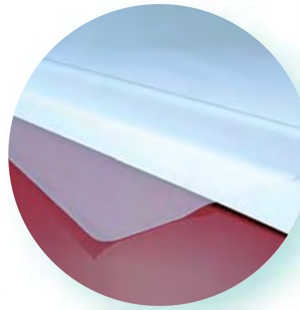


KANEKA CORPORATION

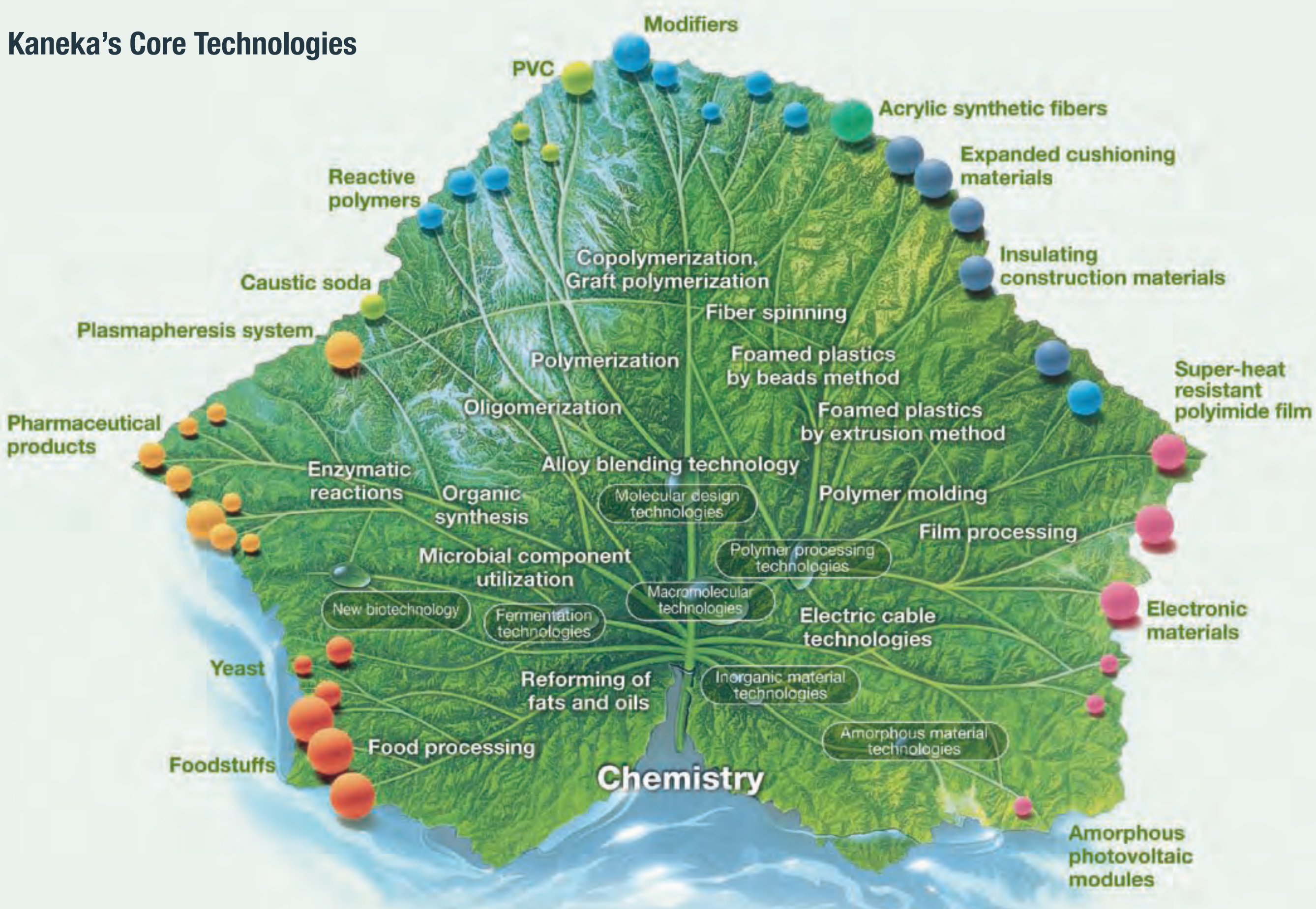
ANNUAL REPORT 2008

Year Ended March 31, 2008

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. Later the Company diversified into polymers, fermentation, biotechnology and electronics, as well as other fields. Business activities now span a broad spectrum of markets ranging from plastics, EPS resins, chemicals and foodstuffs to pharmaceuticals, medical devices, electrical and electronic materials and synthetic fibers. 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, Australia and Vietnam.

Kaneka's Core Technologies



Contents

Consolidated Financial Highlights 2
To Our Shareholders 3
News and Topics 6
Review of Operations 9
Corporate Governance 13
Global Network 18

Financial Section

Financial Review 19
Consolidated Balance Sheets 23
Consolidated Statements of Income 25
Consolidated Statements of Shareholders' Equity 26
Consolidated Statements of Changes in Net Assets 27
Consolidated Statements of Cash Flows 28
Notes to Consolidated Financial Statements 29

Independent Auditors' Report 43
Corporate Data 44

Consolidated Financial Highlights

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31

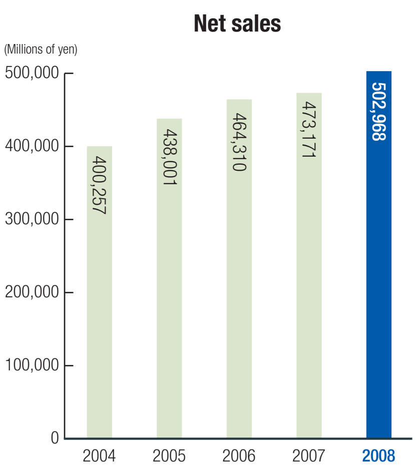
	Millions of yen					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	**2008**
Net sales	**¥ 502,968**	¥ 473,171	¥ 464,310	¥ 438,001	¥ 400,257	**$ 5,020,142**
Net income	**18,817**	18,364	28,100	24,746	15,623	**187,813**
Capital expenditures	**31,569**	35,569	34,716	23,150	22,972	**315,091**
Depreciation	**24,731**	24,461	22,265	22,197	22,860	**246,840**
Total assets	**452,620**	467,110	453,159	397,124	392,513	**4,517,617**
Net assets	**267,598**	271,280	260,735	224,143	204,779	**2,670,906**
Per share of common stock:	Yen					U.S. dollars
Net income (basic)	**¥ 55.10**	¥ 53.48	¥ 80.80	¥ 70.65	¥ 43.99	**$ 0.55**
Net income (diluted)	**55.09**	—	—	69.33	42.59	**0.55**
Cash dividends	**16.00**	16.00	16.00	14.00	8.00	**0.16**
Net assets	**767.68**	774.71	756.96	645.13	583.55	**7.66**
Shareholders' equity ratio	**57.7%**	56.8%	57.5%	56.4%	52.2%	**57.7%**
Return on equity	**7.1%**	7.0%	11.6%	11.5%	8.0%	**7.1%**
Return on assets	**7.4%**	8.0%	11.2%	10.5%	7.7%	**7.4%**

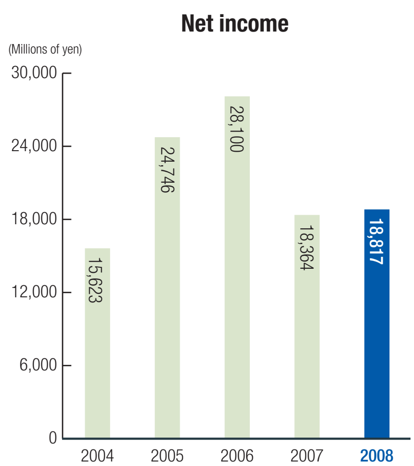
Note 1) The conversion of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the prevailing exchange rate on March 31, 2008, which was ¥100.19 to US$1.00.

