# ANNUAL REPORT 2012

Year Ended March 31, 2012

KANEKA CORPORATION

# PROFILE

Kaneka Corporation was established in 1949 as a spin-off from the Kanegafuchi Spinning Co., Ltd. Initially, Kaneka's main products included caustic soda, soap, cosmetics, edible oils and electrical wires. The Company later diversified into polymers, fermentation, biotechnology and electronics, as well as other fields. Business activities now span a broad spectrum of markets ranging from chemicals, functional plastics, expandable plastics and products, foodstuffs products, life science products, electronic products, synthetic fibers and others. The Company has been a leader among Japanese chemical companies in establishing overseas operations, beginning in 1970 with a subsidiary in Belgium. Kaneka now has overseas subsidiaries in Belgium, the United States, Singapore, Malaysia, China, India, South Korea, Taiwan, Australia and Vietnam.

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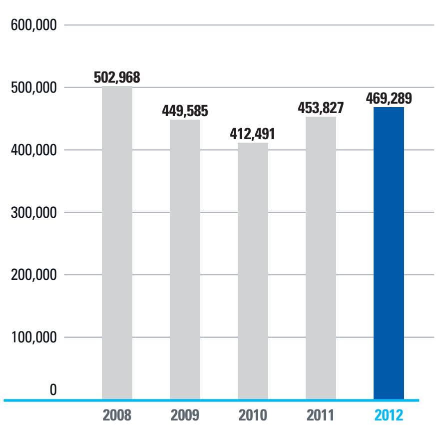
# CONSOLIDATED FINANCIAL HIGHLIGHTS

KANEKA CORPORATION and Consolidated Subsidiaries

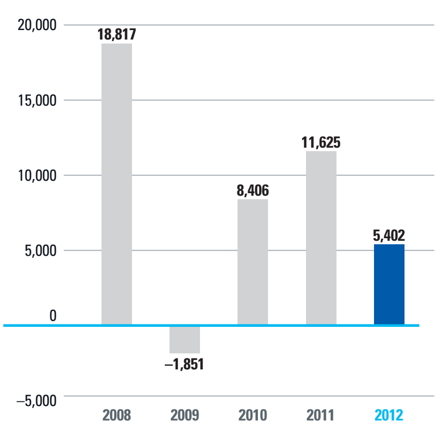
| | | | | | Years ended March 31 | |
|---|---|---|---|---|---|---|
| | | | | | Millions of yen | Thousands of U.S. dollars |
| | **2012** | 2011 | 2010 | 2009 | 2008 | **2012** |
| Net sales | **¥469,289** | ¥453,827 | ¥412,491 | ¥449,585 | ¥502,968 | **$5,709,807** |
| Net income (loss) | **5,402** | 11,625 | 8,406 | (1,851) | 18,817 | **65,727** |
| Capital expenditures | **33,108** | 29,250 | 24,322 | 33,979 | 31,569 | **402,823** |
| Depreciation | **29,409** | 28,717 | 26,210 | 27,163 | 24,731 | **357,817** |
| Total assets | **467,083** | 455,141 | 432,880 | 418,490 | 452,620 | **5,682,966** |
| Net assets | **257,461** | 261,829 | 257,175 | 249,529 | 267,598 | **3,132,510** |
| Per Share of Common Stock: | | | | | Yen | U.S. dollars |
| Net income (basic) | **¥ 15.96** | ¥ 34.28 | ¥ 24.78 | ¥ (5.45) | ¥ 55.10 | **$0.19** |
| Net income (diluted) | **15.95** | 34.26 | 24.77 | – | 55.09 | **0.19** |
| Cash dividends | **16.00** | 16.00 | 16.00 | 16.00 | 16.00 | **0.19** |
| Net assets | **734.61** | 743.88 | 735.17 | 717.15 | 767.68 | **8.9** |
| | | | | | % | % |
| Shareholders' equity ratio | **53.0%** | 55.4% | 57.6% | 58.1% | 57.7% | **53.0%** |
| Return on equity (ROE) | **2.2** | 4.6 | 3.4 | (0.7) | 7.1 | **2.2** |
| Return on assets (ROA) | **1.2** | 2.6 | 1.9 | (0.4) | 4.2 | **1.2** |

Note 1) The conversion of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the prevailing exchange rate on March 31, 2012, which was ¥82.19 to US$1.00.
Note 2) Return on equity is calculated on the basis of the average shareholders' equity at the current and previous fiscal year-ends.

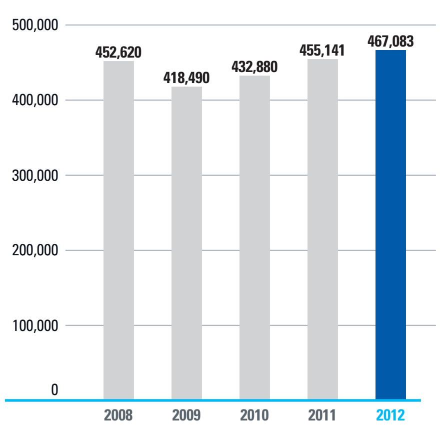
**Net Sales**
(Millions of yen)




**Net Income**
(Millions of yen)




**Total Assets**
(Millions of yen)



# TO OUR SHAREHOLDERS

Kimikazu Sugawara, President

Masatoshi Takeda, Chairman of the Board

## BUSINESS PERFORMANCE IN FY2012

During the year under review, the global economy appeared to slow. This was due to slowing growth in Asia, including China, and other emerging markets that had driven the global economy up to now, in addition to a deepening sovereign debt crisis in Europe and protracted economic sluggishness in the U.S. The Japanese economy, meanwhile, made little progress escaping the grip of deflation. The economy was also heavily impacted by the Great East Japan Earthquake that occurred on March 11, 2011, supply chain disruptions caused by the flooding in Thailand, the yen's appreciation, and rising material and fuel costs, among other factors. Looking ahead, full-scale demand stoked by reconstruction efforts after the Great East Japan Earthquake and a rebound in exports to emerging markets are expected. However, the economic outlook is filled with uncertainty, including protracted economic malaise in Europe, the yen's strength, persistently high material and fuel costs, power supply constraints and other factors. In addition, there is an increasing risk of an economic slowdown in Japan amid ongoing upheavals in the structure of industry as the hollowing out of industry continues due to Japanese corporations shifting offshore.

In this difficult environment, the Kaneka Group is investing management resources in key strategic fields, seeking to establish operations in the new areas of business that we expect to drive growth and reinforcing global development. We are also focusing on restructuring our businesses. Similarly, in existing businesses we are working to boost sales volumes and striving to enhance competitiveness by lowering manufacturing and overhead costs in a bid to recover profitability. During the fiscal year ended March 31, 2012, the Kaneka Group reported net sales of ¥469,289 million, up 3.4% year on year. However, operating income was ¥13,151 million, down 38.1%, and net income was ¥5,402 million, down 53.5%, reflecting mainly ¥1,798 million in other expenses (net), including business structure improvement expenses, as well as income taxes of ¥5,475 million and minority interests of ¥476 million. In FY2012, we paid a dividend for the year of ¥16 per share.

## MANAGEMENT POLICY

In September 2009, the Kaneka Group introduced the Declaration of Kaneka United for the future as part of its long-term management vision. The declaration defines Kaneka's corporate philosophy as "With people and technology growing together into creative fusion, we will break fresh ground for the future and tie in to explore New Values. We are also committed to challenge the environmental issues of our planet and contribute to upgrade the quality of life." As a "dreamology company," a phrase we coined to express a "highly perceptive and collaborative value-creating group," we will create future-oriented businesses that leap beyond current market needs, back them up with new product development, in turn, protecting the global environment and contributing to the quality of life, and foster an even greater presence as a global company, including in the markets of emerging countries.

In order to achieve the measures and Group performance targets set out in the long-term management vision, the Kaneka Group has positioned the following as key themes in the interim: raise earnings power by further strengthening existing businesses and making new businesses commercially viable quickly; develop market- and customer-centric business models; raise overall cost performance across value chains, including production, research, technology and sales; and accelerate globalization from a local perspective. By addressing these themes and implementing measures to create competitive business structures and a more attractive company, the Kaneka Group will meet the expectations of all stakeholders and transform itself into an even more highly regarded company.

## PERFORMANCE FORECASTS

The world economy is expected to hold to a gentle recovery path on the back of improving economic conditions in the U.S., ongoing growth in emerging markets and other factors. At the same time, downside risks for the world economy include the sovereign debt crisis reigniting, soaring material and fuel costs, and monetary tightening in emerging markets. These and other factors are making the outlook more uncertain. Amid this economic environment, the Kaneka Group is redoubling its efforts to shore up its sales and income-generation capacity and accelerating its initiatives targeting business structure reform. Our performance forecasts for the year ending March 31, 2013 are as follows:

## CONSOLIDATED FORECASTS

Net sales: ¥500 billion (6.5% increase from the term ended March 31, 2012). Operating income: ¥20 billion (52.1% increase from the term ended March 31, 2012). Net income: ¥10 billion (85.1% increase from the term ended March 31, 2012).

The above performance forecasts for the Kaneka Group are regarded as reasonable based on information available at the time of announcement. Readers should be aware that actual results might vary from these forecasts because of various uncertainties. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements.

In closing, we would like to thank you in advance for your continued understanding and confidence in the Kaneka Group.

June 2012

**Masatoshi Takeda,**
**Chairman**

**Kimikazu Sugawara,**
**President**

# ACCELERATION OF GLOBAL BUSINESS DEVELOPMENT PROPELLED BY A SHIFT TO ASIA

In the medium-term management plan established in 2010, Kaneka set forth a policy of accelerating global business development propelled by a shift to Asia. In keeping with this strategy, in the fiscal year ended March 31, 2012, we implemented the following measures.

**Establishment in China of a Regional Umbrella Hub to Accelerate Business Development in Asia**

To accelerate the Kaneka Group's business development in Asia, in April 2012, the Company established Kaneka Asia Co., Ltd. in Shanghai, China as a regional umbrella hub for the Asia region. The new company will control Kaneka's subsidiaries in Asia, taking a bird's-eye view of the entire region from China, the largest market in Asia and a country with prospects for high growth. The role of the regional umbrella hub is to plan local business strategies, strengthen corporate governance in the Asia region, and perform specialized functions in legal affairs, intellectual property, and other areas. It will also support business expansion measures adapted to the characteristics of each region of Asia and promote market development from a local perspective.

**Start of Operation of a Kanekalon Production Base in Malaysia**

The Kanekalon synthetic fiber business accounts for more than 90% of overseas sales. In pursuit of further overseas business expansion, the Company established Kaneka Innovative Fibers Sdn. Bhd. in Pahang, Malaysia as a new production base that can compete in the U.S. and Africa, where demand in hair extension products is robust.

**Establishment of Subsidiaries to Engage in Market Surveys and Sales Support Activities in Taiwan and South Korea**

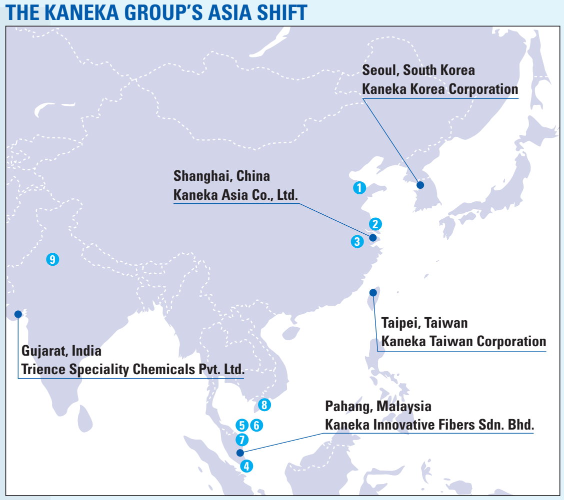
To develop markets and build and strengthen relationships with local companies in Taiwan and South Korea, countries achieving striking growth in electronics and other leading-edge business sectors, Kaneka has established Kaneka Taiwan Corporation in Taipei, Taiwan and Kaneka Korea Corporation in Seoul, South Korea. These subsidiaries will serve as bases for strengthening development and sales and marketing to accelerate the development of existing businesses and new businesses.

Hang Seng Bank Tower, where Kaneka Asia Co., Ltd. has its offices

**Establishment of a Joint Venture Company in India for the Commercialization of Chlorinated Polyvinyl Chloride**

To accelerate development of the chlorinated polyvinyl chloride (CPVC) business, Kaneka, in a joint venture with Meghmani Organics Limited of India and Mitsui & Co., Ltd., established Trience Speciality Chemicals Pvt. Ltd., a new company in the Indian state of Gujarat, to investigate commercialization of CPVC and prepare for construction of manufacturing facilities. CPVC is used in hot water pipes, fire sprinkler pipes, and industrial pipes, and demand is growing worldwide. In India in particular, use of CPVC as a substitute for galvanized iron pipes is rapidly increasing.

**THE KANEKA GROUP'S ASIA SHIFT**




| OTHER PRINCIPAL SUBSIDIARIES IN ASIA | |
|---|---|
| Shandong, China | 1 HiHua Fiber Co., Ltd. |
| Jiangsu, China | 2 Kaneka Eperan (Suzhou) Co., Ltd. |
| Shanghai, China | 3 Kaneka Trading (Shanghai) Co., Ltd. |
| Singapore | 4 Kaneka Singapore Co. (Pte) Ltd. |
| Pahang, Malaysia | 5 Kaneka (Malaysia) Sdn. Bhd.<br>6 Kaneka Eperan Sdn. Bhd.<br>7 Kaneka Paste Polymers Sdn. Bhd. |
| Binh Duong, Vietnam | 8 Kaneka Pharma Vietnam Co., Ltd. |
| New Delhi, India | 9 Kaneka India Pvt. Ltd. |

## KANEKALON BRAIDS SHOW IN NIGERIA

One of the major applications for Kaneka's Kanekalon synthetic fiber is hair extension products, a sector in which Kaneka has high market share worldwide. In Africa in particular, we are proceeding with market development under the concept "Enhancing the beauty of women," and Kaneka representatives directly visit the markets in various African countries to meet market needs by developing new hair extension products for weaving* and braiding**. In addition to such product development, Kaneka is developing materials used in hair extension products. Along with modacrylic fibers, the origin of Kaneka's synthetic fiber business, polyvinyl chloride, flame-retardant polyester, protein, and other fibers are currently used.

On November 25 in Nigeria, Kaneka held the second Kanekalon Night of 1,000 Braids, an event to introduce new products developed through market research. The event was attended by approximately 300 end-users and 200 beauticians, representatives of partner companies that manufacture hair extension products using Kanekalon, and members of the press, and was a great success.

Highlights of the event included the introduction of Ms. Stephanie Okereke***, a brand ambassador who assists in expanding the market for the Kanekalon brand, a hair parade, fashion parade, hair clinic, and performances by famous local artists.

Amid prospects for the continuing increase in the population of Africa, women's beauty needs are expected to increase and the hair extension market is poised for still greater growth. Kaneka aspires to be an R&D-oriented company. As an example of our commitment to product commercialization to meet market needs, we will continue to provide products that meet market needs and simultaneously contribute substantially to employment creation in Africa through local production of hair extension products in collaboration with local partner companies.

* Weaving: hairstyling influenced by western culture

** Braiding: hairstyling traditionally favored by African women

*** Born in Imo, Nigeria. A popular actress who has received numerous awards and nominations, including at the Africa Movie Academy Awards

Kanekalon Brand Ambassador Ms. Stephanie Okereke

## CSR ACTIVITIES FOR THE MUTUAL DEVELOPMENT OF COMPANY AND SOCIETY

**Holding of Stakeholder Dialogues**

Stakeholder dialogues are held to enable people with differing standpoints and views to exchange opinions on the basis of shared problem recognition and seek mutual understanding.

At this year's stakeholder dialogues, Kaneka engaged in discussions with local officials of host communities, who brought various perspectives to the Kaneka Group's CSR activities as described in CSR Report 2011, issued in July 2011. Key topics of discussion were how the Kaneka Group's current CSR activities are viewed from the perspective of stakeholders (sufficient or insufficient) and whether there are areas that should be reinforced or improved.

We actively engage in CSR activities through our core business activities and believe that increasing stakeholder satisfaction contributes to corporate value enhancement and the fulfillment of corporate responsibility. We intend to hold discussions with involved departments based on the invaluable suggestions and opinions offered by dialogue participants, and link those discussions to the upgrading of sustainable CSR activities.

