
<td>—</td>
<td>3,046</td>
</tr>
<tr>
<td>Balance at March 31, 2009</td>
<td>¥36,998</td>
<td>¥49,303</td>
</tr>
<tr>
<td><strong>Total shareholders’ equity</strong></td>
<td>¥150,142</td>
<td>¥139,186</td>
</tr>
</tbody>
</table>

---

**Note:** The above tables are summaries of the full consolidated financial statements provided in the document. They include key financial metrics for the fiscal years 2009 and 2008, presented in millions of yen. The tables cover balances sheets, income statements, cash flow statements, and statements of shareholders’ equity.
**Reference**

**Company Information**

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### Corporate Data (as of March 31, 2010)

**Established:**
May 1, 1915

**Paid-in capital:**
¥36,998,436,962

**Employees:**
4,742 (consolidated) and 2,118 (non-consolidated)

**Directory**
- **Head Office:**
  Nihonbash-Mitsui Tower, 1-1, Nihonbash-Mursumachi 2-chome, Chuo-ku, Tokyo 103-8338, Japan
  Tel: +81-3-5290-5055
- **Branches:**
  Osaka, Nagoya, Hiroshima, Shikoku (Takamatsu), Akita
- **Sales Offices:**
  Nagano, Gunma, Hiroshima, Shikoku (Takamatsu), Akita
- **Overseas Sales Office:**
  Taipei (Taipei)
- **Plants:**
  Omi (Itoigawa Niigata), Omuta, Chiba (Ichihara, Chiba), Shibukawa, Otsuna (Kamakura, Kanagawa) and Iseai
- **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)
- CRIK Corporation (Takasaki, Gunma)
- Hitode Kagaku Kogyo (Maizuru Kyoto)
- DENKA Azumiz Co., Ltd (Hamaaki, Iwate)

**Overseas Subsidiaries**
- New York, Dusseldorf, Singapore, Shanghai, Suzhou and Hong Kong

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### Board of Directors (as of June 22, 2010)

**Directors, Corporate Auditors and Executive Officers**

- **Seiki Kawabata** ............... President and Representative Director, Chief Executive Officer
- **Tsutsuo 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 Oto** ................. Director, Managing Executive Officer
- **Daisuke Uematsu** .......... Director, Managing Executive Officer
- **Kozi Tanaka** ................. Outside Director
- **Tadasu Hori** ................. Outside Director
- **Hiroyuki Otoh** ............ Senior Executive Officer
- **Tatsuhiko Ayagai** .... Senior Executive Officer
- **Mitsukuni Ayabe** .......... Senior Executive Officer
- **Shigoro Fujii** ................ Senior Executive Officer
- **Shohei Sugiyama** .......... Senior Executive Officer
- **Shohei Tamaki** ............. Executive Officer
- **Hiroyuki Udagawa** .......... Executive Officer
- **Norihiro Shimizu** .......... Executive Officer
- **Kenichi Ono** .................. Director, Managing Executive Officer
- **Sanshiro Matsushita** ....... Executive Officer
- **Akihiko Okuda** ............... Executive Officer
- **Kazuyuki Koyama** .......... Executive Officer
- **Masaharu Yamamoto** ....... Executive Officer
- **Tomoharu Kato** ............. Executive Officer
- **Hitoshi Watanabe** .......... Director, Managing Executive Officer
- **Kenjiro Tsuchi** ............. Senior Executive Officer
- **Takayasu Tanaka** .......... Outside Standing Corporate Auditor
- **Standing Corporate Auditor**
- **Takayasu Tanaka** .......... Outside Standing Corporate Auditor
- **Standing Corporate Auditor**
- **Toshiaki Tada** .............. Outside Corporate Auditor
- **Kenichi Tsuchi** ............. Corporate Auditor
- **Toshiaki Tada** .............. Corporate Auditor

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### 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:** 50,364

#### Major Shareholders

<table>
<thead>
<tr>
<th>Shareholding Company</th>
<th>Number of Shares (thousand)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd (Trust Account)</td>
<td>38,784</td>
<td>2.45</td>
</tr>
<tr>
<td>Japan Trustee Service Bank, Ltd (Trust Account)</td>
<td>35,187</td>
<td>2.21</td>
</tr>
<tr>
<td>Japan Trustee Service Bank, Ltd. (Trust Account 3)</td>
<td>17,070</td>
<td>1.07</td>
</tr>
<tr>
<td>Mizuho Mutual Life Insurance Federation of Agricultural Cooperatives</td>
<td>15,085</td>
<td>0.96</td>
</tr>
<tr>
<td>Trust &amp; Custody Services Bank, Ltd., as trustee for Mizuho Bank Ltd. Retirement Benefit Trust Account re-entrusted by Mizuho Trust and Banking Co., Ltd.</td>
<td>15,375</td>
<td>0.96</td>
</tr>
<tr>
<td>DENKA KAGAKU KOYO KASIHIRU KASHIA</td>
<td>14,738</td>
<td>0.92</td>
</tr>
<tr>
<td>Mitsubishi Life Insurance Co., Ltd</td>
<td>12,636</td>
<td>0.81</td>
</tr>
<tr>
<td>Government of Singapore Investment Corporation Pte Ltd</td>
<td>7,679</td>
<td>0.48</td>
</tr>
<tr>
<td>Mitsubishi Sumitomo Insurance Co., Ltd</td>
<td>6,692</td>
<td>0.43</td>
</tr>
<tr>
<td>Mitsui &amp; Co., Ltd</td>
<td>6,437</td>
<td>0.41</td>
</tr>
<tr>
<td>Citibank Hong Kong S/A Fund 115</td>
<td>5,588</td>
<td>0.36</td>
</tr>
</tbody>
</table>

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### Shareholder Composition (thousand shares)

- **Other domestic corporations**: 15,250 (25.94%)
- **Foreign corporations and individuals**: 20,225 (33.97%)
- **Financial institutions**: 16,154 (26.27%)
- **Individuals and others**: 10,525 (17.44%)

#### Shareholder Composition by Number of Shares Held

- **Less than 1,000 shares**: 3,000 (0.49%)
- **1,000 to 4,999 shares**: 5,000 to 9,999 shares
- **5,000 to 9,999 shares**: 6,000 to 19,999 shares
- **10,000 shares or more**: 3,000 (0.49%)

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### Third-Party Audit

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### 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

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### For More Information

CSR Promoting Department  
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