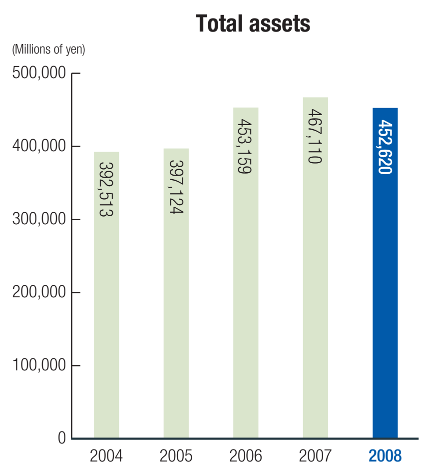
Note 2) ROA is calculated by dividing ordinary income by assets.
Ordinary income, a common indicator in Japan, corresponds to income before income taxes and minority interests, less extraordinary profit/loss.

Note 3) Effective from the year ended March 31, 2007, net assets are calculated based on the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan). Prior year figures have not been restated.

Note 4) Return on equity is calculated on the basis of the average shareholders' equity at the current and previous fiscal year-ends.







Disclaimer
This report contains the Company's views regarding the business environment and its own future performance, in addition to current and historical facts about the Company, its subsidiaries and affiliates ("the Kaneka Group"). These views represent the expectations and judgments of the Company's management, based on the best knowledge at the time they were made. However, unknown risks and uncertainties may arise, and future business performance may differ materially from what is stated herein. Therefore, the Kaneka Group assumes no liability or responsibility for any losses, damages or problems that may be incurred by relying on any view stated herein.

Targeting an early return to profitability, we are transforming the Company in three major ways.

Operating Results

Net sales were 6.3% higher, and net income rose 2.5%, but operating income was down 2.5% year on year

In FY 2008, ended March 31, 2008, the global economy was characterized by instability. The U.S. economy decelerated in the face of the subprime loan crisis. Affected by this situation, growth in the Chinese and European economies showed signs of leveling off after several years of expansion.

The Japanese economy was affected by sharply higher crude oil prices, which pushed up the costs of raw materials worldwide. Also, the U.S. economic slowdown prompted the dollar to depreciate against the yen, holding back corporate earnings growth and causing cracks to appear in the country's economic recovery.

In this operating environment, the Kaneka Group concentrated its management resources on key strategic priorities: electronics, functional plastics and life sciences. We also worked to augment our competitiveness and profitability in line with the business portfolio strategy we introduced in FY 2007. Furthermore, in response to the ongoing high raw materials prices we sought to improve profitability by introducing cost reforms and passing on price increases to our customers.

As a result, operations in such areas as solar cells and synthetic fibers were favorable, and we implemented price revisions on chemicals and foodstuffs. Consequently, in FY 2008 consolidated net sales increased 6.3%, to ¥502,968 million.

Despite implementing various measures to improve profitability, the Group was severely affected by such factors as sharply higher raw materials prices, the subprime loan crisis and the implementation of the revised Building Standard Law, which weakened demand for housing related products in Japan, the United States and Europe. As a result, operating income was down 2.5%, to ¥35,746 million, and ordinary income* decreased 8.3%, to ¥33,866 million, from the previous year. Net income, however, rose 2.5%, to ¥18,817 million, despite the posting of extraordinary losses, including an impairment loss and a loss on business liquidation.

Kaneka's basic policy on profit distribution is to target a consolidated payout ratio of 30%, taking into account the Company's operating performance for the year, medium- to long-term earnings trends, investment plans, and financial situation. We aim to maintain our profit distribution, in part, by the aquisition of treasury stock. During the term, we also acquired 1,827,000 shares of treasury stock, following the acquisition of 1,958,000 shares in FY 2007. We also cancelled 7,612,418 shares. In line with this policy, the Company set a dividend for the year of ¥16 per share.

* Ordinary income, a common indicator in Japan, corresponds to income before income taxes and minority interests, less any extraordinary profit or loss.

New Medium-Term Management Plan

We are taking a technology oriented approach to achieving substantial growth

As a manufacturer of chemical products, Kaneka operates in an environment which has grown exceedingly challenging, fraught by such factors as the surge in crude oil prices, the depreciation of the U.S. dollar and lackluster Japanese stock markets. To keep profitability from worsening despite these circumstances, we have formulated a new medium-term management plan, ending in FY 2011, to transform Kaneka into a growing and more vital company. The new plan takes a technology oriented approach to achieving substantial growth. The fundamental policy is to enhance corporate value through operational and personnel advancement.

Until now, Kaneka has relied mainly on its own technical developments to create new businesses, nurtured its own set of proprietary businesses and taken a diversified management approach. However, the rapidly changing economic environment that we now face dictates the need to transform our business portfolio. Furthermore, creating new businesses is essential to accelerating the Company's growth. We also recognize that further globalization is key to our ability to discover business opportunities in the worldwide marketplace. Consequently, our new medium-term management plan, covering three years, has three overriding themes.

Transforming the Company in Three Major Ways

• Enhancing our competitiveness in existing businesses and reconfiguring our business model to be resilient to changes in market prices (transforming the business portfolio)
• Basing the development of highly distinctive technologies on market needs and quickly developing these technologies into businesses (transforming research and development)
• Training the people who will drive the process of transforming the business portfolio and R&D (transforming human resources).

In line with our business portfolio strategy, we will concentrate our resources into important strategic categories: electronics, functional plastics and life sciences. Using technology as our key differentiator, we will expand our business in these important strategic categories, creating a competitive advantage in specific markets. Between FY 2011 and FY 2013, we aim to raise these important strategic categories from 35% of net sales to 45%.

In R&D, we aim to reinforce the role of development in our operations. To drive this change, we have established a new business development department under the direct control of the President. However, rather than relying solely on R&D departments to spur technical development and innovation, we are taking a more holistic technology oriented approach to building the Company. This approach will involve strengthening liaisons among departments and Group companies and forging alliances with industrial and academic organizations, as well as with other companies. As a result, we will accelerate growth by deploying outside resources. Transforming R&D in this way will enable Kaneka to create businesses that are closely linked to the marketplace.

In tandem with these efforts to cultivate new business, we will transform our business model to ensure competitiveness both technically and in the marketplace, thereby realizing our potential in existing businesses.

In terms of global development, which has been one of Kaneka's principal growth strategies for some time, the Company faces a pressing need to review the management of its U.S. operations and recover its profitability. To strengthen our business in other regions, we need to reinforce the supervision and support structure for our overseas operations. As a percentage of net sales, international sales are currently at 37%. We aim to raise this percentage rapidly to 50%.

To transform our business portfolio in these ways, we will aggressively pursue alliances with outside organizations, as well as merger and acquisition opportunities. We will also endeavor to acquire processing and evaluation technologies to accelerate the commercialization of these opportunities.