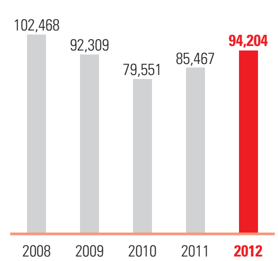
Nov. 2011: Dialogue held at Takasago City Office (Hyogo Prefecture, Japan)

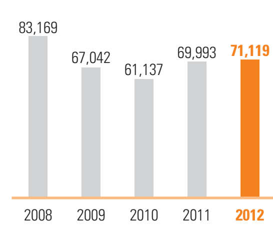
Nov. 2011: Dialogue held at Settsu City Office (Osaka Prefecture, Japan)

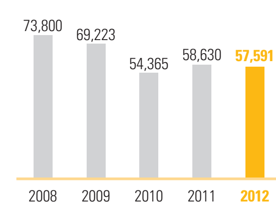
# REVIEW OF OPERATIONS

| | CHEMICALS | FUNCTIONAL PLASTICS | EXPANDABLE PLASTICS AND PRODUCTS |
|---|---|---|---|
| |  |  |  |
| **MAJOR PRODUCTS** | ■ Polyvinyl chloride (PVC)<br>■ Caustic soda<br>■ Hydrochloric acid<br>■ Flexible PVC compounds<br>■ Rigid PVC compounds<br>■ Paste PVC<br>■ Chlorinated PVC | ■ Modifiers<br>■ Liquid polymers (MS Polymer)<br>■ Weather-resistant acrylic film<br>■ Engineering plastic compounds | ■ Extruded polystyrene foam boards<br>■ Polyolefin foam (beads and moldings)<br>■ Expandable polystyrene |

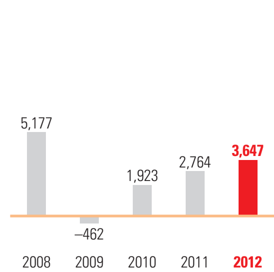
## NET SALES (Millions of yen)

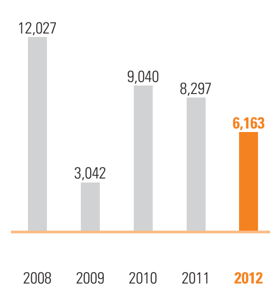


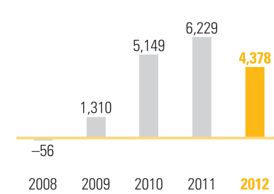




## OPERATING INCOME (Millions of yen)

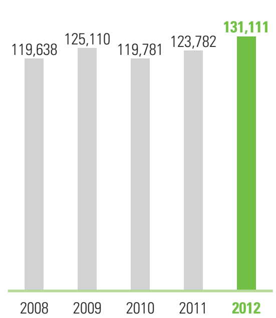


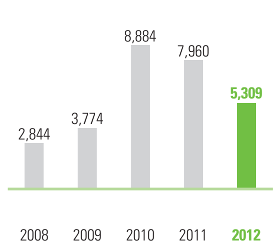



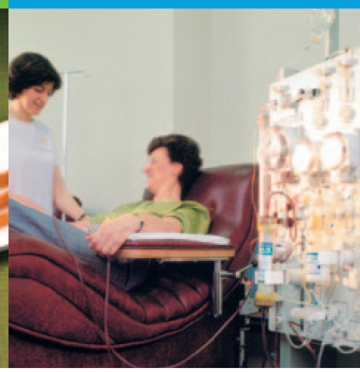
## FOODSTUFFS PRODUCTS

- Margarine and shortening
- Confectionery fats
- Bakery yeast
- Spices

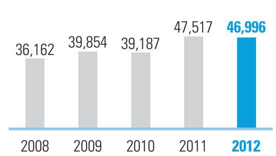


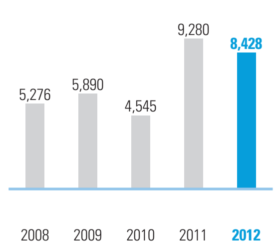




## LIFE SCIENCE PRODUCTS

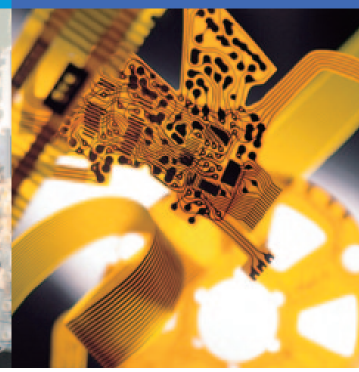


- Ubidecarenone (Coenzyme Q10)
- Ubiquinol (Active form of Coenzyme Q10)
- Anti-hypertensive drug intermediates
- Intermediates for antibiotics
- Liposorber system (LDL-cholesterol adsorption system)
- Lixelle® (Adsorption column for dialysis-related amyloidosis)

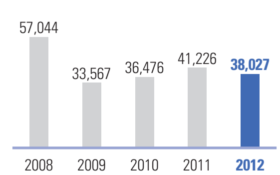


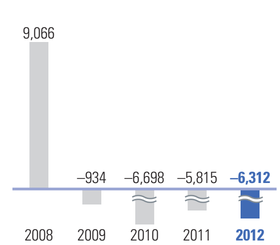




## ELECTRONIC PRODUCTS



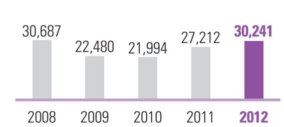
- Ultra heat-resistant polyimide film
- Bonded magnets
- PVC pipes for underground cables
- Solar modules
- Optical materials
- Super thermal-conductive graphite sheets

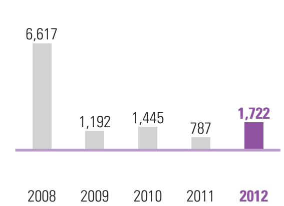



## SYNTHETIC FIBERS AND OTHERS

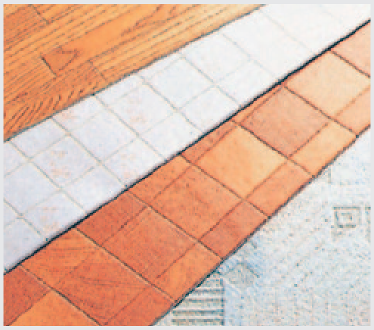
- Modacrylic fibers




Note: In the fiscal year ended March 31, 2011, the Company revised certain methods of allocating Companywide expenses and other procedures due to the introduction of the management approach to Japanese GAAP. Accordingly, figures for the fiscal year ended March 31, 2010 have been restated to reflect these changes.

# CHEMICALS



Profitability of PVC resins was affected by rising raw material and fuel costs, as well as the yen appreciating. However, sales volume expanded in the Japanese market and we concentrated on revising selling prices upward. Specialty PVC resins were boosted by increased sales volume in the Japanese market, coupled with contributions to performance from cost reductions, among other factors. In caustic soda, demand in the Japanese market increased.

As a result, segment sales increased ¥8,737 million, or 10.2%, to ¥94,204 million. The segment posted operating income of ¥3,647 million, up ¥883 million, or 32.0%, year on year.

Kanevinyl™
This ordinary PVC is used in fields ranging from products for daily life to industrial materials.
Kanevinyl™ Paste
This special resin is used in the paste-processing widely employed for wall and flooring materials, sailcloth, automobile parts, and many other products used in daily life.

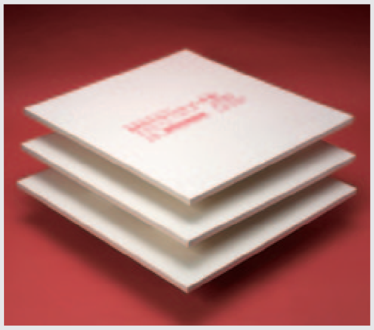
# FUNCTIONAL PLASTICS

In modifiers, in response to weak demand in Japanese and overseas markets, the Kaneka Group took extensive steps to differentiate its products to generate higher sales and to bolster the earnings structure in this business, including through cost reductions. Business was strongly impacted, however, by higher raw material and fuel costs, and the strong yen, which led to lower earnings. Modified silicone polymers recorded higher sales and earnings. Construction-related demand was strong in Japan, and sales volume grew year on year in Japan as well as in Europe and North America, covering the effects of higher raw material and fuel costs and the yen's appreciation.

As a result, segment sales edged up ¥1,126 million, or 1.6%, to ¥71,119 million. However, operating income dropped ¥2,134 million, or 25.7%, to ¥6,163 million.

Kane Ace™ FM
Kane Ace™ FM enhances the weatherability of window frames and sidings for houses around the world.
Kaneka MS Polymer™
When this liquid polymer reacts to moisture in the air in the presence of curing catalyst, it becomes elastic.
MS Polymer gives elastic sealing materials excellent durability, heat and cold resistance, and offers good workability.

# EXPANDABLE PLASTICS AND PRODUCTS



Sales of expandable polystyrene resins and products were strongly impacted by lower demand for fishing industry applications in Japan's Tohoku and Kanto regions due to the March 2011 earthquake and by higher raw material and fuel costs. In extruded polystyrene foam boards, the Group worked extensively to lower manufacturing costs and expenses in response to rising raw material and fuel costs, amid a year-on-year decline in sales volume in housing construction in Japan due to the conclusion of the eco-points housing system and other factors. Polyolefin foam by beads method, meanwhile, was impacted by supply chain stoppages and other disruptions in the automobile sector from the Great East Japan Earthquake and the floods in Thailand, culminating in lackluster demand in the Japanese, Asian and European markets.

As a result, segment sales declined ¥1,039 million, or 1.8%, year on year to ¥57,591 million. Operating income dropped ¥1,851 million, or 29.7%, to ¥4,378 million.

Kanelite Foam™
This material is widely used as insulation mainly in buildings, factories, and houses.
Eperan™
Eperan is an expanded polyethylene that Kaneka has succeeded in making from foamed beads.

# FOODSTUFFS PRODUCTS

In this business, we focused on expanding sales of new products, revising selling prices and reducing costs. Despite these efforts, the business was severely impacted by higher prices of oils, fats and other raw materials, and a shift to low-priced products as consumers tightened their belts.

Segment sales increased ¥7,329 million, or 5.9%, to ¥131,111 million. Operating income dropped ¥2,651 million, or 33.3%, to ¥5,309 million.

LACHENTE™ (whipped cream) and FRANJE™ (cooking cream)
These mainly vegetable oil-based creams are made using Kaneka's proprietary "Fresh Asp" emulsification production method.
Concebeurre™
This new margarine uses flavorings that we have developed at Kaneka and contributes greatly to the fragrance and richness of butter.

## LIFE SCIENCE PRODUCTS


Kaneka QH™
Kaneka was first in the world to successfully develop stabilization technology for reduced form coenzyme Q10 in bulk or soft capsule form.

In medical devices, sales in the vascular intervention business increased steadily. In bulk and intermediate pharmaceuticals, sales volumes were lackluster. In functional foodstuffs, sales volume rose for high-performance products in the U.S. market, as well as in Europe and Japan, even as the Group focused on reducing costs.

Segment sales declined ¥521 million, or 1.1%, to ¥46,996 million. Operating income decreased ¥852 million, or 9.2%, to ¥8,428 million.

## ELECTRONIC PRODUCTS

Hybrid photovoltaic modules
We have succeeded in developing a new hybrid photovoltaic modules with a conversion efficiency of 12%, which sets the highest standard in the world.

Although sales volume for optical materials increased atop growth in new applications, ultra heat-resistant polyimide film sales volume declined year on year on falling demand caused by disruptions to the supply chain from the Great East Japan Earthquake and the flooding in Thailand, and the global economic slowdown. In solar cells, sales volume in the Japanese market steadily increased. However, sales volume decreased to overseas markets amid falling demand in the European market. Downward pressure on prices triggered by intensified competition, and the yen's appreciation also affected performance. Sales volume of solar cell-related material overseas was also lackluster.

Segment sales fell ¥3,199 million, or 7.8%, to ¥38,027 million. The segment recorded an operating loss of ¥6,312 million.

## SYNTHETIC FIBERS AND OTHERS

Kanekalon™
This modacrylic fiber, with its near authentic feel, high flame-retardancy and great resemblance to human and animal hair, is used in wigs and in the hair of dolls.

Sales volume for synthetic fibers increased year on year, buoyed by firm demand in overseas markets, despite being significantly impacted by a strong yen and rising raw material and fuel costs. In parallel, the Group sought to improve profitability by revising selling prices and cutting costs. This led to higher sales and earnings. Earnings were also higher for the Others segment.

Segment sales increased ¥3,029 million, or 11.1%, to ¥30,241 million. Operating income rose ¥935 million, or 118.8%, to ¥1,722 million.

# CORPORATE GOVERNANCE

## BASIC APPROACH TO CORPORATE GOVERNANCE

Kaneka believes that corporate governance is critical to its sweeping drive to increase corporate value based on its corporate philosophy of "With people and technology growing together into creative fusion, we will break fresh ground for the future and tie in to explore New Values. We are also committed to challenge the environmental issues of our planet and contribute to upgrade the quality of life."

### 1. CORPORATE GOVERNANCE FRAMEWORK AT KANEKA

**Regarding the Corporate Governance Framework**

Corporate governance at Kaneka is underpinned by a Board of Directors and a Board of Auditors. Important management matters pertaining to management of the Kaneka Group are decided by resolution of the Board of Directors following deliberation by the Management Conference, a body consisting of the president and other executives of the Company.

Meetings of the Board of Directors are convened, in principle, at least once a month. The Chairman of the Board leads discussion and debate of important matters regulated by laws and regulations, the Articles of Incorporation and Board of Directors regulations, which are then presented to the Board of Directors for resolution. In tandem, directors report to the Board of Directors on the status of execution of their prescribed duties, with the Board of Directors monitoring the legality and appropriateness of their actions. The number of directors is capped at 13, of which 1 member has been appointed as an outside director, whose purpose is to bolster the oversight functions of the Board of Directors. The terms of office of directors are limited to one year in order to clarify management accountability.

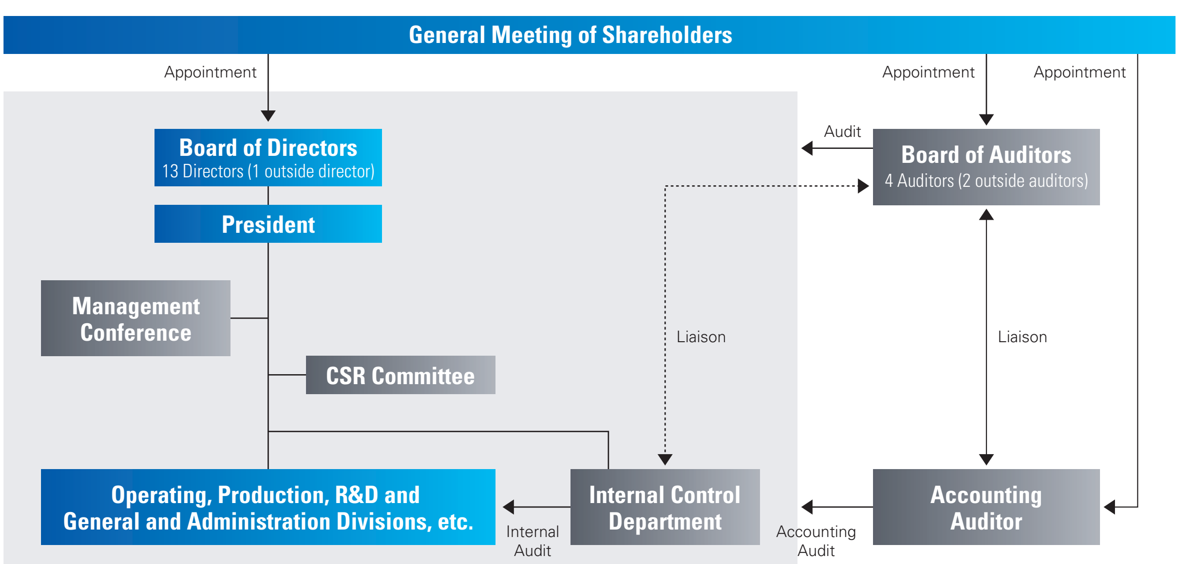
The Board of Auditors consists of four corporate auditors, two of which are outside auditors. Audits are conducted in coordination with the accounting auditors and the Internal Control Department. The corporate auditors meet periodically to exchange opinions with the Company's representative directors, and attend meetings of the Board of Directors, Management Conference, division manager meetings and other important meetings where key matters regarding business execution are decided. In this way, the corporate auditors properly monitor the status of operational execution at the Company.

Additionally, Kaneka has introduced an executive officer system with the purpose of promoting swift and flexible responsiveness to changes in the business environment, as well as to separate and enhance business execution and oversight functions.

While division managers, including executive officers selected by the Board of Directors, are given extensive authority over daily business execution, directors are responsible for multiple divisions to ensure operational consistency on a Companywide scale. Division managers hold monthly meetings to report on the status of operations in their respective divisions directly to all directors and corporate auditors. The Internal Control Department under the direct control of the President independently monitors the operations of each division.

The CSR Committee, chaired by the President, has been established to promote activities that contribute to society's sustainable development, as well as to guide the Company in ensuring legal and regulatory compliance, and fulfilling its accountability to stakeholders.

Through adoption of the framework described above, the Company is pursuing the separation of business execution from auditing and oversight functions. At the same time, by taking on outside perspectives, the Company is ensuring the transparency and rationality of management decision making, and maintaining the objectivity and neutrality of management monitoring functions, all while retaining flexible and agile business execution.



## 2. STATUS OF INTERNAL CONTROL SYSTEM

By resolution of the Board of Directors, the Company has stipulated a basic policy concerning the system to ensure operational appropriateness (internal control system), as outlined below.

This basic policy is confirmed periodically and revised as necessary, in an effort to maintain the effectiveness of the internal control system.

### 1) System to Ensure that Duties Performed by Directors and Employees Comply With Laws, Regulations and the Articles of Incorporation

a. To reinforce initiatives aimed at fulfilling our corporate social responsibility, we have established the CSR Committee, chaired by the president. The committee will restructure our system for promoting responsible care and take overall charge of CSR activities, including compliance.

b. Regarding corporate ethics and compliance with laws and regulations, the Compliance Committee, which is subordinate to the CSR Committee, supervises the promotion and auditing of essential activities, such as overseeing plans on a Companywide scale, tracking rates of progress, confirming the actual status of compliance and establishing and maintaining appropriate inquiry and notification functions.

c. The supervisory departments*[1] develop rules on functions under their control in regards to compliance, plan and implement individual training programs, plan and promote specific activities including encouragement of self-assessment, and conduct inspections and audits to confirm the status of compliance.

*1: Supervisory departments are departments that supervise specific business functions of the Company and the overall Group, such as the Personnel Department, the General Affairs Department and the Finance and Accounting Department.

d. Concerning cross-divisional issues outside the scope of the supervisory departments, the Company has established organizations with specific missions to oversee the promotion of plans and related matters. Such organizations, which are subordinate to the CSR Committee, include the Global Environment Committee, the Central Committee on Environment, Safety and Human Health, the Product Safety Examination Committee, and the Plant Management Conference. This also applies to items b and c.

e. We maintain absolutely no relationships with antisocial forces, and we take a firm Companywide stand to thoroughly counter any illegal or inappropriate demands from such forces. We have also established an internal department to take overall charge of gathering and managing information related to such forces, and communicating and cooperating with police and other outside organizations and foundations. Through these efforts, we are working to enhance the in-house structure for eliminating antisocial forces.

f. To ensure the reliability of our financial reporting, we have established and developed, and are operating, internal controls related to such financial reporting. These activities are supervised by the Internal Control Department.

g. We have strengthened the oversight function of the Board of Directors by appointing an outside director.