To transform human resources—training the employees who will lead the sustained growth of the Kaneka Group—we will create a structure for the strategic rotation of personnel. Above all, we aim to train and strengthen in a planned and consistent manner the personnel who will spearhead efforts to transform R&D and foster globalization.

By steadily implementing these reforms, we aim to achieve consolidated net sales of ¥600 billion and consolidated ordinary income of ¥50 billion between FY 2011 and FY 2013.

Forecast for FY 2009

Operating in a difficult environment, we aim to keep profitability from decreasing and to achieve ongoing growth

Despite ongoing efforts to ensure a soft landing from the economic pullback resulting from the subprime loan crisis, we are concerned that U.S. economic conditions will worsen. Because of its potential to distort financial markets and reduce U.S.-bound exports, this situation clouds the outlook for the European and Chinese economies as well. Consequently, the global economic outlook is uncertain.

With the export scenario unclear, we expect Japanese economic growth to fall off. Given also the potential for further increases in crude oil prices and the risk of yen appreciation, we believe the economy is likely to move into a recession.

Based on its medium-term management plan, the Kaneka Group is taking a technology oriented approach to rebuilding the Company. We are changing the Company in three major ways: transforming the business portfolio, transforming R&D and transforming human resources. In these ways, we aim to prevent profitability from worsening and achieve sustained growth, but we recognize that the increasingly difficult operating environment will make quick recovery in profitability difficult. On this basis, for FY 2009 we forecast consolidated net sales of ¥520 billion (up 3.4% from FY 2008), consolidated operating profit of ¥33 billion (down 7.7%), consolidated ordinary income of ¥31.5 billion (down 7.0%) and net income of ¥18 billion (down 7.0%). We consider these figures reasonable in light of the information that is currently available to the Kaneka Group, but uncertainties are inherent in our forecasts. Therefore, actual results could differ substantially from these forecasts.

We ask our shareholders for their continued understanding and support of the Kaneka Group in the upcoming years.

June, 2008

Masatoshi Takeda
Chairman of the Board

Kimikazu Sugawara
President

Kaneka Innovates —— Functional Foodstuffs

Continually Bringing New Ingredients to the Global Market to Enhance Functional Foodstuffs

Kaneka has focused its expertise on quality raw materials for Coenzyme Q10 to grow its functional foodstuffs business. We employ technical capabilities refined through Coenzyme Q10 production to develop highly functional ingredients in-house and in cooperation with our partners and—along with our sales network—to introduce products globally.

Kaneka Glavonoid™ Polyphenol from Plants

Kaneka Glavonoid™ is a functional food ingredient developed in-house and consisting primarily of a type of plant polyphenol. As functional foodstuffs are generally subject to rigorous safety standards, Kaneka Glavonoid™ is manufactured under stringent Good Manufacturing Practices (GMP) using world-class production technology and quality control systems. Recognizing the safety of Kaneka Glavonoid™, the U.S. Food and Drug Administration (FDA) approved this product as a New Dietary Ingredient (NDI)[1] in July 2005 and is expected to pronounce it Generally Recognized As Safe (GRAS)[2] in June 2008.

To encourage the use of Kaneka Glavonoid™ in beverages, gelatin, mayonnaise and other foodstuffs, as well as a supplement we offer this new ingredient as an oil, emulsified powder and aqueous solution.

1. Under the U.S. Dietary Supplement Health and Education Act, a new ingredient cannot be released onto the market until it has been submitted to the FDA for approval with data providing evidence of its safety. The ingredient also must be recognized as an NDI.

2. A product cannot be used as a foodstuff in the United States unless the FDA has granted the product GRAS status, indicating its safety as a foodstuff.

Kaneka Coenzyme Q10™ 10% Aqueous Solution Can Be Added to General Foodstuffs

Coenzyme Q10 is used in numerous products, from supplements to cosmetics, but its lipid-solubility has limited its application. Kaneka's Coenzyme Q10™ 10% Aqueous Solution provides superior solubility that allows for its addition in clear form in beverages, gelatins and other water-soluble foodstuffs.

In developing this ingredient, Kaneka capitalized on its proprietary technologies to reduce production costs. We are similarly differentiating other products in our line of functional foodstuffs through new products and technologies.

Cooperation with Yaizu Suisankagaku

In May 2008, the Company reached a basic agreement with Yaizu Suisankagaku Industry Co., Ltd. to actively pursue a wide ranging business tie-up in the functional foodstuffs field and commence sales of Yaizu's core product of natural N-acetylglucosamine.

Marketed as Hyalurogluco™, this product is made of high purity natural N-acetylglucosamine produced from shrimp and crab shells through a proprietary enzyme method to help form hyaluronic acid, chondroitin and other substances that are abundant in human skin and joints. In the past, orally ingested hyaluronic acid was not considered easily absorbable into the human body. However, soon after being ingested Hyalurogluco™ is absorbed into the body where it transforms into hyaluronic acid. Various trials have demonstrated the product's stability. Hyalurogluco™ is used in cosmetics and offers health related benefits. Kaneka targets working women and people in middle age as key markets for Hyalurogluco™. Under the current agreement, Kaneka and Yaizu will take advantage of their respective strengths in fermentation technology, marine resource development technology and other areas to continue developing new products from natural ingredients.

Kaneka Innovates —— Catheters

Advancing the Highly Unique Intervention Business with a Broad Product Lineup

"Intervention" is referred to as medical treatment using catheters inserted into blood vessels to treat lesions inside the vessel directly. This treatment method has caught on rapidly in recent years because the procedures take less time than surgical procedures and creates less of a burden on the patient's body since it does not require general anesthesia.

Success in Developing Japan's Smallest Balloon Catheter for Heart Disease Treatment

Thrombus in the coronary arteries surrounding the heart, due to cholesterol or other factors, can cause myocardial infarctions, angina pectoris or other heart diseases. Percutaneous coronary intervention (PCI) is a medical treatment that uses a balloon catheter to dilate stenosed coronary arteries and restore blood flow. In Japan, approximately 200,000 PCIs are performed each year. Kaneka has successfully developed IKAZUCHI X, Japan's smallest profile balloon catheter used in PCI.