### 2) Regulations and Other Systems to Manage Risk of Loss

Risks that significantly influence the Company's businesses and financial position are addressed as follows:

a. Fundamentally, individual operating divisions and the supervisory departments concerned with certain risks take appropriate preventive measures and deal with the situation appropriately in the event that such risks are realized.

b. Based on these actions, the Compliance Committee oversees measures to prevent potential risks, and the Risk Management Committee works with the division concerned in a timely fashion to deal with risks that have been realized and risks that are specifically deemed likely to be realized.

### 3) System to Ensure Efficient Performance by Directors

a. Through the introduction of an executive officer system, Kaneka has separated management decision making as well as oversight and business execution functions, with the view to speeding up decision making and clarifying roles and responsibilities.

b. Dynamic execution is ensured by giving division managers, including executive officers appointed by the Board of Directors, extensive authority over daily business operations, while directors are in charge of multiple divisions and supervise the execution of operations.

c. Important issues are first discussed at a Management Conference in accordance with internal proposal and decision-making procedures based on the decision-making standards, and then are resolved and implemented by the Board of Directors.

d. The Board of Directors convenes a regular meeting once a month, at which important issues are decided and the status of the performance of the directors' duties and related matters are reported.

e. Division managers convene a meeting on a monthly basis, at which management policies, corporate performance and other matters are announced, and business plans and status of progress are reported by designated division managers.

### 4) System to Store and Manage Information on Directors' Performance of Duties

Information on decision making and execution of operations in the Company, not limited to the actions of directors, is stored and managed together with other relevant materials pursuant to the provisions of laws, regulations and internal rules, regardless of whether in paper or electronic document format.

### 5) System to Ensure Appropriate Operations Within the Enterprise Group Consisting of the Company and Its Subsidiaries

Items a through d above also apply to the Company's subsidiaries. The divisions, supervisory departments and subsidiaries work together to further develop and improve the effectiveness of the system (basic policies, rules, responsibility framework, etc.).

### 6) System for Directors and Employees to Report to the Auditors and Other Systems to Report to the Auditors

a. The auditors attend the meetings of the Board of Directors, division manager meetings, Management Conferences and other important meetings.
b. Directors and others report to the auditors on the execution of important operations, such as the results of environment and safety inspections, internal audit results, monthly operations and financial overviews.
c. Important decision-related documents are passed on to the auditors, such as proposal documents, resolution notices regarding matters decided by the president and matters decided by officers in charge.

### 7) Matters Concerning Employees Assisting Auditors in Their Duties and the Independence of Such Assistants From Directors in Case Such Assistants Are Appointed

a. A secretariat will be established within the Board of Auditors to allocate assistants to aid auditors in performing their duties.
b. The appointment, transfer and evaluation of such assistants are decided with the approval of the auditors to ensure the independence of such assistants from the directors.

### 8) Other Systems to Ensure That Audits Are Conducted Effectively by the Auditors

a. The representative director and the auditors periodically meet to exchange opinions.
b. The auditors interview directors about the execution status of operations whenever necessary.
c. The auditors interview the Internal Control Department concerning the execution status of audits.
d. The auditors periodically receive reports from and liaise with the accounting auditor to exchange opinions.
e. The auditors investigate the execution status of operations and the asset management status whenever necessary at the Company's places of business, including its head office and plants, as well as at its major subsidiaries.

## 3. BASIC APPROACH TO AND STATUS OF ADVANCEMENT OF THE REMOVAL OF ANTISOCIAL FORCES

The Group has established a Basic Policy on Corporate Activities and Ethical Behavior Standards that provide the basic standards the Company's officers and employees are to adhere to in conducting business activities. These policies require absolutely no relationships with antisocial forces, that demands from antisocial forces are dealt with resolutely, and that unlawful or unjust demands are opposed on an individual level as well. The executive directors and others in top management discipline themselves to set an example in upholding these standards of behavior, working to develop internal structures and increase awareness within the Company.

To address this issue, the Company has established a division to collect and manage information on a daily basis and coordinate with law enforcement and other outside entities and related organizations. The Company remains committed to developing and reinforcing its internal structure for eliminating antisocial forces.

### Overview of Contracts for Limitation of Liability

Pursuant to Article 427, Paragraph 1 of the Companies Act and regulations outlined in the Articles of Incorporation, the Company enters contracts with outside officers that limit their liability for damages stipulated in Article 423, Paragraph 1 of the Companies Act. The amount of such liability based on these contracts is equal to the minimum liability amount stipulated by law.

## 4. INTERNAL AUDITS AND AUDITORS' AUDITS

The Kaneka Group has established the Internal Control Department, under the direct authority of the president, as an internal auditing division. Along with ensuring the installation, as well as evaluation and audit of the Company's internal control system, the department is responsible for developing and monitoring the operation of the Group's internal control systems. The department has an 11-member staff to conduct internal audits. Of the four corporate auditors, two are outside auditors.

The standing corporate auditors are elected based on their years of experience with the Company's accounting and auditing divisions, as well as their formidable insight with respect to financial and accounting matters. A secretariat is established within the Board of Auditors and staffed by assistants who exclusively aid the corporate auditors in the performance of their duties. One replacement auditor is also appointed to assume audit duties in cases in which the number of corporate auditors falls below the minimum number required by law.

The Board of Auditors periodically requests meetings to receive reports from the Internal Control Department regarding the status of internal audits. Similarly, the Board of Auditors holds meetings to receive regular audit reports from and exchange opinions with the accounting auditors, in an effort to perform audits in mutual cooperation with all audit-related entities.

## 5. RELATIONSHIP WITH OUTSIDE DIRECTORS AND AUDITORS

Kaneka has one outside director, Takeo Inokuchi, and two outside corporate auditors, Hiroaki Tsukamoto and Kouji Hirokawa. The outside director and outside corporate auditors have no noteworthy special interest relationships with the Company in terms of personnel, capital, business or other relationships.

Outside director Takeo Inokuchi has many years of experience in the post of representative director of Mitsui Sumitomo Insurance Co., Ltd., which is a shareholder of Kaneka and has business relationships with the Company. Currently, Mr. Inokuchi is a senior advisor for Mitsui Sumitomo Insurance Co., Ltd. However, given the size and nature of the business transactions between Kaneka and Mitsui Sumitomo Insurance Co., Ltd., there are no material factors that would give rise to any special interest relationship between the two companies. Furthermore, outside corporate auditor Hiroaki Tsukamoto was originally a member of Oh-Ebashi LPC & Partners and is currently attached to the Tsukamoto Law Office, while outside corporate auditor Kouji Hirokawa is currently attached to the Law Office of Amida & Hirokawa. Neither of these law offices have material business transactions with Kaneka. Mr. Inokuchi and Mr. Tsukamoto are sitting members of the special committee for determining basic policies to prevent any attempted large-scale acquisitions of Kaneka shares.

At Kaneka, the outside director monitors the Board of Directors from an external viewpoint, by applying his tremendous insight as a manager and wealth of practical experience to the Company's own management. The outside corporate auditors conduct audits of the Company from an external perspective based on their high degree of insight and their abundant experience as attorneys.

Kaneka has not established standards or other guidelines for independence from the Company for the purpose of appointing outside directors and outside corporate auditors. However, when making these appointments, the Company refers to the decision-making standards concerning the independence of independent officers established by Tokyo Stock Exchange, Inc., among other guidelines. Both the outside director and the outside corporate auditors are independent from the Company's current management, and were deemed to present no risk with respect to the interests of common shareholders.

The outside director attends meetings of the Board of Directors, and offers input as necessary based on his abundant experience as a manager. The outside director also receives business reports from the directors every month, and exchanges opinions with them as necessary. The outside corporate auditors attend meetings of the Board of Directors and Board of Auditors, where they offer input as necessary. They also hold regular meetings to exchange opinions with the Company's representative directors. In addition to examining important decision-making documents, the outside corporate auditors receive monthly reports from the standing corporate auditors on audit operations performed after the close of meetings of the Board of Directors, and exchange opinions regarding the content of these reports.

## 6. STATUS OF ACCOUNTING AUDITS

The certified public accountants who provided the Company with accounting audit services during the year are Koichi Inoue, Teruo Watanuma, and Motoko Shoji, all belonging to KPMG AZSA LLC. Other personnel who assisted in accounting audit tasks include six certified public accountants and 10 junior certified public accountants.

## 7. BREAKDOWN OF CORPORATE OFFICER COMPENSATION

Corporate officer compensation for the fiscal year under review was as follows.

| Position | Total Compensation (Millions of yen) | Breakdown of Compensation by Type (Millions of yen) | | | Persons Compensated |
|---|---|---|---|---|---|
| | | Monthly (fixed) Compensation | Stock option equity compensation | Bonuses | |
| Directors | 600 | 489 | 30 | 80 | 14 |
| Corporate auditors | 48 | 48 | | | 2 |
| Outside directors and corporate auditors | 47 | 47 | | | 3 |

Notes:

1. Amounts less than the specified unit have been rounded off.
2. Persons compensated and monthly (fixed) compensation include compensation paid to two directors who retired from their positions at the close of the 87th Ordinary General Meeting of Shareholders on June 29, 2011.
3. Maximum compensation to directors is ¥46 million per month (fixed salary) (resolved at the 76th Ordinary General Meeting of Shareholders on June 29, 2000), and annual stock option equity compensation is ¥75 million (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).
4. Maximum compensation to corporate auditors is ¥7.8 million per month (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).

### Total Amount of Consolidated Compensation per Corporate Officer Paid by the Company

Not applicable, since no one receives consolidated compensation or other compensation totaling ¥100 million or more.

## 8. POLICY FOR DETERMINING CORPORATE OFFICER COMPENSATION

Compensation for directors is composed of fixed monthly compensation, as well as bonuses linked to operating results and stock option equity compensation. Each of these compensation components is maintained within caps approved by the General Meeting of Shareholders, and is decided after consideration of the Company's operating environment, business results and other factors. Compensation for individual directors is decided after conferring with the representative directors, and is provided at appropriate levels commensurate with the duties, responsibilities and performance of each director.

Compensation for corporate auditors consists of fixed compensation maintained within a cap approved by the General Meeting of Shareholders. Compensation for individual corporate auditors is decided after conferring with the corporate auditors based on the duties and responsibilities of each individual auditor.

The Company abolished its system of retirement bonuses for directors and corporate auditors at the conclusion of its 83rd Ordinary General Meeting of Shareholders.

## 9. STATUS OF STOCKHOLDING

### Investment Stocks Held for Other Than Purely Investment Purposes

147 different stocks

Total reported balance sheet value: ¥33,480 million

### Investment Securities Held for Other Than Purely Investment Purposes by Classification, Stock Name, Number of Shares, Reported Value on the Balance Sheet, and Holding Purpose

(Fiscal year under review)

(Specific investment securities)

| Stock Name | No. of Shares | Reported Balance Sheet Value (Millions of yen) | Holding Purpose |
|---|---|---|---|
| Sumitomo Mitsui Financial Group, Inc. | 1,003,112 | 2,731 | Stock held to maintain and enhance business relationships. |
| Nippon Shokubai Co., Ltd. | 2,400,000 | 2,301 | Same as above |
| Mitsubishi UFJ Financial Group, Inc. | 3,885,700 | 1,600 | Same as above |
| Kubota Corporation | 1,952,966 | 1,552 | Same as above |
| Mitsui & Co., Ltd. | 1,031,093 | 1,399 | Same as above |
| NOK Corporation | 760,000 | 1,368 | Same as above |
| JMS Co., Ltd. | 4,385,000 | 1,188 | Stock held for business and capital alliance purposes. |
| Ibiden Co., Ltd. | 500,000 | 1,058 | Stock held to maintain and enhance business relationships. |
| Nitto Denko Corporation | 300,000 | 1,000 | Same as above |
| Daiwa House Industry Co., Ltd. | 767,000 | 839 | Same as above |
| Duskin Co., Ltd. | 500,000 | 826 | Same as above |
| MS&AD Insurance Group Holdings, Inc. | 471,990 | 801 | Same as above |
| Shionogi & Co., Ltd. | 672,000 | 768 | Same as above |
| Nissin Foods Holdings Co., Ltd. | 227,074 | 702 | Same as above |
| Mitsubishi Chemical Holdings Corporation | 1,384,171 | 611 | Same as above |

| Stock Name | No. of Shares | Reported Balance Sheet Value (Millions of yen) | Holding Purpose |
|---|---|---|---|
| Mitsui Chemicals, Inc. | 2,053,000 | 515 | Same as above |
| Mitsubishi Corporation | 259,251 | 497 | Same as above |
| Morinaga & Co., Ltd. | 2,082,528 | 399 | Same as above |
| Takiron Co., Ltd. | 1,318,201 | 398 | Same as above |
| Ezaki Glico Co., Ltd. | 398,141 | 395 | Same as above |
| Konishi Co., Ltd. | 342,000 | 388 | Same as above |
| Onamba Co., Ltd. | 829,212 | 384 | Same as above |
| Yamazaki Baking Co., Ltd. | 296,432 | 351 | Same as above |
| Osaka Organic Chemical Industry Ltd. | 700,000 | 315 | Same as above |
| Dainichiseika Color & Chemicals Mfg. Co., Ltd. | 809,000 | 313 | Same as above |
| Nice Holdings, Inc. | 1,133,000 | 292 | Same as above |
| Okaya & Co., Ltd. | 263,000 | 234 | Same as above |
| MAEZAWAKASEI INDUSTRIES CO.,LTD | 213,600 | 208 | Same as above |
| Terumo Corporation | 49,875 | 197 | Same as above |
| MEGMILK SNOW BRAND Co., Ltd. | 124,000 | 191 | Same as above |

Note: On May 13, 2011, the Company sold all shares held in Meiwa Industry Co., Ltd. and dissolved all related business and capital alliances.

## 10. NUMBER OF DIRECTORS

The number of directors is limited to 13, as stipulated by the Company's Articles of Incorporation.

## 11. REQUIREMENTS FOR DETERMINATION OF DIRECTOR APPOINTMENTS

The Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable at the General Meeting of Shareholders shall attend the meeting and determine the appointment of directors based on a majority vote.

The Articles of Incorporation further specify that the appointment of directors shall not be resolved by cumulative voting.

## 12. RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS THAT MAY BE DETERMINED BY THE BOARD OF DIRECTORS

In order to ensure an expeditious capital and profit redistribution policy, the Company has established in its Articles of Incorporation that any of the items provided in Article 459, Paragraph 1 (each item) of the Companies Act, including those concerning payment of dividends from retained earnings, may be determined by a resolution of the Board of Directors and that none of the items provided in Paragraph 1 of the same Article are to be determined by a resolution of the General Meeting of Shareholders.

## 13. REQUIREMENTS FOR SPECIAL RESOLUTIONS AT THE GENERAL MEETING OF SHAREHOLDERS

To ensure a smooth General Meeting of Shareholders, the Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable shall attend the meeting and determine by a two-thirds majority vote the "requirements for special resolutions at general meetings of shareholders" provided in Article 309, Paragraph 2 of the Companies Act.

## 14. COMPENSATION FOR AUDITS

### 1. Compensation for Audits and Other Activities by Certified Public Accountants

The certified public accountants who provided the Company with accounting audit services during the year belonged to KPMG AZSA LLC. Compensation paid by the Company and its consolidated subsidiaries to KPMG AZSA LLC was as follows:

| | Fiscal Year Ended March 31, 2011 | | Fiscal Year Ended March 31, 2012 | |
|---|---|---|---|---|
| | Compensation based on audit certification activities (Millions of yen) | Compensation based on non-audit activities (Millions of yen) | Compensation based on audit certification activities (Millions of yen) | Compensation based on non-audit activities (Millions of yen) |
| Kaneka | 74 | 36 | 74 | 5 |
| Consolidated Subsidiaries | 4 | – | 4 | – |
| Total | 78 | 36 | 78 | 5 |

### 2. Other Significant Compensation

Previous fiscal year

Kaneka Texas Corporation and other consolidated subsidiaries pay compensation for tax-related activities to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

Fiscal year under review

Kaneka Texas Corporation and other consolidated subsidiaries pay compensation for tax-related activities to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

### 3. Compensation for Activities Other Than Audits by Certified Public Accountants

Previous fiscal year

Compensation for non-audit services paid to the certified public accountants consisted mainly of payment for IFRS advisory services.

Fiscal year under review

Compensation for non-audit services paid to the certified public accountants consisted mainly of payment for advisory services related to internal controls.

### 4. Method of Determining Compensation for Audits

Nothing to report.

## TAKEOVER DEFENSE MEASURES

At its Board of Directors meeting held on April 6, 2007, the Company adopted the Basic Policy regarding Persons Who Control the Company's Decisions on Financial Matters and Business Policies (hereinafter the "Basic Policy"). At a Board of Directors meeting held on April 28, 2010, the decision was made to retain the Basic Policy following a partial amendment.

Approval was granted to continue the Policy Regarding Countermeasures to Large-Scale Acquisitions of Kaneka Shares, under which the Basic Policy is subsumed, at the 86th Ordinary General Meeting of Shareholders held on June 25, 2010.

An overview is provided below.