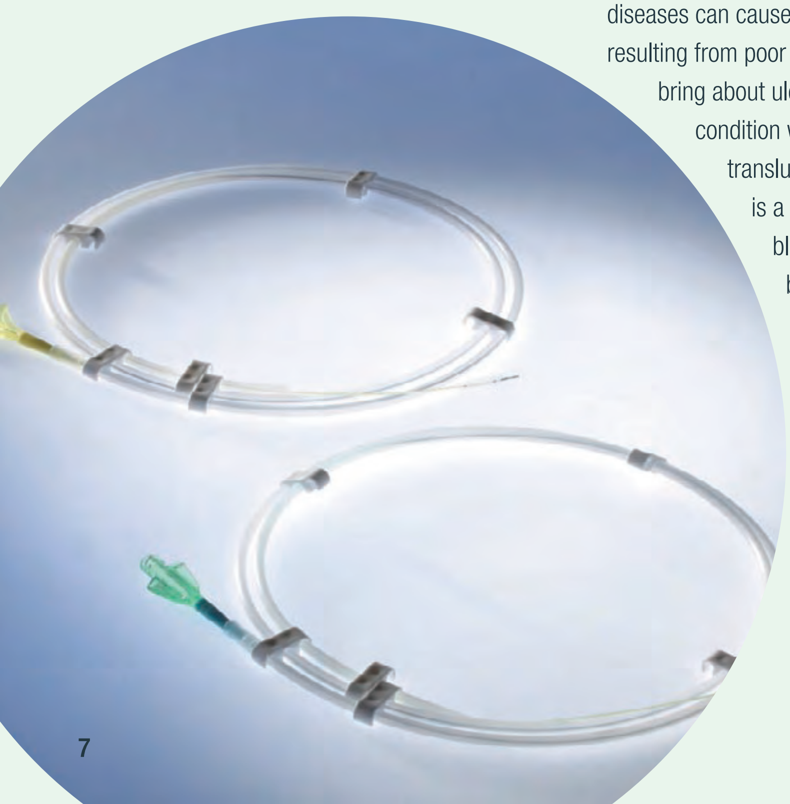
IKAZUCHI X offers a higher level of crossability, technique enabling the catheter to deliver and cross the lesion by reducing the profile of distal catheter shaft more than with our previous products. Moreover, the compatible guide wires used in interventional treatment to lead the balloon catheter to the blood vessel where blood flow is poor, are row 0.010 inch guide wires compared with the 0.014 inch compatible with our previous products.

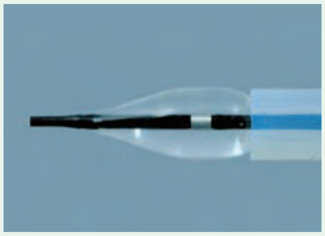
Full-Fledged Development of PTA Balloon Catheters to Treat Peripheral Vascular Diseases

Vessel stenosis caused by arterial sclerosis diseases can cause numbness and pain resulting from poor circulation and can bring about ulcers and necrosis if the condition worsens. Percutaneous transluminal angioplasty (PTA) is a treatment wherein blood flow is restored by dilatation of the narrowed blood vessels with a balloon catheter. Kaneka has developed PTA balloon catheters for the treatment of peripheral artery disease (PAD)—which is brought on by the peripheral arterial sclerosis of dialysis shunts.

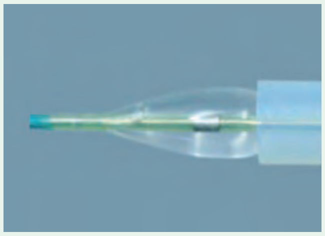
In developing catheters for PAD treatment, the Company succeeded in making balloon catheters with excellent crossability and trackability, even in narrow and tortuous peripheral blood vessels, by applying technology cultivated through the development of coronary catheters with small profiles. For dialysis shunts, it had been difficult to attain the small profile required to pass through the narrowed lesions caused by blood vessel calcification while balancing the pressure resistance needed for high-pressure expansion of the shunt. However, Kaneka's proprietary technology maintains high crossability with the highest pressure resistance in Japan, enabling reliable treatment of the lesion site.

The market for PTA balloon catheters for the treatment of peripheral vascular diseases is currently growing at more than 10% per year. To respond to the rising market needs, the Company commenced the full-scale development of these products.





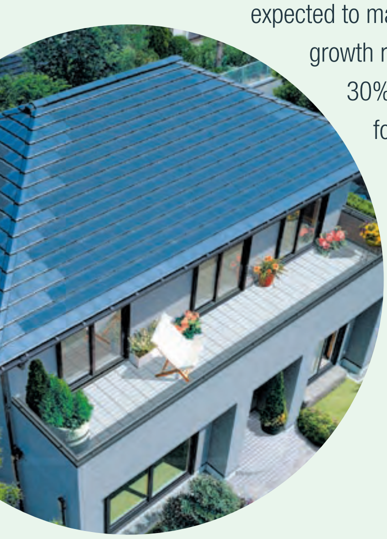
Kaneka's previous balloon catheter



IKAZUCHI X

Kaneka Expands ——Solar Cells

Further Augmenting Thin-Film Photovoltaic (PV) Cell Production Capacity



The scale of the solar cell market surpassed 1,500 megawatts (MW) in 2006 and is expected to maintain an annual growth rate of more than 30%. Europe accounts for more than 50% of the global solar cell market, with Germany and a number of other countries adopting systems for purchasing energy generated from solar cells. The market for photovoltaic modules also continues to expand in Japan, primarily for residential use.

To meet this robust demand, we recently boosted production capacity at Kaneka Solartech Co., Ltd., one of our consolidated subsidiaries. Moving into the fiscal period ahead, we plan to upgrade capacity from the current 55 MW to 70 MW in autumn 2008. Also under consideration is an additional investment of approximately ¥10 billion to upgrade facilities to the 130 MW level for the commencement of operations in 2010. We further intend to bolster production capabilities at our processing plant in the Czech Republic, where the Company produces modules for sale in Europe. In response to the increasing demand in the United States and Southeast Asia, the Company is also considering construction of new processing plants in Vietnam, Mexico and other countries, which would begin operations in 2009.

Kaneka Expands —— Kanecaron

Decision to Increase Production Capacity in Response to Healthy Demand for High-Value-Added Products

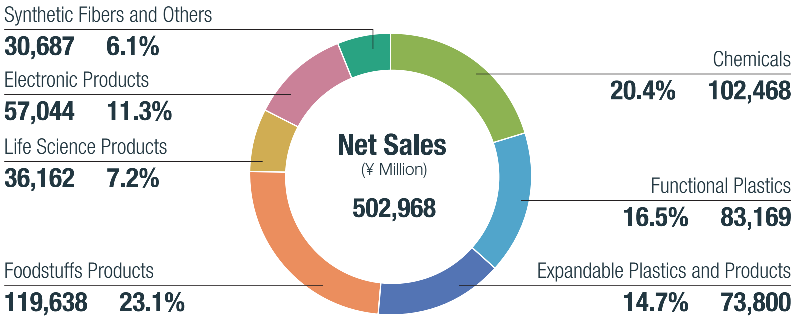
Kanecaron is a modacrylic fiber copolymerized from polyvinyl-chloride and acrylic resins. Few synthetic fibers exhibit excellent flame resistance and self-extinguishing characteristics, as well as chemical resistance to acids and bases. Among these fibers, Kanecaron is the only acrylic fiber that is flame retardant. Modacrylic fibers are used in fake furs, stuffed toys, hairpieces and interior decorating materials. Kaneka products account for an overwhelming share of the global market.

Demand is currently increasing for flame-retardant materials for work clothing, protective clothing and other items in the apparel industry, especially in Europe and Asia. Moreover, the United States has been moving to tighten safety regulations on bedding legal-related items, and in 2007 new statutes requiring a standard level of flame resistance for mattresses came into effect nationwide.

At the same time, demand is strong for applications in hairpieces and replacements for mink furs. To meet these and other needs, the Company has decided to invest ¥5 billion to ramp up the yearly production of Kanecaron from 50,000 to 60,000 tons.

In the synthetic fibers and others segment in FY 2007, net sales were ¥30,686 million and operating income was ¥6,617 million—90% of which was accounted for by Kanecaron. In FY 2009, we expect a boost in production to increase net sales by approximately 30% and revenues by approximately 20% compared with FY 2007 levels.