### 1. CONTENT OF THE BASIC POLICY

As a publicly held corporation, the Company recognizes that its shares should be freely traded. Thus, even in the event of a hostile takeover without the consent of the Board of Directors, the Company will not necessarily resist such an action, provided the takeover promises to enhance the corporate value of the Company and the collective interests of its shareholders. However, we consider it necessary to ensure that adequate information is provided to shareholders when attempts are made to acquire a large number of the Company's shares. We also believe necessary and proper measures must be taken to protect the corporate value of the Company and the collective interests of its shareholders in the event that the Company is subject to a hostile and abusive takeover bid that threatens to harm corporate value and collective shareholder interests, such as any takeover bid that is intended solely to advance the personal gain of the bidder.

### 2. MEASURES TO EFFECTIVELY UTILIZE THE COMPANY'S RESOURCES, FORM AN APPROPRIATE CORPORATE GROUP AND REALIZE OTHER FUNDAMENTAL POLICIES

To commemorate its 60th anniversary in 2009, the Company formulated a long-term management vision for the next decade called "Declaration of Kaneka United for the future." Sweeping reform of the Kaneka Group and its continuous growth are key objectives. To this end, the Company is now moving in the direction of new growth in the important strategic domains of "Environment and Energy," "Health Care," "Information and Communications," and "Food Production Support," and following initiatives to achieve a leap forward in growth.

### 3. THE COMPANY IS IMPLEMENTING THE FOLLOWING TAKEOVER DEFENSE MEASURES TO PREVENT ITS DECISIONS ON FINANCIAL AND BUSINESS POLICIES FROM BEING CONTROLLED BY ENTITIES REGARDED AS INAPPROPRIATE ACCORDING TO THE BASIC POLICY.

a. The Company shall stipulate in advance procedures to be observed in case of an attempted large-scale purchase of the Company's shares and other securities (hereinafter, "Large-Scale Purchase Rules"), demanding disclosure of necessary and adequate information regarding such a purchase, collecting and examining information related to the purchase and securing the opportunity and necessary time for the Board of Directors of the Company to present its opinion and alternative plans to shareholders or to negotiate with the purchaser.
b. Whether or not the purchaser observes the Large-Scale Purchase Rules, provisions to protect the corporate value of the Company and the collective interests of its shareholders may be taken against such purchases if they are deemed to cause irreparable damage to the Company or otherwise significantly harm the corporate value of the Company or the collective interests of its shareholders.

### 4. COMPLIANCE WITH REQUIREMENTS, JUDGMENT AND REASONING OF THE BOARD OF DIRECTORS

The Board of Directors of the Company judges that the measures in the preceding item comply with the following three requirements: they are in line with this Basic Policy, they do not harm the common interests of the Company's shareholders and they are not intended to maintain the positions of the corporate officers of the Company. The reasoning behind this judgment is as follows:

a. The measures satisfy the requirements of the policies of the Ministry of Economy, Trade and Industry and the Ministry of Justice concerning takeover defense measures.
b. The measures will be implemented with the aim of securing and improving the common interests of the shareholders.
c. The measures place emphasis on the will of the shareholders.
d. The measures place emphasis on the judgment of highly independent external parties.
e. The measures provide rational and objective requirements.
f. The measures allow for the procurement of opinions from third-party experts.
g. The measures are not "dead-hand" or "slow-hand" takeover defense measures.

# DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

## BOARD OF DIRECTORS

**Chairman of the Board**

Masatoshi Takeda

**President**

Kimikazu Sugawara*

**Executive Vice President**

Masatoshi Hatori*

**Member of the Board Senior Managing Executive Officers**

Tetsuro Hara
Hirosaku Nagano

**Member of the Board Managing Executive Officers**

Nobuyuki Koyama
Shigeru Kamemoto
Masami Kishine
Toshio Nakamura
Minoru Tanaka
Akira Iwazawa
Mamoru Kadokura

**Independent Member of the Board**

Takeo Inokuchi

## CORPORATE AUDITORS

**Standing Corporate Auditors**

Yasuo Inoguchi
Hideyuki Matsui

**Corporate Auditors**

Hiroaki Tsukamoto
Kouji Hirokawa

## EXECUTIVE OFFICERS

**Managing Executive Officers**

Tohru Yoshinari
Akihiko Iguchi
Shinji Mizusawa
Atsushi Kawakatsu

**Executive Officers**

Kouji Sanpei
Yoshimi Uchida
Yasuyoshi Ueda
Shigeo Furuyoshi
Shinobu Ishihara
Hidesuke Amachi
Shinichirou Kametaka
Yoshiki Takeoka
Mamoru Ishida
Kazuo Ochiai
Minetoshi Marufuji
Kazuhiko Yamada
Kazuhiko Fujii

*Representative Directors (as of June 28, 2012)

# FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

## SALES

The Kaneka Group's net sales for FY2012 (April 1, 2011 to March 31, 2012) increased 3.4% from the previous fiscal year to ¥469,289 million. Sales grew in Chemicals, Functional Plastics, Foodstuffs Products, Synthetic Fibers and Others segments, but fell in the other 3 segments. Overseas sales dropped 7.0% year on year to ¥149,493 million due to the heavy impact of the yen's appreciation, both total exports and overseas subsidiaries posted lower sales. As a percentage of net sales, overseas sales were 31.9%, below the 35.4% for the previous fiscal year.

## OPERATING EXPENSES AND OPERATING INCOME

During FY2012, cost of sales increased by 5.9% to ¥359,545 million. Net sales rose by a lesser percentage, 3.4%, and the cost of sales ratio rose from 74.8% to 76.6%. SG&A expenses increased 3.6% to ¥96,593 million, but the ratio of SG&A expenses to sales almost leveled off at 20.6%.

Operating income during FY2012 decreased 38.1% to ¥13,151 million. Operating income increased in the Chemicals and Synthetic Fibers and Others segments but decreased in the other 5 segments.

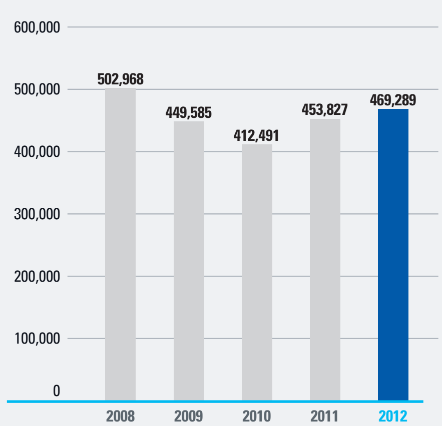
## NET INCOME

For the year, the Group recorded net income of ¥5,402 million (down 53.5%), reflecting mainly ¥1,798 million in other expenses (net), including business structure improvement expenses, as well as income taxes of ¥5,475 million and minority interests of ¥476 million.

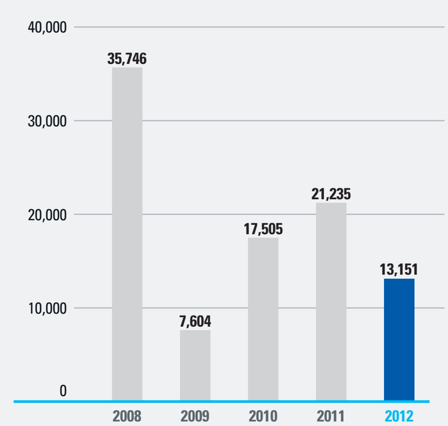
## FINANCIAL CONDITION

As of March 31, 2012, total assets were ¥467,083 million, up ¥11,942 million from March 31, 2011 due to increases in notes and accounts receivable—trade and other factors. The ratio of net income to total assets (ROA) was 1.2%, down from 2.6% for the previous fiscal year. Interest-bearing debt stood at ¥74,678 million, up ¥8,084 million from March 31, 2011. Net assets decreased ¥4,368 million to ¥257,461 million, reflecting a decrease in valuation of available-for-sale securities, an increase in foreign currency translation adjustments, and an increase in treasury stock. As a result, the equity ratio came to 53.0%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.30.

**Net Sales**
(¥ Million)




**Operating Income**
(¥ Million)



## CASH FLOWS

Cash and cash equivalents on March 31, 2012 stood at ¥27,158 million, ¥9,820 million less than at March 31, 2011.

Net cash provided by operating activities was ¥15,842 million, down ¥19,091 million year on year. The main contributors were income before income taxes and minority interests of ¥11,353 million and depreciation and amortization of ¥29,594 million. Major uses of cash were a ¥15,024 million increase in notes and accounts receivable—trade and income taxes paid of ¥6,751 million.

Net cash used in investing activities amounted to ¥28,058 million, ¥6,875 million less than in the preceding fiscal year. The principal use of cash was ¥30,643 million for the purchase of property, plant and equipment. On the other hand, ¥4,032 million in cash was provided mainly by proceeds from sales and distributions of investment securities.

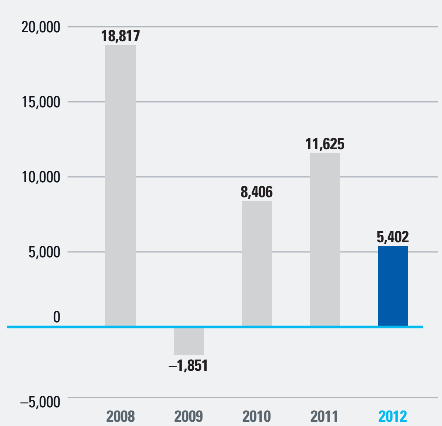
Financing activities provided net cash of ¥2,027 million, a change of ¥6,369 million from the net cash used in the previous fiscal year. Cash was mainly provided by a net increase in short-term loans payable and proceeds from long-term loans payable.

## Financial Index Trends

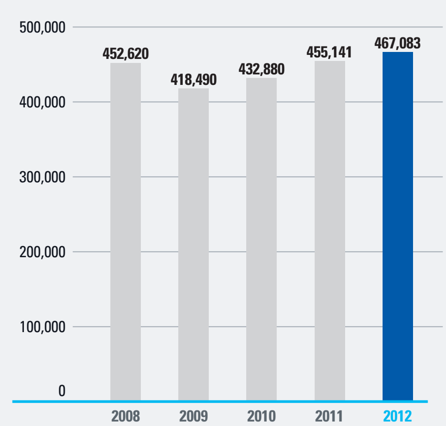
| | Term ended March 31, 2008 | Term ended March 31, 2009 | Term ended March 31, 2010 | Term ended March 31, 2011 | Term ended March 31, 2012 |
|---|---|---|---|---|---|
| Shareholders' equity ratio | 57.7% | 58.1% | 57.6% | 55.4% | 53.0% |
| Shareholders' equity ratio based on market value | 46.8% | 39.2% | 47.5% | 43.1% | 36.0% |
| Interest-bearing debt coverage ratio | 1.4 | 2.7 | 1.1 | 1.9 | 4.7 |
| Interest coverage ratio | 24.9 | 19.7 | 61.6 | 39.5 | 17.9 |

Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:
1. All items were calculated according to financial figures on a consolidated basis
2. The calculation of the total market value of stock was based on the total number of shares outstanding, excluding treasury stock.
3. "Cash flows" refers to cash flows from operations.
4. The scope of interest-bearing debt is all liabilities in the Consolidated Balance Sheets for which interest is payable.
5. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.

**Net Income**
(¥ Million)




**Total Assets**
(¥ Million)



## BUSINESS RISKS AND UNCERTAINTIES

Factors that may significantly affect the performance and the financial position of the Kaneka Group include those described below. Please note that the matters described are only those that we considered risks as of March 31, 2012 and that this is not an exhaustive list of risks borne by the Group.

### (1) Risks related to the Group's ability to maintain operational advantages and trends in the Japanese and overseas economic environments

The Kaneka Group maintains its operational advantages by developing and commercializing high value-added products in a host of fields and consistently cultivating new markets, leveraging its ability to integrate and combine its expertise in core polymer and fermentation technologies. At the same time, we are working to ensure a corporate structure that is not affected by the entry of competitors into these markets, which could otherwise result in increased price competition and reduced profitability. Moreover, the growth of generic products could cause a decrease in the demand for the Group's products and cause the Group to withdraw from or restructure certain operations. Consequently, we are working to mitigate the potential effects of changes in the economic environment. However, such measures may not be sufficient to withstand a sudden downturn in the economic environment, obsolescence of the Company's technologies or an unexpectedly rapid drop-off in demand for the Company's products. Such circumstances could seriously affect the Group's financial position and performance.

### (2) Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)

For the Kaneka Group, globalization is a key element of its management strategy. For example, overseas sales accounted for 31.9% of total sales in the fiscal year ended March 31, 2012. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems and transfer price taxation and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. Meanwhile, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions, as appropriate, to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments may seriously affect the performance and financial position of the Group.

### (3) Risks of price fluctuations of raw materials and fuels

Through combinations of medium- to long-term forward contracts and spot market purchases, the Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels. However, since most of these commodities are subject to price fluctuations in the international market, there are still some risks involved. For example, there may be sharp fluctuations in prices beyond expectations which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect production of PVC/caustic soda, modifier, expandable plastics and products and foodstuffs, which may in turn significantly impact the Group's financial position and performance.

### (4) Risks associated with product liability, industrial accidents and large-scale disasters

The Kaneka Group implements comprehensive strategies to ensure the safe distribution of products that are safe to use. Furthermore, we maintain liability insurance covering the whole Group should a product-related accident occur. However, the possibility remains that unexpected problems with product quality may cause a large-scale product-related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. A major disaster such as an industrial accident or an earthquake could destroy manufacturing facilities, and losses could be incurred beyond the coverage of property insurance. In such circumstances, it is possible that the Group's financial position and performance could be significantly affected.

### (5) Risks associated with the protection of intellectual property rights

To maintain its business advantages, the Kaneka Group attaches strategic importance to the protection of its patents on newly developed technologies. However, with globalization and the development of IT technologies, it is not possible for us to completely avoid the risk of external leaks of our proprietary technologies and expertise. Nor is it possible to avoid all disputes with other parties in connection with the conveyance of our intellectual property or with our use of other companies' intellectual property. In such circumstances, it is possible that the Group's competitiveness could be undermined and its financial position and performance significantly affected.

### (6) Impact of environment-related regulations

To minimize the impact of its business activities on the global environment and the ecosystem, the Kaneka Group puts forth its best effort to reduce the environmental burden and to save resources and energy throughout the life cycle of its products. Nevertheless, environmental regulations are tightened every year, and depending on the nature of the regulations, expenses may be incurred in connection with the manufacture, storage and disposal of products that could significantly impact the Group's financial position and performance.

### (7) Risks associated with legal action

The Group attaches importance to compliance management regarding the observance of laws and social rules. There are risks, however, of the Group becoming the subject of litigation or administrative measures in connection with operations in Japan or abroad. If a significant action is filed against the Group, it is possible that the Group's financial position and performance will be significantly affected.

### (8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could suffer impairment losses, owing to the application of the Accounting Standard for Financial Instruments. With regard to fixed assets, a substantial worsening in the operating environment could cause further decline in the market value of idle land held by the Group. Consequently, the Group could record impairment losses, owing to the application of the Accounting Standard for Impairment of Fixed Assets. For retirement benefit obligations and retirement benefit expenses, actuarial calculations are used each year to determine the discount rate and other core ratios, incorporating the expected rate of investment return on core assets. However, a downturn in the discount rate or a decrease in investment yields on pension assets could affect the Kaneka Group's financial position and performance. Deferred tax assets are posted against future temporary differences with the assumption that they can be recovered by offsetting future taxable income. However, if taxable income differs from expectations, the affect on the liquidation of deferred tax assets could affect the Group's financial position and performance. The Group's financial position and performance may otherwise be significantly affected by such factors as fluctuations in the markets for its products, changes in laws and regulations, delays in research and development and technical innovations.

# CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2012 and 2011

| Assets | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents (Note 4) | ¥ 27,158 | ¥ 36,978 | $ 330,429 |
| Notes and accounts receivable—trade (Note 4) | | | |
| Unconsolidated subsidiaries and affiliates | 823 | 541 | 10,013 |
| Other | 117,544 | 103,350 | 1,430,150 |
| Inventories (Note 7) | 76,802 | 68,154 | 934,445 |
| Short-term loans receivable from unconsolidated subsidiaries and affiliates | 863 | 707 | 10,500 |
| Deferred tax assets (Note 8) | 6,842 | 6,142 | 83,246 |
| Other current assets | 6,160 | 6,953 | 74,948 |
| Allowance for doubtful accounts (Note 4) | (164) | (400) | (1,995) |
| Total current assets | 236,028 | 222,425 | 2,871,736 |
| **Property, plant and equipment** (Note 9)**:** | | | |
| Land | 29,324 | 30,210 | 356,783 |
| Buildings and structures | 151,127 | 150,489 | 1,838,752 |
| Machinery, equipment and vehicles | 457,804 | 449,172 | 5,570,069 |
| Construction in progress | 15,893 | 9,961 | 193,369 |
| Other | 4,568 | 4,896 | 55,579 |
| | 658,716 | 644,728 | 8,014,552 |
| Less accumulated depreciation | 494,278 | 481,662 | 6,013,846 |
| Property, plant and equipment, net | 164,438 | 163,066 | 2,000,706 |
| **Intangible assets** | 6,971 | 7,199 | 84,816 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 4 and 5): | | | |
| Unconsolidated subsidiaries and affiliates | 6,562 | 5,488 | 79,839 |
| Other | 35,972 | 41,444 | 437,669 |
| Long-term loans receivable (Note 4) | 1,720 | 1,775 | 20,927 |
| Deferred tax assets (Note 8) | 6,219 | 5,167 | 75,666 |
| Other | 9,700 | 9,146 | 118,019 |
| Allowance for doubtful accounts (Note 4) | (527) | (569) | (6,412) |
| Total investments and other assets | 59,646 | 62,451 | 725,708 |
| | ¥ 467,083 | ¥ 455,141 | $ 5,682,966 |

See accompanying notes.

| Liabilities and net assets | Millions of yen 2012 | 2011 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term loans payable (Notes 4 and 9) | ¥ 29,673 | ¥ 19,211 | $ 361,029 |
| Current portion of long-term loans payable (Notes 4 and 9) | 7,389 | 6,972 | 89,901 |
| Notes and accounts payable (Note 4): | | | |
| Trade | 64,445 | 60,771 | 784,098 |
| Construction | 9,665 | 8,121 | 117,593 |
| Other | 19,241 | 14,195 | 234,104 |
| Income taxes payable | 2,834 | 4,145 | 34,481 |
| Accrued expenses | 9,203 | 9,022 | 111,972 |
| Provision for the administrative fine | 605 | 605 | 7,361 |
| Other current liabilities | 2,817 | 3,524 | 34,275 |
| Total current liabilities | 145,872 | 126,566 | 1,774,814 |
| **Noncurrent liabilities:** | | | |
| Bonds payable (Notes 4 and 9) | 15,000 | 15,143 | 182,504 |
| Long-term loans payable (Notes 4 and 9) | 24,152 | 26,096 | 293,856 |
| Provision for retirement benefits (Note 10) | 19,008 | 19,228 | 231,269 |
| Provision for directors' retirement benefits | 336 | 321 | 4,088 |
| Deferred tax liabilities (Note 8) | 1,221 | 1,083 | 14,856 |
| Other noncurrent liabilities | 4,033 | 4,875 | 49,069 |
| Total noncurrent liabilities | 63,750 | 66,746 | 775,642 |
| **Contingent liabilities** (Note 11) | | | |
| **Net assets** (Note 12)**:** | | | |
| **Shareholders' equity:** | | | |
| Capital stock | | | |
| Authorized—750,000,000 shares<br>Issued —350,000,000 shares | 33,047 | 33,047 | 402,081 |
| Capital surplus | 34,837 | 34,837 | 423,859 |
| Retained earnings | 197,373 | 197,463 | 2,401,424 |
| Less treasury stock, at cost—13,049,811 shares in 2012<br>11,082,130 shares in 2011 | (10,553) | (9,760) | (128,398) |
| Total shareholders' equity | 254,704 | 255,587 | 3,098,966 |
| **Accumulated other comprehensive income:** | | | |
| Valuation difference on available-for-sale securities | 4,664 | 6,677 | 56,747 |
| Foreign currency translation adjustments | (11,841) | (10,149) | (144,069) |
| Total accumulated other comprehensive income | (7,177) | (3,472) | (87,322) |
| **Subscription rights to shares** (Note 13) | 137 | 127 | 1,667 |
| **Minority interests** | 9,797 | 9,587 | 119,199 |
| Total net assets | 257,461 | 261,829 | 3,132,510 |
| | ¥ 467,083 | ¥ 455,141 | $ 5,682,966 |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2012, 2011 and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Net sales** | **¥ 469,289** | ¥ 453,827 | ¥ 412,491 | **$ 5,709,807** |
| **Cost of sales** | **359,545** | 339,382 | 310,251 | **4,374,559** |
| Gross profit | **109,744** | 114,445 | 102,240 | **1,335,248** |
| **Selling, general and administrative expenses** | **96,593** | 93,210 | 84,735 | **1,175,241** |
| Operating income | **13,151** | 21,235 | 17,505 | **160,007** |
| **Other income (expenses):** | | | | |
| Interest and dividends income | **1,639** | 1,117 | 1,181 | **19,942** |
| Interest expenses | **(886)** | (893) | (929) | **(10,780)** |
| Gain on sales of investment securities | **2,991** | 4 | 240 | **36,391** |
| Gain (loss) on sales of property, plant and equipment, net | **(71)** | — | 190 | **(864)** |
| Loss on disposals of property, plant and equipment | **(1,157)** | (1,081) | (1,175) | **(14,077)** |
| Foreign exchange gains, net | **888** | 114 | 205 | **10,804** |
| Equity in earnings of affiliates, net | **384** | 1,118 | 169 | **4,672** |
| Gain on negative goodwill | **28** | 192 | — | **341** |
| Compensation expenses | **(637)** | (86) | — | **(7,750)** |
| Litigation expenses | **(1,830)** | — | — | **(22,265)** |
| Business structure improvement expenses | **(2,345)** | — | — | **(28,531)** |
| Loss on valuation of investment securities | **—** | (518) | — | **—** |
| Loss on disaster | **—** | (1,220) | — | **—** |
| Non-recurring depreciation on noncurrent assets | **—** | — | (671) | **—** |
| Provision for the administrative fine | **—** | — | (605) | **—** |
| Other, net | **(802)** | (546) | (855) | **(9,758)** |
| **Income before income taxes and minority interests** | **11,353** | 19,437 | 15,255 | **138,132** |
| **Income taxes** (Note 8) | | | | |
| Current | **5,094** | 6,818 | 4,542 | **61,978** |
| Deferred | **381** | (36) | 1,408 | **4,636** |
| **Minority interests** | **476** | 1,030 | 899 | **5,791** |
| **Net income** | **¥ 5,402** | ¥ 11,625 | ¥ 8,406 | **$ 65,727** |

| | Yen | | | U.S. dollars (Note 1) |
|---|---|---|---|---|
| **Net income per share—basic** | **¥ 15.96** | ¥ 34.28 | ¥ 24.78 | **$ 0.19** |
| **Net income per share—diluted** | **15.95** | 34.26 | 24.77 | **0.19** |
| **Cash dividends applicable to the year** | **16.00** | 16.00 | 16.00 | **0.19** |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2012, 2011 and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Income before minority interests** | **¥ 5,878** | ¥ 12,655 | ¥ 9,305 | **$ 71,517** |
| **Other comprehensive income** | | | | |
| Valuation difference on available-for-sale securities | **(2,033)** | (1,451) | 3,508 | **(24,735)** |
| Deferred gains or losses on hedges | **—** | — | (1) | **—** |
| Foreign currency translation adjustment | **(1,781)** | (1,948) | (354) | **(21,669)** |
| Share of other comprehensive income of associates accounted for using equity method | **(3)** | (9) | 14 | **(37)** |
| Total other comprehensive income (Note 3) | **(3,817)** | (3,408) | 3,167 | **(46,441)** |
| **Comprehensive income** | **¥ 2,061** | ¥ 9,247 | ¥ 12,472 | **$ 25,076** |
| Comprehensive income attributable to: | | | | |
| Comprehensive income attributable to owners of the parent | **¥ 1,697** | ¥ 8,296 | ¥ 11,616 | **$ 20,647** |
| Comprehensive income attributable to minority interests | **364** | 951 | 856 | **4,429** |

See accompanying notes.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2012, 2011 and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 |
| **Shareholders' equity** | | | | |
| Capital stock | | | | |
| Balance at beginning of year | ¥ 33,047 | ¥ 33,047 | ¥ 33,047 | $ 402,081 |
| Changes of items during the period | | | | |
| Total changes of items during the period | — | — | — | — |
| Balance at the end of current period | 33,047 | 33,047 | 33,047 | 402,081 |
| Capital surplus | | | | |
| Balance at beginning of year | 34,837 | 34,837 | 34,837 | 423,859 |
| Changes of items during the period | | | | |
| Total changes of items during the period | — | — | — | — |
| Balance at the end of current period | 34,837 | 34,837 | 34,837 | 423,859 |
| Retained earnings | | | | |
| Balance at beginning of year | 197,463 | 191,250 | 188,357 | 2,402,518 |
| Increase by union of accounting policies applied to foreign subsidiaries | — | — | — | — |
| Changes of items during the period | | | | |
| Dividends from surplus—¥16.00 per share | (5,423) | (5,427) | (5,429) | (65,981) |
| Net income | 5,402 | 11,625 | 8,406 | 65,726 |
| Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries | (56) | 21 | (80) | (681) |
| Disposal of treasury stock | (13) | (6) | (4) | (158) |
| Total changes of items during the period | (90) | 6,213 | 2,893 | (1,094) |
| Balance at the end of current period | 197,373 | 197,463 | 191,250 | 2,401,424 |
| Treasury stock | | | | |
| Balance at beginning of year | (9,760) | (9,599) | (9,584) | (118,749) |
| Changes of items during the period | | | | |
| Purchase of treasury stock | (836) | (187) | (34) | (10,172) |
| Disposal of treasury stock | 43 | 26 | 19 | 523 |
| Total changes of items during the period | (793) | (161) | (15) | (9,649) |
| Balance at the end of current period | (10,553) | (9,760) | (9,599) | (128,398) |
| **Accumulated other comprehensive income** | | | | |
| Valuation difference on available-for-sale securities | | | | |
| Balance at beginning of year | 6,677 | 8,148 | 4,644 | 81,239 |
| Changes of items during the period | | | | |
| Net changes of items other than shareholders' equity | (2,013) | (1,471) | 3,504 | (24,492) |
| Total changes of items during the period | (2,013) | (1,471) | 3,504 | (24,492) |
| Balance at the end of current period | 4,664 | 6,677 | 8,148 | 56,747 |
| Deferred gains or losses on hedges | | | | |
| Balance at beginning of year | — | — | 1 | — |
| Changes of items during the period | | | | |
| Net changes of items other than shareholders' equity | — | — | (1) | — |
| Total changes of items during the period | — | — | (1) | — |
| Balance at the end of current period | — | — | — | — |
| Foreign currency translation adjustment | | | | |
| Balance at beginning of year | (10,149) | (8,290) | (7,997) | (123,482) |
| Changes of items during the period | | | | |
| Net changes of items other than shareholders' equity | (1,692) | (1,859) | (293) | (20,587) |
| Total changes of items during the period | (1,692) | (1,859) | (293) | (20,587) |
| Balance at the end of current period | (11,841) | (10,149) | (8,290) | (144,069) |

| | Millions of yen 2012 | 2011 | 2010 | Thousands of U.S. dollars (Note 1) 2012 |
|---|---|---|---|---|
| **Subscription rights to shares** | | | | |
| Balance at beginning of year | ¥ 127 | ¥ 110 | ¥ 76 | $ 1,545 |
| Changes of items during the period | | | | |
| Net changes of items other than shareholders' equity | 10 | 17 | 34 | 122 |
| Total changes of items during the period | 10 | 17 | 34 | 122 |
| Balance at the end of current period | 137 | 127 | 110 | 1,667 |
| **Minority interests** | | | | |
| Balance at beginning of year | 9,587 | 7,672 | 6,148 | 116,644 |
| Changes of items during the period | | | | |
| Net changes of items other than shareholders' equity | 210 | 1,915 | 1,524 | 2,555 |
| Total changes of items during the period | 210 | 1,915 | 1,524 | 2,555 |
| Balance at the end of current period | 9,797 | 9,587 | 7,672 | 119,199 |
| **Total net assets** | | | | |
| Balance at beginning of year | 261,829 | 257,175 | 249,529 | 3,185,655 |
| Increase by union of accounting policies applied to foreign subsidiaries | — | — | — | — |
| Changes of items during the period | | | | |
| Dividends from surplus—¥16.00 per share | (5,423) | (5,427) | (5,429) | (65,981) |
| Net income | 5,402 | 11,625 | 8,406 | 65,726 |
| Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries | (56) | 21 | (80) | (681) |
| Purchase of treasury stock | (836) | (187) | (34) | (10,172) |
| Disposal of treasury stock | 30 | 20 | 15 | 365 |
| Net changes of items other than shareholders' equity | (3,485) | (1,398) | 4,768 | (42,402) |
| Total changes of items during the period | (4,368) | 4,654 | 7,646 | (53,145) |
| Balance at the end of current period | ¥ 257,461 | ¥ 261,829 | ¥ 257,175 | $ 3,132,510 |

# CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2012, 2011 and 2010

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 |
| **Net cash provided by operating activities** | | | | |
| Income before income taxes and minority interests | ¥ 11,353 | ¥ 19,437 | ¥ 15,255 | $ 138,131 |
| Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 29,594 | 28,892 | 26,393 | 360,068 |
| Increase (decrease) in provision for retirement benefits | (290) | (156) | 3,283 | (3,528) |
| Increase (decrease) in allowance for doubtful accounts | (272) | 279 | (30) | (3,309) |
| Interest and dividends income | (1,639) | (1,117) | (1,181) | (19,942) |
| Interest expenses | 886 | 893 | 929 | 10,780 |
| Loss on disposal of property, plant and equipment | 1,006 | 856 | 1,229 | 12,240 |
| Loss on valuation of investment securities | — | 518 | — | — |
| Gain on sales of investment securities | (2,940) | — | — | (35,771) |
| Non-recurring depreciation on noncurrent assets | — | — | 671 | — |
| Provision for the administrative fine | — | — | 605 | — |
| Equity in earnings of affiliates, net | (384) | (1,118) | (169) | (4,672) |
| Increase in notes and accounts receivable—trade | (15,024) | (8,923) | (6,355) | (182,796) |
| Decrease (increase) in inventories | (9,066) | (5,975) | 5,860 | (110,305) |
| Increase in notes and accounts payable—trade | 3,935 | 6,907 | 9,281 | 47,877 |
| Others | 4,602 | 65 | 2,822 | 55,992 |
| Subtotal | 21,761 | 40,558 | 58,593 | 264,765 |
| Interest and dividends income received | 1,715 | 1,180 | 1,230 | 20,866 |
| Interest expenses paid | (883) | (883) | (932) | (10,743) |
| Income taxes paid | (6,751) | (5,922) | (1,478) | (82,138) |
| Net cash provided by operating activities | 15,842 | 34,933 | 57,413 | 192,750 |
| **Net cash used in investing activities** | | | | |
| Purchase of property, plant and equipment | (30,643) | (26,386) | (23,910) | (372,831) |
| Proceeds from sales of property, plant and equipment | 930 | — | 189 | 11,315 |
| Purchase of intangible assets | (1,489) | (1,133) | (380) | (18,117) |
| Purchase of investment securities | (202) | (1,552) | (1,645) | (2,458) |
| Proceeds from sales and distributions of investment securities | 4,032 | 15 | 947 | 49,057 |
| Purchase of investments in subsidiaries resulting in change in scope of consolidation | — | (4,019) | — | — |
| Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation | — | 220 | — | — |
| Purchase of stocks of subsidiaries and affiliates | (944) | (1,424) | (463) | (11,486) |
| Proceeds from sales of stocks of subsidiaries and affiliates | 175 | 108 | 479 | 2,129 |
| Payments of loans receivable | (496) | (637) | (265) | (6,035) |
| Collection of loans receivable | 392 | 96 | 206 | 4,769 |
| Others | 187 | (221) | (780) | 2,275 |
| Net cash used in investing activities | (28,058) | (34,933) | (25,622) | (341,382) |
| **Net cash provided by (used in) financing activities** | | | | |
| Net increase (decrease) in short-term loans payable | 10,440 | 825 | (21,459) | 127,023 |
| Proceeds from long-term loans payable | 5,647 | 4,067 | 2,943 | 68,707 |
| Repayment of long-term loans payable | (2,108) | (3,009) | (2,188) | (25,648) |
| Proceeds from issuance of bonds payable | — | — | 15,000 | — |
| Redemption of bonds payable | (5,149) | — | (5,000) | (62,648) |
| Repayments of lease obligations | (421) | (536) | (429) | (5,122) |
| Cash dividends paid | (5,423) | (5,427) | (5,429) | (65,981) |
| Cash dividends paid to minority shareholders | (124) | (158) | (241) | (1,509) |
| Purchase of treasury stock | (836) | (107) | (26) | (10,172) |
| Proceeds from sales of treasury stock | 1 | 3 | 3 | 12 |
| Net cash provided by (used in) financing activities | 2,027 | (4,342) | (16,826) | 24,662 |
| **Effect of exchange rate change on cash and cash equivalents** | 369 | 806 | 201 | 4,490 |
| **Net increase (decrease) in cash and cash equivalents** | (9,820) | (3,536) | 15,166 | (119,480) |
| **Cash and cash equivalents at beginning of period** | 36,978 | 40,514 | 24,241 | 449,909 |
| **Increase in cash and cash equivalents resulting from change of scope of consolidation** | — | — | 1,107 | — |
| **Cash and cash equivalents at end of period** | ¥ 27,158 | ¥ 36,978 | ¥ 40,514 | $ 330,429 |

See accompanying notes.

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kaneka Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Financial Instruments and Exchange Law in Japan and its related accounting regulations and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of major consolidated overseas subsidiaries for the years ended March 31, 2012, 2011 and 2010 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles for consolidation purposes, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements," May 17, 2006.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2012 which was ¥82.19 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control (together, the "Companies"). Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, except for insignificant investments which are recorded at cost.

The Company has 65 consolidated subsidiaries (66 in 2011 and 52 in 2010) and 3 affiliates accounted for by the equity method (3 in 2011 and 3 in 2010). For the year ended March 31, 2012, the accounts of 4 consolidated subsidiaries were included based on a fiscal year that ended on December 31, 1 on a year that ended February 29. When significant transactions occur at those subsidiaries between their fiscal year-end and the Company's fiscal year-end, these transactions are included in consolidation. Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

### Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

### Provision for the administrative fine

A provision has been made for the possible future payment of an administrative fine under the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade. The amount is reasonably estimated and provided based on our report made to the Japan Fair Trade Commission.

### Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

### Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain and loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

**Inventories**

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

**Property, plant and equipment**

Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss have been deducted from acquisition costs.

Depreciation is computed over the estimated useful life of the asset principally by the declining balance method. However, the straight-line method is applied to buildings. Repairs, maintenance and minor renewals are charged to expenses as incurred. Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life or the lease term of the respective asset.

**Goodwill**

Goodwill, except for minor goodwill is amortized by the straight-line method over twenty years. Minor goodwill is expensed as incurred.

**Provision for retirement benefits**

The Company has an unfunded lump-sum benefit plan generally covering all employees. Under the terms of the plan, eligible employees are entitled upon mandatory retirement at age 60 or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service.

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provide employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets. Prior service costs are recognized as an expense using the straight-line method over 5 years, which was determined to be within the average of the estimated remaining service years of the current employees. Actuarial gains and losses are recognized using the straight-line method over 10 years, which was determined to be within the average of the estimated remaining service years of employees, commencing with the following period.

**Provision for directors' retirement benefits**

Directors and statutory auditors leaving certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

**Research and development expenses**

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2012, 2011 and 2010 were ¥19,959 million ($242,840 thousand), ¥18,262 million and ¥16,322 million, respectively.

**Income taxes**

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**Net income per share**

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the 2012 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

**Additional information**

The Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Standards Board of Japan ("ASBJ") Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, issued on December 4, 2009) for accounting changes and corrections of prior period errors which are made from the fiscal year beginning on April 1, 2011.

## 3. COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2012 | 2012 |
| **Valuation difference on available-for-sale securities** | | |
| Decrease during the year | ¥ (1,208) | $ (14,697) |
| Reclassification adjustments | (2,844) | (34,603) |
| Subtotal, before tax | (4,052) | (49,300) |
| Tax expense | 2,019 | 24,565 |
| Subtotal, net of tax | (2,033) | (24,735) |
| **Foreign currency translation adjustments** | | |
| Decrease during the year | (1,764) | (21,462) |
| Reclassification adjustments | (17) | (207) |
| Subtotal, before tax | (1,781) | (21,669) |
| Tax expense | — | — |
| Subtotal, net of tax | (1,781) | (21,669) |
| **Share of other comprehensive income of associates accounted for using equity method** | | |
| Decrease during the year | (4) | (49) |
| Reclassification adjustments | 1 | 12 |
| Subtotal, net of tax | (3) | (37) |
| **Total other comprehensive income** | ¥ (3,817) | $ (46,441) |

## 4. FINANCIAL INSTRUMENTS

### 1. Matters regarding financial instruments

*(1) Policy for handling financial instruments*

The Companies procure funds necessary mainly for our manufacturing and sales business primarily through borrowings from financial institutions or by issuing corporate bonds based upon the plan and budget for capital investments. In principle, temporary surplus funds are centralized by the Cash Management System (CMS) and invested in highly safe financial assets. In addition, the Companies procure short-term operating capital from financial institutions. Derivative transactions are used to hedge against risks described below, but never for speculative purposes.

*(2) Description of financial instruments and inherent risks*

Notes and accounts receivable—trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities, primarily shares of companies with which the Companies maintain business relations, are exposed to the risk of market price fluctuations.

Notes and accounts payable, which are operating payables, are basically settled over the short-term with a deadline set within a year. Operating payables include payables denominated in foreign currencies for importing materials and are exposed to foreign exchange fluctuation risk. However, they remain constantly within the range of the balance of operating receivables denominated in the same foreign currencies. Short-term borrowings are primarily for procuring operating capital and long-term debt and bonds are issued to obtain necessary funds mainly for capital expenditures. A portion of the long-term debt is exposed to interest rate fluctuation risk, but the effect is limited.

Derivative transactions such as foreign exchange forward contracts, currency options, currency swaps and interest rate swaps are used to hedge against the foreign currency fluctuation risk associated with operating receivables and payables denominated in foreign currencies, investment assets, loans receivable, etc. Since all derivative transactions correspond to assets and liabilities on the balance sheets, foreign exchange fluctuation risk is hedged and the fluctuation risk of market interest rates is rendered insignificant.

*(3) Risk management system relating to financial instruments*

*(a) Credit risk management (risk pertaining to breach of contract on the part of business partners)*

The Company aims to mitigate credit risk by quickly identifying any concerns over the collection of operating receivables resulting from the deterioration of a business partner's financial position or other factors. Also, each business division periodically reviews the status of our main business partners and regularly monitors deadlines, balances and credit status for each partner. The consolidated subsidiaries also manage operating receivables in accordance with the practices of the Company.

As for debt securities, the credit risk is insignificant since the Company only handles those with high ratings or issued by companies with existing business relations with the Company and whose creditability is verifiable. Further, the Company periodically verifies the financial position of issuers to mitigate risk. Since the counterparties in derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2012.

*(b) Market risk management (foreign exchange and interest rate fluctuation risk)*

The Company and some consolidated subsidiaries identify foreign exchange fluctuation risk associated with operating receivables and payables denominated in foreign currencies by currency and by month. Such risk is hedged by using foreign exchange forward contracts, principally up to the amounts to be settled after netting operating payables denominated in foreign currencies. Please note that the Company defines the monthly execution limit and the operating standard based upon its Procedures for Foreign Exchange Management and enters into foreign exchange forward contracts within the scope provided by the procedures. Also, the Companies utilize interest rate swaps mainly to reduce procurement costs.

For marketable securities and investment securities, the Company periodically identifies fair values and the financial positions of the issuers (business partner companies). For securities other than held-to-maturity bonds, the Company continuously revises the holding status taking into consideration the business relationship with the business partner companies.

As for derivative transactions, the Financial Department of the Company executes transactions based upon its Transaction Regulations for Derivative Financial Products, which defines the basic policy, the scope of operations, the personnel responsible for execution, the basis for decision making and management system. Consolidated subsidiaries enter into derivative transactions based upon resolutions passed by their respective organs upon the Company's approval. The Company ensures an effective internal checking system by segregating the execution function from the monitoring and managing function. Also, the Director of the Company's Financial Department performs evaluations for hedge effectiveness of all derivative transactions entered into by the Companies and reports the results, together with description of underlying assets and liabilities, to the President and the CFO on a monthly basis and periodically to the Board of Directors.

*(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments on deadlines)*

The Company manages liquidity risk by timely preparing and updating cash flow plans by the Financial Department and by maintaining a liquidity facility, which is the sum of liquidity on hand and commitment lines, in the approximate amount of one month's consolidated net sales. In addition, the Companies mitigate liquidity risk by centralizing the Companies' funds using CMS, in principle. Accordingly, the Companies consider that no significant liquidity risk exists.

*(4) Supplementary explanation to matters regarding fair values of financial instruments*

The fair value of financial instruments is based on market price. If a market price is not available, another valuation method is used. Such methods include variable factors and assumptions and the results of a valuation may differ depending on which factors and assumptions are used.

The contract amounts related to the derivative transactions shown in "Derivative Transactions" themselves do not indicate the market risks associated with the derivative transactions.

## 2. Matters regarding the fair values of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2012 (the consolidated accounts settlement date of the fiscal year under review), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

| | Consolidated balance sheet amount | Fair value | Difference |
|---|---|---|---|
| (1) Cash and cash equivalents | **¥ 27,158** | **¥ 27,158** | **¥ —** |
| (2) Notes and accounts receivable—trade | **118,367** | **118,367** | **—** |
| (3) Marketable and investment securities | | | |
| Available-for-sale securities | **30,785** | **30,471** | **(314)** |
| (4) Long-term loans receivable | **1,720** | | |
| Allowance for doubtful receivables (*1) | **(244)** | | |
| | **1,476** | **1,352** | **(124)** |
| Total assets | **177,786** | **177,348** | **(438)** |
| (1) Notes and accounts payable | **64,445** | **64,445** | **—** |
| (2) Short-term loans payable | **37,061** | **37,061** | **—** |
| (3) Accounts payable—other | **28,740** | **28,740** | **—** |
| (4) Bonds payable | **15,000** | **15,644** | **644** |
| (5) Long-term loans payable | **24,152** | **24,122** | **(30)** |
| Total liabilities | **169,398** | **170,012** | **614** |
| Derivative transactions (*2) | | | |
| – Hedge accounting is applied | **—** | **—** | **—** |
| – Hedge accounting is not applied | **(21)** | **(21)** | **—** |

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2011 (the consolidated accounts settlement date of the fiscal year under review), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

| | Consolidated balance sheet amount | Fair value | Difference |
|---|---|---|---|
| (1) Cash and cash equivalents | ¥ 36,978 | ¥ 36,978 | ¥ — |
| (2) Notes and accounts receivable—trade | 103,891 | 103,891 | — |
| (3) Marketable and investment securities | | | |
| Available-for-sale securities | 35,452 | 35,284 | (168) |
| (4) Long-term loans receivable | 1,775 | | |
| Allowance for doubtful receivables (*1) | (244) | | |
| | 1,531 | 1,364 | (167) |
| Total assets | 177,852 | 177,517 | (335) |
| (1) Notes and accounts payable | 60,771 | 60,771 | — |
| (2) Short-term loans payable | 21,176 | 21,176 | — |
| (3) Accounts payable—other | 22,074 | 22,074 | — |
| (4) Bonds payable | 20,149 | 20,565 | 416 |
| (5) Long-term loans payable | 26,096 | 26,216 | 120 |
| Total liabilities | 150,266 | 150,802 | 536 |
| Derivative transactions (*2) | | | |
| – Hedge accounting is applied | — | — | — |
| – Hedge accounting is not applied | 477 | 477 | — |

(*1) The amount of allowance for doubtful accounts, which is recorded for each long-term loan receivable, is excluded.

(*2) Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

The table below shows the amounts as of March 31, 2012, calculated into U.S. dollars.

| | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|
| | Consolidated balance sheet amount | Fair value | Difference |
| (1) Cash and cash equivalents | $ 330,429 | $ 330,429 | $ — |
| (2) Notes and accounts receivable—trade | 1,440,163 | 1,440,163 | — |
| (3) Marketable and investment securities | | | |
| Available-for-sale securities | 374,563 | 370,735 | (3,828) |
| (4) Long-term loans receivable | 20,927 | | |
| Allowance for doubtful receivables (*1) | (2,969) | | |
| | 17,958 | 16,458 | (1,500) |
| Total assets | 2,163,113 | 2,157,785 | (5,328) |
| (1) Notes and accounts payable | 784,098 | 784,098 | — |
| (2) Short-term loans payable | 450,930 | 450,930 | — |
| (3) Accounts payable—other | 349,684 | 349,684 | — |
| (4) Bonds payable | 182,504 | 190,337 | 7,833 |
| (5) Long-term loans payable | 293,856 | 293,488 | (368) |
| Total liabilities | 2,061,072 | 2,068,537 | 7,465 |
| Derivative transactions (*2) | | | |
| – Hedge accounting is applied | — | — | — |
| – Hedge accounting is not applied | (251) | (251) | — |

Note 1.
Matters regarding fair value measurement method of financial instruments and marketable securities and derivative transactions

Assets

(1) Cash and cash equivalents

The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

(2) Notes and accounts receivable—trade

The fair value of notes and accounts receivable—trade which is settled in a short period of time approximates their book value, thus, the book value is used as the fair value. The fair value of long-term notes and accounts receivable—trade is based on the present value, calculated by discounting receivable amounts classified by certain periods at a rate that takes into account the time to maturity and credit risk.

(3) Marketable securities and investment securities

The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is measured based on market prices on exchanges or by the prices obtained from financial institutions. Debt securities without available market prices are measured at present value by discounting future cash flows generated by the financial assets. Please refer to "Securities" for matters regarding securities classified by the purpose for which they are held.

(4) Long-term loans receivable

The fair value of long-term loans receivable is measured at the present value of future cash flows classified by the length of term and by risk category according to the Company's credit risk management at a rate with credit spread added to appropriate indices such as JGB yields. The fair value of borrowings with special concern is measured at the amounts deemed collectable because of the existence of collateral and/or guarantees.

Liabilities

(1) Notes and accounts payable, (2) Short-term loans payable and (3) Accounts payable—other

The fair value of notes and accounts payable, short-term loans payable and accounts payable—other approximate book value because they are mostly settled in a short period of time. Thus, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by certain period at a rate that takes into account the time to maturity and credit risk.

(4) Bonds payable

The fair value of bonds payable issued by the Company is measured based on the market price.

(5) Long-term loans payable

The fair value of long-term loans payable is measured at the present value calculated by discounting the total amount of principle and interest at an assumed interest rate for similar new borrowings.

Derivative transactions

Please refer to "Derivative Transactions."

Note 2.
Financial instruments whose fair values are deemed extremely difficult to assess

| Type | Consolidated balance sheet amount | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
| | 2012 | 2011 | 2012 |
| Unlisted equity securities | ¥ 11,196 | ¥ 11,309 | $ 136,221 |

The financial instruments shown above are not included in the tables in "(3) Marketable securities and investment securities" because their market prices were not available and their fair values were deemed extremely difficult to assess.

Note 3.
Redemption schedules after the consolidated balance sheet date for monetary receivables and securities with maturity dates

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Within one year | Over one year to five years | Over five years to ten years | Over ten years |
| Cash and cash equivalents | ¥ 27,158 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable—trade | 118,367 | — | — | — |
| Marketable securities and investment securities | | | | |
| Available-for-sale securities with maturity dates | 250 | — | — | — |
| Long-term loans receivable | 57 | 461 | 320 | 638 |
| Total | ¥ 145,832 | ¥ 461 | ¥ 320 | ¥ 638 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Within one year | Over one year to five years | Over five years to ten years | Over ten years |
| Cash and cash equivalents | ¥ 36,978 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable—trade | 103,891 | — | — | — |
| Marketable securities and investment securities | | | | |
| Available-for-sale securities with maturity dates | — | 250 | — | — |
| Long-term loans receivable | 49 | 516 | 243 | 723 |
| Total | ¥ 140,918 | ¥ 766 | ¥ 243 | ¥ 723 |

| | Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Within one year | Over one year to five years | Over five years to ten years | Over ten years |
| Cash and cash equivalents | $ 330,429 | $ — | $ — | $ — |
| Notes and accounts receivable—trade | 1,440,163 | — | — | — |
| Marketable securities and investment securities | | | | |
| Available-for-sale securities with maturity dates | 3,042 | — | — | — |
| Long-term loans receivable | 689 | 5,612 | 3,890 | 7,767 |
| Total | $ 1,774,323 | $ 5,612 | $ 3,890 | $ 7,767 |

Note 4.
Maturity schedules after the consolidated balance sheet date for bonds and long-term debt
Refer to Note 9, "Short-term loans payable and long-term debt."

## 5. SECURITIES

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2012:

**Securities with book values exceeding acquisition costs:**

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| | **2012** | | | **2012** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | **¥ 13,371** | **¥ 22,398** | **¥ 9,027** | **$ 162,684** | **$ 272,515** | **$ 109,831** |
| Bonds | **—** | **—** | **—** | **—** | **—** | **—** |
| | **¥ 13,371** | **¥ 22,398** | **¥ 9,027** | **$ 162,684** | **$ 272,515** | **$ 109,831** |

**Securities with book values not exceeding acquisition costs:**

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| | **2012** | | | **2012** | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Equity securities | **¥ 7,960** | **¥ 6,437** | **¥ (1,523)** | **$ 96,849** | **$ 78,319** | **$ (18,530)** |
| Bonds | **—** | **—** | **—** | **—** | **—** | **—** |
| | **¥ 7,960** | **¥ 6,437** | **¥ (1,523)** | **$ 96,849** | **$ 78,319** | **$ (18,530)** |

The following table summarizes sales of available-for-sale securities as of March 31, 2012:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| | **2012** | | | **2012** | | |
| | Sales | Gain on sales | Loss on sales | Sales | Gain on sales | Loss on sales |
| Equity securities | **¥ 4,051** | **¥ 2,991** | **¥ (157)** | **$ 49,288** | **$ 36,391** | **$ (1,910)** |
| Bonds | **—** | **—** | **—** | **—** | **—** | **—** |
| | **¥ 4,051** | **¥ 2,991** | **¥ (157)** | **$ 49,288** | **$ 36,391** | **$ (1,910)** |

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2011:

**Securities with book values exceeding acquisition costs:**

| | Millions of yen | | |
|---|---|---|---|
| | 2011 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥ 12,320 | ¥ 25,455 | ¥ 13,135 |
| Bonds | — | — | — |
| | ¥ 12,320 | ¥ 25,455 | ¥ 13,135 |

**Securities with book values not exceeding acquisition costs:**

| | Millions of yen | | |
|---|---|---|---|
| | 2011 | | |
| | Acquisition cost | Book value | Difference |
| Equity securities | ¥ 9,766 | ¥ 8,206 | ¥ (1,560) |
| Bonds | — | — | — |
| | ¥ 9,766 | ¥ 8,206 | ¥ (1,560) |

The following table summarizes sales of available-for-sale securities as of March 31, 2011:

| | Millions of yen | | |
|---|---|---|---|
| | 2011 | | |
| | Sales | Gain on sales | Loss on sales |
| Equity securities | ¥ 5 | ¥ 4 | ¥ — |
| Bonds | — | — | — |
| | ¥ 5 | ¥ 4 | ¥ — |

## 6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting was not applied as of March 31, 2012 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|---|---|---|---|---|
| | Contract amount | | Fair value | | Contract amount | | Fair value | |
| Foreign currency forward exchange contracts | | | | | | | | |
| Writing U.S. dollar | **¥** | **1,139** | **¥** | **1,149** | **$** | **13,858** | **$** | **13,980** |
| Writing Pound Sterling | | **132** | | **131** | | **1,606** | | **1,594** |
| Currency swaps | | **1,325** | | **(10)** | | **16,121** | | **(122)** |

| | Millions of yen | | | | Thousands of U.S. dollars (Note 1) | | | |
|---|---|---|---|---|---|---|---|---|
| | Contract amount | | Fair value | | Contract amount | | Fair value | |
| Interest rate swaps | | | | | | | | |
| Pay fixed and receive floating | **¥** | **38** | **¥** | **(1)** | **$** | **462** | **$** | **(12)** |

Derivative transactions to which hedging accounting was applied as of March 31, 2012 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) | | |
|---|---|---|---|---|---|---|
| | Contract amount | | Fair value | Contract amount | | Fair value |
| Interest rate swaps | | | | | | |
| Pay floating and receive fixed | **¥** | **3,000** | **(*)** | **$** | **36,501** | **(*)** |
| Pay fixed and receive floating | | **255** | **(*)** | | **3,103** | **(*)** |

Derivative transactions to which hedging accounting was not applied as of March 31, 2011 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Contract amount | | Fair value | |
| Foreign currency forward exchange contracts | | | | |
| Writing U.S. dollar | ¥ | 1,841 | ¥ | 1,862 |
| Writing Euro | | 638 | | 657 |
| Writing Pound Sterling | | 97 | | 94 |
| Writing Franc | | 93 | | 91 |
| Currency swaps | | 5,485 | | 515 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Contract amount | | Fair value | |
| Interest rate swaps | | | | |
| Pay fixed and receive floating | ¥ | 65 | ¥ | (2) |

Derivative transactions to which hedging accounting was applied as of March 31, 2011 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Contract amount | | Fair value |
| Interest rate swaps | | | |
| Pay floating and receive fixed | ¥ | 3,000 | (*) |
| Pay fixed and receive floating | | 333 | (*) |

(*) Because interest rate swaps are processed with long-term loans payable, the fair value of such swaps is included in the fair value of the long-term loans payable (Note 4).