Sales by Business Category (FY 2008)



Chemicals

- Polyvinyl chloride (PVC)
- Caustic soda
- Hydrochloric acid
- Flexible PVC compounds
- Rigid PVC compounds
- Paste PVC
- Chlorinated PVC

Functional Plastics

- Modifier
- Heat-resistant ABS resins
- Self-extinguishing ABS resins
- Modified silicone polymer (MS Polymer)
- Allyl (Silyl®) terminateds polyisobuthylenes (EPION®)

Expandable Plastics and Products

- Extruded polystyrene foam boards
- Insulating PVC sash windows
- Polystyrene foam sheets
- Polyolefin foam (beads and moldings)
- Expandable polystyrene

Foodstuffs Products

- Margarine and shortening
- Confectionary fats
- Bakery yeast

Life Science Products

- Ubidecarenone (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
- Magnet wire
- PVC pipes for underground cables
- Solar cells
- Optical films

Synthetic Fibers and Others

- Modacrylic fibers

Competitive Products

- The Kaneka Group manufactures and sells modifier, which is used to improve the shock, weather and heat resistance of various types of plastics, in such regions as the U.S.A., Europe, Japan and other Asian countries.

- Modified silicone sealants are the most popular sealing materials for construction in Japan, and their main raw material is “MS Polymer,” which was developed by the Company. Silyl®, which is derived from the Company’s technical expertise in MS Polymer, is a new, flexible adhesive-based polymer with ever increasing applications.

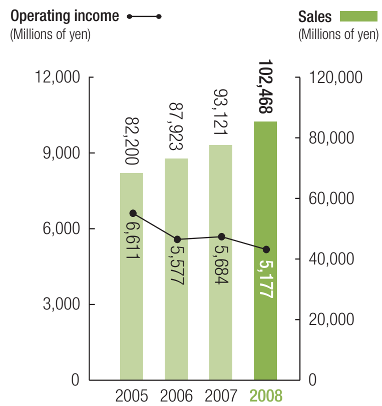
- Coenzyme Q10 is a rapidly growing dietary food supplement, especially in the United States and Japan. The Company is the world’s largest Coenzyme Q10 manufacturer, manufacturing the product by yeast fermentation to supply dietary supplement manufacturers around the world.

- The Company develops and provides a wide range of pharmaceutical bulk and intermediates, using its proprietary technologies in fermentation and organic synthesis. Kaneka Singapore is one of the world’s leading suppliers of semi-synthetic penicillin intermediates, which are cost competitive and based on the utilization of biotechnology in the manufacturing process. The Company is also the world-leading supplier of the key intermediates used for ACE-inhibitors, which are compounds of anti-hypertensive drugs. The Company also supplies intermediates for anti-hyperlipidemic agents, anti-HIV drugs, glaucoma drugs and carbapenem antibiotics.

- Kaneka’s proprietary blood purification system consists of three parts, including the membrane-based plasma separator and the absorbent column, which selectively absorb and remove specific pathogenic substances. This technology is currently used in the treatment of hyperlipidemia and dialysis-related amyloidosis. The Company is also conducting research to broaden the use of the system for other disorders.

- The Company developed the polymide film APICAL® by using proprietary technology. APICAL® is resistant to extreme temperatures between -180°C and 400°C. It is used in flexible printed circuits and as insulation material for heat resistant cables. It ranks second in the world in market share, following Dupont’s “Kapton.”

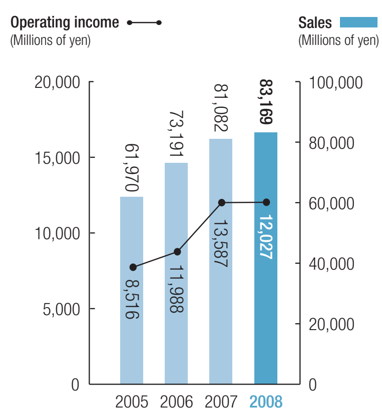
Chemicals



Net sales increased by 10.0% from the previous fiscal year to ¥102,468 million (US$1022.7 million) but operating income decreased by 8.9% to ¥5,177 million (US$51.7 million).

Boosted by exports, sales of polyvinyl chloride increased from the previous year, with sales of polyvinyl-chloride special resins benefiting from robust demand in the Asian market despite sluggishness in the U.S. housing market. Sales of caustic soda remained steady overall as a result of tightening supply and demand.

Functional Plastics



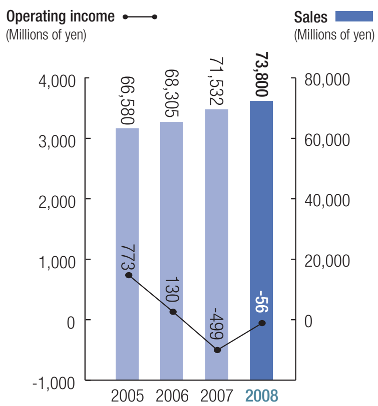
Net sales increased by 2.6% from the previous fiscal year to ¥83,169 million (US$830.1 million) and operating income decreased by 11.5% to ¥12,027 million (US$120.0 million).

Modifier sales were affected by lackluster sales in the U.S. housing market and flat growth in European sales volumes. On the other hand, the volume of sales for modified silicone polymers expanded, chiefly in Europe and the United States. Overall, performance in this segment reflected the effects of sharply higher crude oil prices, as profits declined despite an increase in sales.

Expandable Plastics and Products

Net sales increased by 3.2% from the previous fiscal year to ¥73,800 million (US$736.6 million) but operating income decreased to ¥56 million (US$5.6 million).

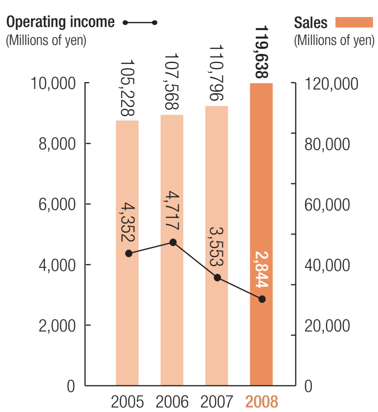
Cost improvements for foamed plastics by the beads method helped offset higher raw material prices and contributed to higher profitability. Despite our efforts to adjust selling prices and improve the cost scenario, however, the recovery of expandable polystyrene and molded items and extruded polystyrene foam boards was slight. Consequently, although segment sales were up year on year, the segment failed to break even.



Foodstuffs Products

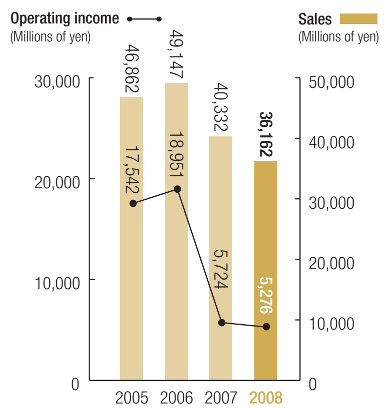
Net sales increased by 8.0% from the previous fiscal year to ¥119,638 million (US$1,194.1 million) but operating income decreased by 20.0% to ¥2,844 million (US$28.4 million).

Amid sluggish bakery and confectionery markets, we sought to expand our sales of distinctive products and concentrated on revised selling prices following sharp increases in raw material prices, such as those for edible oils and dairy products. As a result, segment sales grew, whereas profits decreased.