## 7. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|---|---|
| | **2012** | | 2011 | | **2012** | |
| Merchandise and finished goods | **¥** | **44,226** | ¥ | 38,024 | **$** | **538,095** |
| Work-in-process | | **8,823** | | 8,018 | | **107,349** |
| Raw materials and supplies | | **23,753** | | 22,112 | | **289,001** |
| | **¥** | **76,802** | ¥ | 68,154 | **$** | **934,445** |

## *8. INCOME TAXES*

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.64% for the years ended March 31, 2012, 2011 and 2010.

The significant differences between the statutory and effective tax rate for the years ended March 31, 2012, 2011 and 2010 were as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Statutory tax rate | **40.64%** | 40.64% | This information is not required as the differences between the statutory tax rates and the Companies' effective tax rates is not more than 5% of the statutory tax rates. |
| Valuation allowance | **(0.75%)** | (1.13%) | |
| Foreign tax credit | **4.08%** | — | |
| Nontaxable dividends received | **(17.67%)** | (5.48%) | |
| Elimination of dividends on consolidation | **14.84%** | 4.90% | |
| Amortization of negative goodwill | **(0.85%)** | (1.93%) | |
| Equity in earnings of affiliates | **(1.37%)** | (2.36%) | |
| Adjustment of deferred tax assets by the changes of tax rate | **9.06%** | — | |
| Other | **0.25%** | 0.25% | |
| Effective tax rate | **48.23%** | 34.89% | |

Significant components of deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| **Deferred tax assets:** | | | |
| Retirement benefits | **¥ 6,015** | ¥ 7,318 | **$ 73,184** |
| Loss carryforwards | **7,729** | 7,142 | **94,038** |
| Loss on valuation of investment securities | **1,160** | 1,313 | **14,114** |
| Excess bonuses accrued | **1,783** | 1,914 | **21,694** |
| Impairment losses on noncurrent assets | **2,890** | 3,235 | **35,162** |
| Valuation difference on available-for-sale securities | **559** | 668 | **6,801** |
| Other | **7,161** | 7,171 | **87,128** |
| Subtotal | **27,297** | 28,761 | **332,121** |
| Valuation allowance | **(6,977)** | (7,875) | **(84,889)** |
| Total deferred tax assets | **20,320** | 20,886 | **247,232** |
| **Deferred tax liabilities:** | | | |
| Valuation difference on available-for-sale securities | **3,191** | 5,291 | **38,825** |
| Other | **5,419** | 5,501 | **65,932** |
| Total deferred tax liabilities | **8,610** | 10,792 | **104,757** |
| Net deferred tax assets (liabilities) | **¥ 11,710** | ¥ 10,094 | **$ 142,475** |

**Adjustment of deferred tax assets and liabilities for enacted changes in tax laws:**

On December 2, 2011, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 37.96% for years beginning on or after April 1, 2012 and 35.59% for years beginning on or after April 1, 2015. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2012 to March 31, 2015 and on or after April 1, 2015 are 37.96% and 35.59%, respectively, as of March 31, 2012. Due to these changes in statutory income tax rates, net deferred tax assets decreased by ¥656 million as of March 31, 2012 and deferred income tax expense recognized for the year ended March 31, 2012 increased by ¥1,029 million.

## 9. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 0.74% and 0.67% at March 31, 2012 and 2011, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | | 2012 |
| Secured: | | | | |
| Loans principally from banks and insurance companies at interest rates from 0.05% to 5.42% in 2012 and 2011, maturing serially through 2018 | ¥ 2,239 | ¥ 2,250 | | $ 27,242 |
| Unsecured: | | | | |
| Loans from banks and insurance companies at interest rates from 0.00% to 5.55% in 2012 and 2011 maturing serially through 2021 | 29,302 | 25,812 | | 356,515 |
| Bonds at interest rate of 2.45%, due July 27, 2011 | — | 5,006 | | — |
| Bonds at interest rate of 1.61%, due June 29, 2012 | — | 33 | (*) | — |
| Bonds at interest rate of 1.30%, due May 22, 2014 | — | 50 | (*) | — |
| Bonds at interest rate of 0.86%, due September 16, 2014 | 5,000 | 5,000 | | 60,835 |
| Bonds at interest rate of 1.10%, due April 27, 2015 | — | 60 | (*) | — |
| Bonds at interest rate of 1.67%, due September 13, 2019 | 10,000 | 10,000 | | 121,669 |
| | 46,541 | 48,211 | | 566,261 |
| Less amounts due within one year | 7,389 | 6,972 | | 89,901 |
| | ¥ 39,152 | ¥ 41,239 | | $ 476,360 |

(*) These bonds were redeemed prior to maturity, in FY2012.

At March 31, 2012, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥4,677 million ($56,905 thousand) were as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| Property, plant and equipment, net | ¥ 3,854 | $ 46,891 |
| Land | 2,300 | 27,984 |
| Construction in progress and investment securities | 353 | 4,295 |
| | ¥ 6,507 | $ 79,170 |

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

| Years ending March 31, | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| 2013 | ¥ 7,389 | $ 89,901 |
| 2014 | 10,075 | 122,582 |
| 2015 | 8,240 | 100,256 |
| 2016 | 7,725 | 93,990 |
| 2017 | 1,689 | 20,550 |
| 2018 and thereafter | 11,423 | 138,982 |
| | ¥ 46,541 | $ 566,261 |

## 10. PROVISION FOR RETIREMENT BENEFITS

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2012 and 2011 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Projected benefit obligation | ¥ 82,878 | ¥ 76,169 | $ 1,008,371 |
| Less fair value of pension assets | (53,641) | (49,790) | (652,646) |
| Less unrecognized actuarial differences | (12,191) | (8,110) | (148,327) |
| Prepaid pension cost | 1,962 | 959 | 23,871 |
| Retirement benefits | ¥ 19,008 | ¥ 19,228 | $ 231,269 |

Certain consolidated subsidiaries used the simplified method in calculating the retirement benefit obligation.

Included in the consolidated statements of income for the years ended March 31, 2012, 2011 and 2010 were severance and retirement benefit expenses that comprised the following:

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 |
| Service costs—benefits earned during the year | ¥ 3,136 | ¥ 3,116 | ¥ 3,071 | $ 38,156 |
| Interest costs on projected benefit obligation | 1,786 | 1,762 | 1,734 | 21,730 |
| Expected return on plan assets | (1,218) | (1,164) | (1,040) | (14,819) |
| Amortization of actuarial differences | 1,865 | 2,033 | 2,480 | 22,691 |
| Retirement benefit expenses | ¥ 5,569 | ¥ 5,747 | ¥ 6,245 | $ 67,758 |

Assumptions used in the calculation of retirement benefit obligations were as follows:

| | 2012 | 2011 | 2010 |
|---|---|---|---|
| Allocation method for projected benefits: | straight-line | straight-line | straight-line |
| Discount rate | 2.0% | 2.5% | 2.5% |
| Expected rate of return | 2.0% | 2.5% | 2.5% |
| Period for amortizing prior service cost | 5 years | 5 years | 5 years |
| Period for amortizing actuarial differences | 10 years | 10 years | 10 years |

## 11. CONTINGENT LIABILITIES

At March 31, 2012 and 2011, contingent liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Notes endorsed | ¥ — | ¥ 2 | $ — |
| Notes discounted | 398 | 705 | 4,843 |
| Guarantees | 55 | 112 | 669 |
| Letters of awareness | 301 | 279 | 3,662 |
| | ¥ 754 | ¥ 1,098 | $ 9,174 |

## 12. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By the resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

On May 11, 2012, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2012, on the shares of stock then outstanding, at the rate of ¥8.0 ($0.10) per share or a total of ¥2,696 million ($32,802 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2012. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

## 13. STOCK OPTIONS

The Company has implemented a stock option plan by which subscription rights to shares were granted to directors of the Company.

The following table summarizes the Company's stock option plan:

| | Stock options granted on August 10, 2011 | Stock options granted on August 10, 2010 | Stock options granted on August 11, 2009 | Stock options granted on August 11, 2008 | Stock options granted on September 10, 2007 |
|---|---|---|---|---|---|
| Category and number of people granted stock options | Company directors, 12 | Company directors, 13 | Company directors, 12 | Company directors, 13 | Company directors, 13 |
| Number of stock options granted by category of stock | 75,000 shares of common stock | 75,000 shares of common stock | 75,000 shares of common stock | 75,000 shares of common stock | 57,000 shares of common stock |
| Vesting conditions | No provision | No provision | No provision | No provision | No provision |
| Exercise period | From August 11, 2011 through August 10, 2036 (*) | From August 11, 2010 through August 10, 2035 (*) | From August 12, 2009 through August 11, 2034 (*) | From August 12, 2008 through August 11, 2033 (*) | From September 11, 2007 through September 10, 2032 (*) |

(*) If a holder of subscription rights to shares loses his/her position as Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares:

| | Stock options granted on August 10, 2011 | Stock options granted on August 10, 2010 | Stock options granted on August 11, 2009 | Stock options granted on August 11, 2008 | Stock options granted on September 10, 2007 |
|---|---|---|---|---|---|
| Beginning of term | — | 75,000 | 65,000 | 56,000 | 22,000 |
| Vested | 75,000 | — | — | — | — |
| Exercised | — | 14,000 | 12,000 | 8,000 | 3,000 |
| Expired or forfeited | — | — | — | — | — |
| Unexercised balance | 75,000 | 61,000 | 53,000 | 48,000 | 19,000 |
| Exercise price (yen) | 1 | 1 | 1 | 1 | 1 |
| Weighted average market value per stock at the dates exercised (yen) | — | 530 | 530 | 530 | 530 |
| Fair value per stock at the date granted (yen) | 412 | 456 | 622 | 600 | 883 |
| Exercise price (US$) | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| Weighted average market value per stock at the dates exercised (US$) | — | 6.45 | 6.45 | 6.45 | 6.45 |
| Fair value per stock at the date granted (US$) | 5.01 | 5.55 | 7.57 | 7.30 | 10.74 |

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥31 million ($377 thousand), ¥34 million and ¥47 million for the years ended March 31, 2012, 2011 and 2010 respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions:

| | Stock options granted on August 10, 2011 |
|---|---|
| Expected volatility | 34.49% |
| Expected holding period | 4 years |
| Expected dividend | 16 yen |
| Risk free interest rate | 0.276% |

## 14. SEGMENT INFORMATION

### 1) Overview of Reporting Segments

Kaneka's Reporting Segments aim to gather financial information from the Company's separate business units to facilitate decisions by the Board of Directors on the allocation of management resources and allow for its periodic review.

Technology is the common thread running throughout the Company's operations. These operations are divided into segments by the type of product and service, application and market similarity. Each segment develops its operations in accordance with a global group strategy established to unify subsidiaries in Japan and overseas for the products and services it handles. Accordingly, the Group has categorized its operations by products and services based on its business divisions. These seven reporting segments are Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronics Products and Synthetic Fibers and Others. The reporting segments span all departments and were established to facilitate a swift and flexible response to changes in the business environment.

The Chemicals segment manufactures and sells products with a broad range of applications, from daily-use products to industrial materials such as high value-added specialty PVC resins and other PVC resins. The Functional Plastics segment manufactures polymers that have been functionally modified for such qualities as superior heat resistance, weather resistance, flame resistance and elasticity. The resins it produces with these augmented functions are sold to the construction, automotive, home electronics and communication equipment industries. The Expandable Plastics and Products segment manufactures and sells cushioning materials for electrical products, shock-absorbing materials for automotive and fishery applications and expandable plastics and products used in housing insulation. In the Foodstuffs Products segment, the Group produces bakery yeast and margarine for sale to commercial confectioneries, bakeries and others in the food products industry. In Life Science Products, the Group has parlayed its expertise in fermentation and high-polymer technologies into pharmaceutical intermediates, functional foodstuffs and catheters and other medical devices which it manufactures and sells to medical product manufacturers and medical institutions. In the Electronics Products segment, the Group manufactures and sells highly functional films for electronic equipment manufacturers and solar cells. The Synthetic Fibers and Others segment mainly engages in the production and sale of synthetic fibers used in wigs, apparel and other applications.

### 2) Basis of Calculation of Monetary Amounts for Net Sales, Profit and Loss, Assets, Liabilities and Other Items by Reporting Segment

Accounting treatment and procedures for reported business segments are the same as those shown in the "Notes to Consolidated Financial Statements."

### 3) Segment Information by Business Category

Millions of yen

| | Segment Information | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **2012** | Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
| Sales | | | | | | | | | | |
| Customers | ¥ 94,204 | ¥ 71,119 | ¥ 57,591 | ¥ 131,111 | ¥ 46,996 | ¥ 38,027 | ¥ 30,241 | ¥ 469,289 | ¥ — | ¥ 469,289 |
| Intersegment | 2,009 | 655 | 194 | 1 | 14 | 477 | 1,541 | 4,891 | (4,891) | — |
| Total | 96,213 | 71,774 | 57,785 | 131,112 | 47,010 | 38,504 | 31,782 | 474,180 | (4,891) | 469,289 |
| Segment profit/loss | 3,647 | 6,163 | 4,378 | 5,309 | 8,428 | (6,312) | 1,722 | 23,335 | (10,184) | 13,151 |
| Segment assets | 82,325 | 56,875 | 46,315 | 71,315 | 59,790 | 70,275 | 19,609 | 406,504 | 60,579 | 467,083 |
| Other Items | | | | | | | | | | |
| Depreciation | 5,104 | 3,276 | 2,519 | 2,732 | 2,947 | 8,365 | 3,007 | 27,950 | 1,459 | 29,409 |
| Amortization of goodwill | — | 20 | — | — | 264 | — | — | 284 | — | 284 |
| Investment in equity method affiliates | — | 1,950 | 1,326 | — | — | — | — | 3,276 | — | 3,276 |
| Increase in assets | 7,630 | 4,270 | 2,746 | 3,993 | 2,257 | 7,142 | 3,646 | 31,684 | 1,424 | 33,108 |

Note: Segment profit is reconciled with operating income on the consolidated financial statements.

Millions of yen

| 2011 | Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Segment Information | | | | | | | | | |
| Sales | | | | | | | | | | |
| Customers | ¥ 85,467 | ¥ 69,993 | ¥ 58,630 | ¥ 123,782 | ¥ 47,517 | ¥ 41,226 | ¥ 27,212 | ¥ 453,827 | ¥ — | ¥ 453,827 |
| Intersegment | 3,000 | 512 | 194 | 0 | 108 | 595 | 1,433 | 5,842 | (5,842) | — |
| Total | 88,467 | 70,505 | 58,824 | 123,782 | 47,625 | 41,821 | 28,645 | 459,669 | (5,842) | 453,827 |
| Segment profit/loss | 2,764 | 8,297 | 6,229 | 7,960 | 9,280 | (5,815) | 787 | 29,502 | (8,267) | 21,235 |
| Segment assets | 73,364 | 54,818 | 45,996 | 69,250 | 63,208 | 67,511 | 20,380 | 394,527 | 60,614 | 455,141 |
| Other Items | | | | | | | | | | |
| Depreciation | 4,983 | 3,525 | 2,406 | 2,588 | 2,967 | 7,755 | 3,651 | 27,875 | 842 | 28,717 |
| Amortization of goodwill | — | — | 47 | — | 225 | — | — | 272 | — | 272 |
| Investment in equity method affiliates | — | 1,787 | 1,142 | — | — | — | — | 2,929 | — | 2,929 |
| Increase in assets | 5,536 | 2,023 | 1,915 | 2,578 | 2,029 | 10,175 | 1,623 | 25,879 | 3,371 | 29,250 |

Note: Segment profit is reconciled with operating income on the consolidated financial statements.

Millions of yen

| 2010 | Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Segment Information | | | | | | | | | |
| Sales | | | | | | | | | | |
| Customers | ¥ 79,551 | ¥ 61,137 | ¥ 54,365 | ¥ 119,781 | ¥ 39,187 | ¥ 36,476 | ¥ 21,994 | ¥ 412,491 | ¥ — | ¥ 412,491 |
| Intersegment | 3,151 | 285 | 3 | 11 | — | 702 | 1,560 | 5,712 | (5,712) | — |
| Total | 82,702 | 61,422 | 54,368 | 119,792 | 39,187 | 37,178 | 23,554 | 418,203 | (5,712) | 412,491 |
| Segment profit/loss | 1,923 | 9,040 | 5,149 | 8,884 | 4,545 | (6,698) | 1,445 | 24,288 | (6,783) | 17,505 |
| Segment assets | 70,672 | 51,971 | 44,002 | 62,195 | 56,139 | 58,155 | 18,909 | 362,043 | 70,837 | 432,880 |
| Other Items | | | | | | | | | | |
| Depreciation | 5,134 | 3,931 | 2,590 | 2,642 | 3,004 | 5,546 | 2,558 | 25,405 | 805 | 26,210 |
| Amortization of goodwill | — | — | — | — | — | — | — | — | — | — |
| Investment in equity method affiliates | — | 1,531 | 1,096 | — | — | — | — | 2,627 | — | 2,627 |
| Increase in assets | 3,611 | 1,420 | 1,652 | 1,368 | 1,843 | 11,255 | 2,172 | 23,321 | 1,001 | 24,322 |

Note: Segment profit is reconciled with operating income on the consolidated financial statements.