Life Science Products

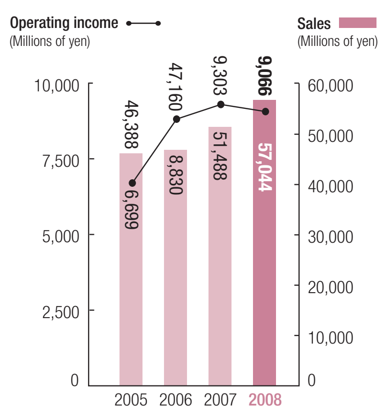
Net sales decreased by 10.3% from the previous fiscal year to ¥36,162 million (US$36.1 million) and operating income decreased by 7.8% to ¥5,276 million (US$52.7 million).



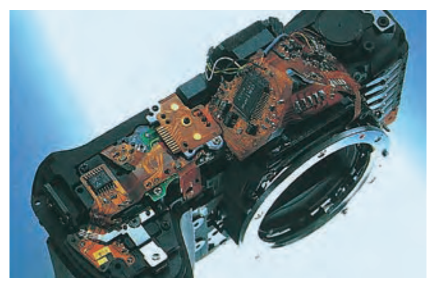
Sales of medical devices expanded, firmly, increasing both revenue and profits. On the other hand, sales of both existing and newly developed bulk and intermediate pharmaceuticals declined,as did the sales and profits of functional foodstuffs. In addition, business restructuring began to take effect toward the end of the fiscal year, causing segment performance to bottom out. As a result, the segment posted a decrease in both sales and profits from the previous year.

Electronic Products

Net sales increased by 10.8% from the previous fiscal year to ¥57,044 million (US$569.4 million) but operating income decreased by 2.6% to ¥9,066 million (US$90.5 million).

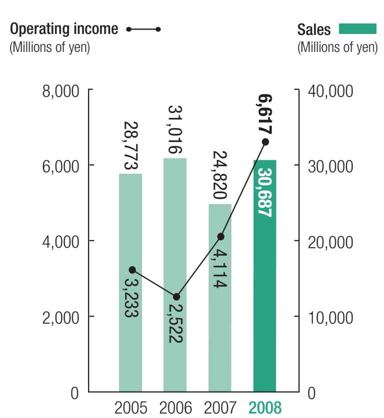


Boosted by vigorous European demand, sales of and profits on solar cells increased. Sales of ultra heat-resistant polyimide films rose, owing to increased demand for its use in mobile phones and electronic parts, but prices fell as a result of increasingly fierce competition. As a result, despite the growth in segment sales, profits decreased.



Synthetic Fibers and Others

Net sales increased by 23.6% from the previous fiscal year to ¥30,687 million (US$306.3 million) and operating income increased by 60.8% to ¥6,617 million (US$66.0 million).



Amid continued high raw materials prices in the synthetic fibers business, the Group concentrated on producing and selling high-value-added products and improving profitability by revising selling prices. As a result, both sales and profits increased year on year. In other business fields, sales and profits remained essentially unchanged. As a result, this segment recorded an overall increase both in sales and profits from the previous year.

Basic Approach to Corporate Governance

Kaneka believes that corporate governance is key to increasing corporate value based on its corporate philosophy of "In harmony with people, society and the environment, we strive to create a broad spectrum of life-enhancing products and services by using innovative technologies."

Corporate Organization and Status of Internal Control System

1) Corporate Organization

Important issues affecting the management of the Company are first discussed at a Management Conference that includes the President and the Vice President and are then approved by the Board of Directors.

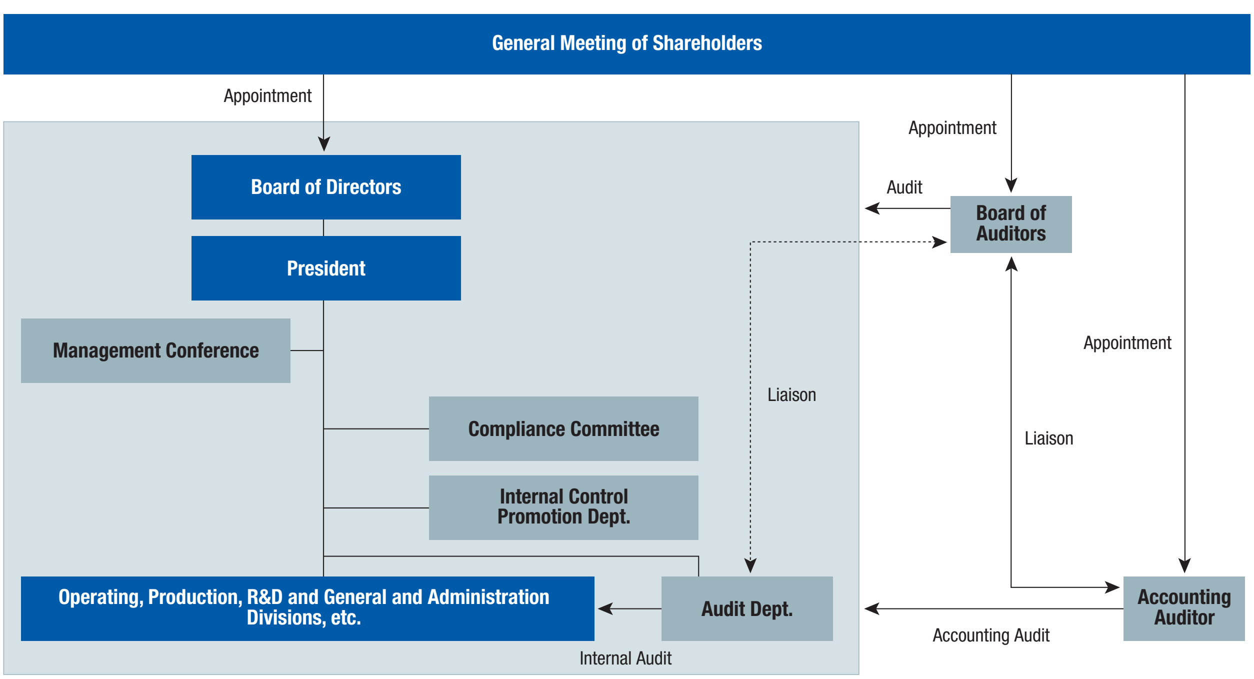
On June 29, 2006, the Company resolved to reform its management framework, with a focus on reforming the Board of Directors and introducing an executive officer system to enhance the execution of operation according to changes in the business environment. To reform the Board of Directors, approval for amendments to the Articles of Incorporation was obtained at the Ordinary General Meeting of Shareholders on June 29, 2006. The amendments were aimed at (1) reducing the maximum number of directors from 21 to 13 to invigorate the Board of Directors and make the decision-making process more responsive to changes in the business environment, (2) shorten the term of office of directors to one year to clarify their managerial responsibilities, and (3) abolish the director titles of Senior Executive Director and Executive Director, on June 29, 2006.

The Company's executives conduct business in a manner suitable to each business type and category and based on its basic strategy of running diversified businesses. In terms of organization, we have adopted a system of divisions. While division managers are given extensive authority over daily business operations, senior officers 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 auditors. The Internal Control Promotion Department under the direct control of the President independently monitors the operations of each division.

2) Status of Internal Control System

The Company's internal control system, its "system to ensure operational appropriateness" has been implemented based on the Companies Act and the Companies Act Enforcement Regulations.

The Internal Control Promotion Department provides the



necessary monitoring to ensure the reliability of financial reporting pursuant to the requirements for "internal control related to financial reporting" under the Financial Products Transaction Law.

i. System to Ensure that Duties Performed by Directors and Employees Comply with Laws, Regulations and the Articles of Incorporation

a. Regarding ethics and compliance with laws and regulations, the Compliance 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.

b. The supervisory departments* 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.

*: 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.

c. 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 include the Global Environment Committee, the Plant Management Conference, the Central Committee on Environment, Safety and Human Health, and the Product Safety Examination Committee. This also applies to Items ii and iii.

ii. 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.

iii. System to Ensure Efficient Performance by Directors

a. Dynamic execution is ensured by giving division managers extensive authority over daily business operations, while senior directors are in charge of multiple operating departments and divisions and supervise the execution of operations.

b. 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.

c. 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.

d. 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.

iv. 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.

v. System to Ensure Appropriate Operations within the Enterprise Group Consisting of the Company and Its Subsidiaries

Items i through iv 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.).

vi. 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.

vii. 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 independence of such assistants from the directors.

viii. 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 audit division 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.

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 provide the basic standards the Company's officers and employees are to adhere to in conducting business activities. These policies require that 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.

3) Status of Internal Audit and Auditors' Audit

The Company employs an auditor system. There are four auditors, two of whom are external auditors. There is no noteworthy information regarding any personal, equity, business or other special-interest relationship between the external auditors and the Company. One replacement auditor is also appointed in case the number of auditors falls below that required by law.

The Board of Auditors conducts audits in coordination with other parties concerned, such as requiring the Audit Department to report as necessary on the status of internal audits and the accounting auditors to provide explanations on accounting audits.

4) Status of Accounting Audit

The certified public accountants who provided the Company with accounting audit services during the year are Masahiro Nishio, Koichi Inoue and Yoshitaka Yamaguchi, all belonging to KPMG AZSA & Co. Other personnel who assisted in accounting audit tasks include six certified public accountants and 10 junior certified public accountants.

5) Relationship with External Auditors

External directors Hiroaki Tsukamoto and Kouji Hirokawa were appointed because of their high degree of insight as attorneys and their abundant experience applicable to audit activities. Their independence is ensured by their lack of any noteworthy special interest relationship with the Company.

6) Breakdown of Executive Compensation

Executive compensation for the fiscal year under review was as follows.

Positions	People Compensated	Total Compensation
Directors	13	¥582 million
Auditors (Of whom, external auditors)	4 (2)	¥76 million (¥32 million)

Notes:
1. The above mentioned total compensation includes a payment of executive compensation approved and passed at the 84th Ordinary General Meeting of Shareholders. This amount includes scheduled payments to directors of ¥94 million.
2. The above mentioned total compensation includes ¥50 million in expenses posted in the fiscal year under review for stock acquisition rights (stock option equity compensation) granted to directors.
3. The above mentioned total compensation includes cancellation payments of ¥802 million (¥749 million to directors and ¥53 million to auditors, of which ¥34 million was to external auditors) related to the abolition of the retirement bonus system. The payments were approved at the 83rd Ordinary General Meeting of Shareholders.

7) Compensation for Audits

The Company compensated KPMG AZSA & Co. as follows.

Category	Amount
Compensation for audit activities stipulated in Article 2, Paragraph 1, of the Certified Public Accountant Law (Law No. 103, 1948)	¥46 million
Compensation other than the above	¥2 million

8) 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.

9) 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, it was resolved at the 82nd Ordinary General Meeting of Shareholders held on June 29, 2006, to stipulate in the 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.

10) Requirements for Special Resolutions at the General Meeting of Shareholders

To ensure a smooth General Meeting of Shareholders, the Company's Articles of Incorporation stipulates 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.

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"). The Policy Regarding Countermeasures to Large-Scale Acquisitions of Kaneka Shares, under which the Basic Policy is subsumed, was approved at the 83rd Ordinary General Meeting of Shareholders held on June 28, 2007. 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) Details of the Measures

1) The Company adheres to the guidelines set forth below in effectively utilizing its resources, maintaining the corporate Group in proper form and implementing other special measures that contribute to the realization of the Basic Policy provisions to secure and enhance the corporate value of the Company and the collective interests of its shareholders.

- Achievement of rapid growth and strong earnings by combining high-growth and high-value-added businesses with those that generates stable revenues, based on diversified management
- Concentration of investment on management resources in growth sectors, making efforts to improve profitability through continual cost improvement activities
- Focusing the driving force of management on "research and development targeting next-generation growth sectors," "further reinforcement of overseas business operations" and the common foundation of each of these: "personnel who aggressively take on challenges toward high targets"

The medium-term vision for the Company and the Group is described as, "A corporate group with a recognized global presence established through leveraging original technologies capable of creating differentiated products to engage in diversified business development in areas where high growth is anticipated, consistently providing new and useful value to society." The three-year medium-term plan, which started in FY 2006, is aimed at achieving this vision.

Moreover, amid the rapid changes in the business environment surrounding the Company recently, the new medium-term plan set to begin from FY 2008 emphasizes the ideal of a corporation centered on technology and the pursuit of qualitative reforms. Seeking to raise corporate value through business and personal development, the Company will work to implement the following priority management policies.

- We will place technology at the core of management to unite business policy with technology strategy so that technology will become the driver of corporate growth.
- We will implement qualitative reforms in three areas: business structure, R&D and human resources. Recognizing the Company's strengths in technology, we will reform the

business structure to substantially improve our position as a cutting-edge leader in growth areas. We will also reform R&D to develop innovative technologies with greater speed and practical applicability and reform human resources to cultivate employees imbued with the strong spirit of challenge to realize such reforms.

- We will continue to invest our management resources intensively in functional plastics, electronics products and life science products as the key strategic fields in which we can capitalize on our specialized technologies.

2) The Company is implementing the following takeover defense measures to prevent the Company's 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.

3) Compliance with Requirements, Judgment and Reasoning of the Board of Directors

The Board of Directors of the Company judge 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" takeover defense measures.

Global Network

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

Asia outside of Japan / Oceania

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

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

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

Kaneka Eperan Sdn. Bhd. <Malaysia>
Sales and manufacture of expandable plastics and products

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

Kaneka Eperan (Suzhou) Co., Ltd. <P.R. China>
Manufacture of expandable plastics and products

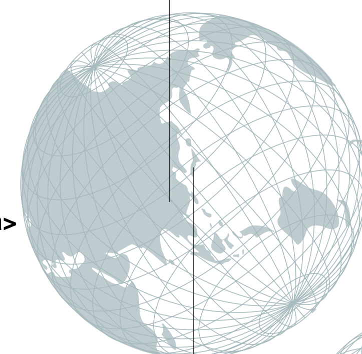
Hihua Fiber Co., Ltd. <P.R. China>
Manufacture of synthetic fibers

Kaneka Consulting (Shanghai) Co., Ltd. <P.R. China>
Technical consulting for Kaneka products

Kaneka Technical Service Co., Ltd. Shanghai <P.R. China>
Technical service for functional plastics

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

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



U.S.A.