Thousands of U.S. dollars (Note 1)

| 2012 | Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| | Segment Information | | | | | | | | | |
| Sales | | | | | | | | | | |
| Customers | **$1,146,174** | **$ 865,300** | **$ 700,706** | **$1,595,218** | **$ 571,797** | **$ 462,672** | **$ 367,940** | **$5,709,807** | **$ —** | **$5,709,807** |
| Intersegment | **24,443** | **7,969** | **2,360** | **13** | **170** | **5,804** | **18,749** | **59,508** | **(59,508)** | **—** |
| Total | **1,170,617** | **873,269** | **703,066** | **1,595,231** | **571,967** | **468,476** | **386,689** | **5,769,315** | **(59,508)** | **5,709,807** |
| Segment profit/loss | **44,373** | **74,985** | **53,267** | **64,594** | **102,543** | **(76,798)** | **20,951** | **283,915** | **(123,908)** | **160,007** |
| Segment assets | **1,001,643** | **691,994** | **563,511** | **867,685** | **727,461** | **855,031** | **238,581** | **4,945,906** | **737,060** | **5,682,966** |
| Other Items | | | | | | | | | | |
| Depreciation | **62,100** | **39,859** | **30,648** | **33,240** | **35,856** | **101,776** | **36,587** | **340,066** | **17,751** | **357,817** |
| Amortization of goodwill | **—** | **243** | **—** | **—** | **3,212** | **—** | **—** | **3,455** | **—** | **3,455** |
| Investment in equity method affiliates | **—** | **23,726** | **16,133** | **—** | **—** | **—** | **—** | **39,859** | **—** | **39,859** |
| Increase in assets | **92,834** | **51,953** | **33,410** | **48,583** | **27,461** | **86,896** | **44,360** | **385,497** | **17,326** | **402,823** |

Note: Segment profit is reconciled with operating income on the consolidated financial statements.

### 4) Reconciliation Between Segment Total and Consolidated Statements of Income (Adjustments)

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 |
| **Income** | | | | |
| Segment total | ¥ 23,335 | ¥ 29,502 | ¥ 24,288 | $ 283,915 |
| Elimination of intersegment transactions | (2) | (4) | 0 | (24) |
| Companywide expenses (Note) | (10,089) | (8,217) | (6,854) | (122,752) |
| Other adjustments | (93) | (46) | 71 | (1,131) |
| Operating income in the quarterly consolidated statements of income | ¥ 13,151 | ¥ 21,235 | ¥ 17,505 | $ 160,007 |

(Note) Companywide expenses primarily are expenses for basic R&D that are not allocable to any reporting segment.

| | Millions of yen | | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 |
| **Income** | | | | |
| Segment total | ¥ 406,504 | ¥ 394,527 | ¥ 362,043 | $ 4,945,906 |
| Elimination of intersegment transactions | (5,175) | (5,245) | (2,739) | (62,964) |
| Companywide assets (Note) | 64,549 | 66,147 | 74,108 | 785,363 |
| Other adjustments | 1,205 | (288) | (532) | 14,661 |
| Total assets in the quarterly consolidated statements of income | ¥ 467,083 | ¥ 455,141 | ¥ 432,880 | $ 5,682,966 |

(Note) Companywide assets are working capital, investment securities and land that are not allocable to any reporting segment.

| | Segment total | | | Other | | | Adjustments | | | Consolidated (Millions of yen) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 | 2012 | 2011 | 2010 |
| **Other Items** | | | | | | | | | | | | |
| Depreciation | ¥ 27,950 | ¥ 27,875 | ¥ 25,405 | ¥ 1,459 | ¥ 842 | ¥ 805 | ¥ — | ¥ — | ¥ — | ¥ 29,409 | ¥ 28,717 | ¥ 26,210 |
| Increase in assets | 31,684 | 25,879 | 23,321 | 1,424 | 3,371 | 1,001 | — | — | — | 33,108 | 29,250 | 24,322 |

(Note) Other primarily is expenses for basic R&D that are not allocable to any reporting segment.

| | Segment total | Other | Adjustments | Consolidated (Thousands of U.S. dollars (Note 1)) |
|---|---|---|---|---|
| | 2012 | 2012 | 2012 | 2012 |
| **Other Items** | | | | |
| Depreciation | $ 340,066 | $ 17,751 | $ — | $ 357,817 |
| Increase in assets | 385,497 | 17,326 | — | 402,823 |

(Note) Other primarily is expenses for basic R&D that are not allocable to any reporting segment.

(Related Information)

Related information at March 31, 2012 and 2011 consisted of the following:

### 1) Information by Product and Service

No information is reported because product and service classifications are the same as the reporting segment classifications.

### 2) Geographic Area

(1) Sales

**2012** — Millions of yen

| Japan | Asia | North America | Europe | Other areas | Total |
|---|---|---|---|---|---|
| **¥ 319,796** | **¥ 62,708** | **¥ 28,152** | **¥ 42,384** | **¥ 16,249** | **¥ 469,289** |

2011 — Millions of yen

| Japan | Asia | North America | Europe | Other areas | Total |
|---|---|---|---|---|---|
| ¥ 293,002 | ¥ 69,243 | ¥ 29,133 | ¥ 45,045 | ¥ 17,404 | ¥ 453,827 |

**2012** — Thousands of U.S. dollars (Note 1)

| Japan | Asia | North America | Europe | Other areas | Total |
|---|---|---|---|---|---|
| **$ 3,890,936** | **$ 762,964** | **$ 342,523** | **$ 515,683** | **$ 197,700** | **$ 5,709,807** |

Note: Sales are classified into countries or regions based on the geographic location of customers.

(2) Property, plant and equipment

**2012** — Millions of yen

| Japan | Asia | North America | Europe | Total |
|---|---|---|---|---|
| **¥ 133,848** | **¥ 11,238** | **¥ 13,297** | **¥ 6,055** | **¥ 164,438** |

2011 — Millions of yen

| Japan | Asia | North America | Europe | Total |
|---|---|---|---|---|
| ¥ 136,554 | ¥ 6,446 | ¥ 14,181 | ¥ 5,885 | ¥ 163,066 |

**2012** — Thousands of U.S. dollars (Note 1)

| Japan | Asia | North America | Europe | Total |
|---|---|---|---|---|
| **$ 1,628,519** | **$ 136,732** | **$ 161,784** | **$ 73,671** | **$ 2,000,706** |

### 3) Information on Major Customers

No information is reported because no sales to any external customer represented more than 10% of net sales on the consolidated statements of income.

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2012 and 2011 consisted of the following:

Nothing to report

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2012 and 2011 consisted of the following:

Millions of yen

| 2012 | Segment Information: Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| (Goodwill) | | | | | | | | | | |
| Amortization | ¥ — | ¥ 20 | ¥ — | ¥ — | ¥ 264 | ¥ — | ¥ — | ¥ 284 | ¥ — | ¥ 284 |
| Balance | — | 278 | — | — | 3,657 | — | — | 3,935 | — | 3,935 |
| (Negative goodwill) | | | | | | | | | | |
| Amortization | — | — | — | 57 | — | 151 | — | 208 | — | 208 |
| Balance | — | — | — | 128 | — | 303 | — | 431 | — | 431 |

Millions of yen

| 2011 | Segment Information: Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| (Goodwill) | | | | | | | | | | |
| Amortization | ¥ — | ¥ — | ¥ 47 | ¥ — | ¥ 225 | ¥ — | ¥ — | ¥ 272 | ¥ — | ¥ 272 |
| Balance | — | — | — | — | 4,436 | — | — | 4,436 | — | 4,436 |
| (Negative goodwill) | | | | | | | | | | |
| Amortization | — | — | 14 | 84 | — | 152 | — | 250 | — | 250 |
| Balance | — | — | — | 184 | — | 455 | — | 639 | — | 639 |

Thousands of U.S. dollars (Note 1)

| 2012 | Segment Information: Chemicals | Functional Plastics | Expandable Plastics and Products | Foodstuffs Products | Life Science Products | Electronic Products | Synthetic Fibers and Others | Total | Adjustments | Consolidated |
|---|---|---|---|---|---|---|---|---|---|---|
| (Goodwill) | | | | | | | | | | |
| Amortization | $ — | $ 243 | $ — | $ — | $ 3,212 | $ — | $ — | $ 3,455 | $ — | $ 3,455 |
| Balance | — | 3,382 | — | — | 44,495 | — | — | 47,877 | — | 47,877 |
| (Negative goodwill) | | | | | | | | | | |
| Amortization | — | — | — | 694 | — | 1,837 | — | 2,531 | — | 2,531 |
| Balance | — | — | — | 1,557 | — | 3,687 | — | 5,244 | — | 5,244 |

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Foodstuffs Products segment, the Company recorded negative goodwill of ¥192 million in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2011.

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kaneka Corporation:

We have audited the accompanying consolidated financial statements of Kaneka Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2012 and 2011, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2012, and a summary of significant accounting policies and other explanatory information expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaneka Corporation and its consolidated subsidiaries as at March 31, 2012 and 2011, and their financial performance and cash flows for each of the three years in the period ended March 31, 2012, in accordance with accounting principles generally accepted in Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
June, 28, 2012
Osaka, Japan

# GLOBAL NETWORK

● Major Overseas Consolidated Subsidiaries
● Major Overseas Non-Consolidated Subsidiaries
■ Major Domestic Consolidated Subsidiaries
▲ Equity Method Affiliates

## EUROPE

● **Kaneka Belgium N.V. <Belgium>**
Sales and manufacture of functional plastics and expandable plastics and products, and sales of solar cells

● **Kaneka Pharma Europe N.V. <Belgium>**
Sales of functional foodstuffs and medical devices

● **Eurogetec S.A. <Belgium>**
Sales and manufacture of biopharmaceuticals, diagnostic and biotech products

● **Kaneka Modifiers Deutschland GmbH <Germany>**
Manufacture of functional plastics

## U.S.A.*1

● **Kaneka Texas Corporation**
Sales and manufacture of functional plastics and electronic products

● **Kaneka New York Holding Company, Inc.**
Holding company for Kaneka Nutrients L.P., Kaneka America LLC and Kaneka Pharma America LLC

● **Kaneka Nutrients L.P.**
Sales and manufacture of functional foodstuffs

● **Kaneka Pharma America LLC**
Sale of medical devices

● **Kaneka America LLC**
Marketing and technical consulting for Kaneka products

● **Kaneka Functional Foods LLC**
Holding company for Kaneka Nutrients L.P.

## ASIA OUTSIDE OF JAPAN / OCEANIA*2

● **Kaneka (Malaysia) Sdn. Bhd. <Malaysia>**
Sales and manufacture of functional plastics

● **Kaneka Paste Polymers Sdn. Bhd. <Malaysia>**
Sales and manufacture of specialty PVC resins

● **Kaneka Eperan Sdn. Bhd. <Malaysia>**

● **Kaneka Eperan (Suzhou) Co., Ltd. <P.R. China>**
Sales and manufacture of expandable plastics and products

● **Kaneka Singapore Co. (Pte) Ltd. <Singapore>**
Sales and manufacture of pharmaceutical intermediates

● **Kaneka Electec Sdn. Bhd. <Malaysia>**
Sales and manufacture of electronic products

● **HiHua Fiber Co., Ltd. <P.R. China>**

● **Kaneka Innovative Fibers Sdn. Bhd. <Malaysia>**
Sales and manufacture of synthetic fibers

● **Kaneka Trading (Shanghai) Co., Ltd. <P.R. China>**
Market research, sales activities and technical service centers

● **TGA Pastry Company Pty Ltd. <Australia>**
Sales and manufacture of foodstuffs products

● **Kaneka Pharma Vietnam Co., Ltd. <Vietnam>**
Manufacture of medical devices

● **Kaneka India Pvt. Ltd. <India>**
Market survey and sales support activities

● **Kaneka Taiwan Corporation <Taiwan>**
Sales activity and market research

● **Kaneka Korea Corporation <South Korea>**
Market research, sales and business support activities

## JAPAN

■ **Monbetsu Kasei Co., Ltd.**

■ **Shibetsu Kasei Co., Ltd.**

■ **Koto Co., Ltd.**

■ **Tsukasa Co., Ltd.**

■ **Miyagi Jushi Co., Ltd.**

■ **Kitaura Jushi Co., Ltd.**

■ **Cosmo Kasei Co., Ltd.**

■ **Toyo Styrol Co., Ltd.**

■ **Hanepack Co., Ltd.**

■ **Hokkaido Kanepearl Co., Ltd.**

■ **Sanwa Kasei Kogyo Co., Ltd.**

■ **Hokkaido Kaneka Co., Ltd.**

■ **Kyushu Kanelite Co., Ltd.**
Manufacture of expandable plastics and products

■ **Kaneka Foods Corporation**

■ **Tokyo Kaneka Foods Corporation**
Manufacture of oils and fats

■ **Kaneka Solartech Corporation**
Manufacture of solar cells

■ **Tochigi Kaneka Corporation**
Manufacture of electronic products

■ **Kaneka Foam Plastics Co., Ltd.**

■ **Hane Co., Ltd.**

■ **Kaneka Eperan Marketing Co., Ltd.**
Sale of expandable plastics and products

■ **Kaneka Kentech Co., Ltd.**
Sale of construction materials

■ **Kaneka Shokuhin Corporation**

■ **Tokyo Kaneka Shokuhin Corporation**

■ **Tokai Kaneka Shokuhin Corporation**

■ **Kyushu Kaneka Shokuhin Corporation**
Sale of foodstuffs products

■ **Kaneka Solar Marketing Co., Ltd.**
Sale of solar cells

■ **Tatsuta Chemical Co., Ltd.**
Sales and manufacture of PVC products

■ **Showa Kaseikogyo Co., Ltd.**
Sales and manufacture of PVC compounds

■ **Kanto Styrene Co., Ltd.**

■ **Kochi Styrol Co., Ltd.**

■ **Tamai Kasei Co., Ltd.**
Sales and manufacture of expandable plastics and products

■ **Kaneka Sun Spice Corporation**
Sales and manufacture of spices

■ **Taiyo Yushi Corporation**
Sales and manufacture of oils and fats

■ **Shinka Shokuhin Co., Ltd.**
Sales and manufacture of foodstuffs products

■ **Sanvic Inc.**

■ **Vienex Corporation**
Sales and manufacture of electronic products

■ **SC Housing System Corporation**
Architectural construction method licensing and sales of construction materials

■ **Kaneka Medix Corporation**
Sales and manufacture of medical devices

■ **Osaka Synthetic Chemical Laboratories, Inc.**
Sales and manufacture of pharmaceuticals

■ **Kaneka Takasago Service Center Co., Ltd.**
Providing services related to Takasago Plant

▲ **Ibidenjushi Co., Ltd.**

▲ **EPE Co., Ltd.**
Sales and manufacture of expandable plastics and products

▲ **Cemedine Co., Ltd.**
Processing and sales of functional plastics

*1. As of April 1, 2012, Kaneka New York Holding Company, Inc. was acquired by Kaneka Texas Corporation, which was renamed as Kaneka Americas Holding, Inc. Newly established Kaneka North America LLC took over businesses of former Kaneka Texas Corporation and Kaneka Nutrients L.P.

*2. As of April 1, 2012, Kaneka Asia Co., Ltd. was established in China and it administers wholly owned subsidiaries of Kaneka in the Asia region.

# CORPORATE DATA

## KANEKA CORPORATION

### OFFICES

**Osaka Head office:**

3-2-4, Nakanoshima, Kita-ku, Osaka 530-8288, Japan
Telephone: +81-6-6226-5050
Facsimile: +81-6-6226-5037

**Tokyo Head office:**

1-12-32, Akasaka, Minato-ku, Tokyo 107-6025, Japan
Telephone: +81-3-5574-8000
Facsimile: +81-3-5574-8121

### DATE OF ESTABLISHMENT

September 1, 1949

### NUMBER OF EMPLOYEES (as of March 31, 2012)

3,266 (Kaneka Corporation)
8,489 (including consolidated subsidiaries)

### PLANTS

**Takasago:** Takasago, Hyogo
**Osaka:** Settsu, Osaka
**Shiga:** Otsu, Shiga
**Kashima:** Kamisu, Ibaraki

### RESEARCH INSTITUTES

**Frontier Materials Development Laboratories**
**Frontier Biochemical & Medical Research Laboratories**
**Photovoltaic & Thin Film Device Research Laboratories**
**Molding & Processing Development Center**
**Process Technology Laboratories**

## INVESTOR INFORMATION (as of March 31, 2012)

### COMMON STOCK TRADED

Tokyo, Osaka, Nagoya

### TRANSFER AGENT

**Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch**

3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502

### ACCOUNTING AUDITOR

**KPMG AZSA LLC**

Ginsen Bingomachi Bldg. 3-6-5, Kawaramachi,
Chuo-ku, Osaka 541-0048, Japan

### AUTHORIZED CAPITAL

750,000,000 shares

### ISSUED SHARES

350,000,000 shares

### NUMBER OF SHAREHOLDERS

21,383

### COMMON STOCK PRICE RANGE (Tokyo Stock Exchange: in yen)

| Fiscal Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | **2012** |
|---|---|---|---|---|---|---|---|---|
| High | 1,231 | 1,606 | 1,450 | 1,209 | 820 | 720 | 623 | **601** |
| Low | 922 | 1,071 | 963 | 573 | 334 | 486 | 420 | **397** |

**KANEKA CORPORATION**
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