Kaneka Texas Corporation
Sales and manufacture of functional plastics, expandable plastics and electronic products

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

Kaneka America LLC
Marketing and technical consulting for Kaneka products

Kaneka Pharma America LLC
Sale of medical devices

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

Japan

Hane Co., Ltd.
Sale of expandable plastics and products

Hokkaido Kaneka Co., Ltd.
Sales and manufacture of expandable plastics and products

Hokkaido Kanepearl Co., Ltd.
Sales and manufacture of expandable plastics and products

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

Sanwa Kasei Kogyo Co., Ltd.
Sales and manufacture of plastic products

Sunpolymer Corporation
Sales and manufacture of expandable plastics and products

Monbetsu Kasei Co., Ltd.

Shibetsu Kasei Co., Ltd.

Koto Co., Ltd.

Tsukasa Co., Ltd.

Miyagi Jushi Co., Ltd.

Kanto Styrene Co., Ltd.

Kitaura Jushi Co., Ltd.

Cosmo Kasei Co., Ltd.

Toyo Styrol Co., Ltd.

Hanepack Co., Ltd.
Manufacture of expandable plastics

Tochigi Kaneka Corporation
Manufacture of expandable plastics and products and electronic products

Kaneka Kentech Co., Ltd.
Sale of construction materials

Kanepearl Service Co., Ltd.
Sale of expandable plastics and products

Tohoku Kaneka Shokuhin Co., Ltd.

Tokyo Kaneka Shokuhin Co., Ltd.

Tokai Kaneka Shokuhin Co., Ltd.

Kaneka Shokuhin Co., Ltd.

Chugoku Kaneka Shokuhin Co., Ltd.

Kyushu Kaneka Shokuhin Co., Ltd.
Sale of foodstuffs products

Kaneka Food Co., Ltd.

Tokyo Kaneka Food Co., Ltd.
Manufacture of oils and fats

Kaneka Sun Spice Co., Ltd.
Sales and manufacture of spices

Kaneka Medix Corporation
Sales and manufacture of medical devices

Kaneka Engineering Corporation
Chemical-plant engineering

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

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

Taiyo Yushi Co., Ltd.
Sales and manufacture of oils and fats

Kaneka Solartech Co., Ltd.
Manufacture of solar cells

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

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

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

▲ **Ibiden Jyushi Co., Ltd.**
Manufacture of expandable plastics and products

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

Europe

Kaneka Belgium N.V. <Belgium>
Sales and manufacture of functional plastics and expandable plastics and products

Kaneka Pharma Europe N.V. <Belgium>
Sale of functional foodstuffs and medical devices

Sales

The Kaneka Group's net sales for FY 2008 (April 1, 2007 to March 31, 2008) increased 6.3% from the previous fiscal year to ¥502,968 million.

International sales rose 9.0% to ¥187,153 million, despite sagging sales at subsidiaries in the United States, as exports from Japan and subsidiaries in Europe performed well. The ratio of international sales to total sales climbed from 36.3% to 37.2%.

By geographical area, sales advanced 7.1% in Japan to ¥406,642 million. Solid sales in Europe compensated for sluggish results in the United States, netting a 2.9% increase in sales across all regions outside Japan to ¥96,326 million.

Sales contracted in one out of our seven business segments, but grew in the remaining six. Notably, sales in the synthetic fibers and others segments jumped 23.6% as a result of increased sales and a shift to higher value-added products. Sales in electronic products gained 10.8%, boosted by substantially larger sales of solar cells amid thriving demand. Sales in the chemicals segment were up 10.0%, on higher sales of PVC/caustic soda and price revisions to offset rising raw material costs and fuel prices. On the other hand, sales in the life science products segment fell because of a decrease in sales of existing products and products in development in the field of pharmaceutical bulks and intermediates and a sudden drop in sales of functional foodstuffs due to intensified competition.

Cost of Sales and SG&A Expenses

During FY 2008, appreciating raw material costs and fuel prices pushed up the cost of sales 9.1%, to ¥376,031 million. These increases led to a ratio of costs to sales of 74.8% compared with 72.8% for the previous fiscal year.

SG&A expenses edged down 0.9%, to ¥91,191 million, and the ratio of SG&A expenses to sales declined 1.3 percentage points to 18.1%.

Operating Income

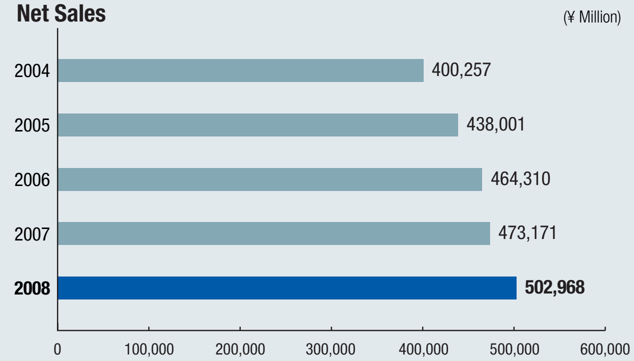
Operating income during FY 2008 inched down 2.5% to ¥35,746 million.

By region, operating income decreased 6.2% in Japan to ¥34,896 million. In other areas, a transfer of production and sales of functional foodstuffs from Japan to the United States contributed to operating income of ¥5,697 million, a 28.1% increase.

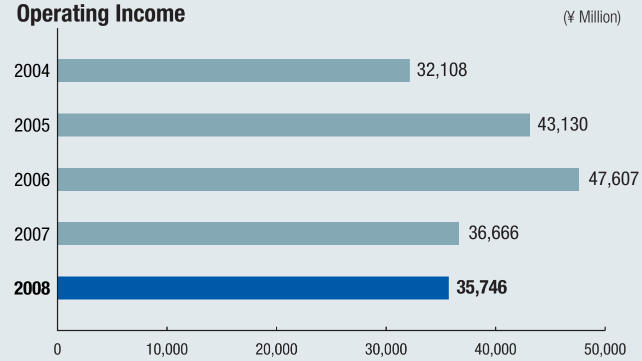
Operating income increased in two out of seven segments, but decreased in the remaining five.

The synthetic fibers and others segment experienced a 60.8% rise in operating income, driven by an emphasis on boosting production and sales of high-value-added products and price revisions. In the midst of ongoing raw material costs and fuel price hikes in the expandable plastics and products segment, efforts to cut costs and adjust selling prices bolstered income, although still resulting in a net loss. On the other hand, although sales of modified silicone polymers increased, primarily in Europe, operating income from the functional plastics segment slipped 11.5%. The main factors in this decrease were sluggish sales of modifiers for residential housing applications in the United States, lower sales volumes in Europe compared with the previous year, and the impact of swelling raw material costs and fuel prices. Despite expanded sales of differentiated items in the foodstuffs products segment, sudden rises in prices for palm oil and other edible oils led to a 20.0% fall in

Net Sales



Operating Income



operating income. Operating income fell 8.9% in the chemicals segment due to the negative influence of the downturn in the U.S. housing market on the performance of polyvinyl-chloride special resins and the inability to revise prices in step with rising raw material costs and fuel prices. In the life science products segment, sales of medical devices expanded steadily but were offset by slow sales of existing products and products in development in the field of pharmaceutical bulks and intermediates and from the effects of business restructuring in functional foodstuffs undertaken at the end of FY 2008. Combined with reduced sales volumes and sales prices compared with FY 2007—stemming from more severe competition-these factors depressed operating income 7.8%. Operating income from the electronic products segment decreased 2.6%, as fierce competition eroded sales prices and LCD-related products were lackluster amid significant changes in technologies, despite vigorous demand for solar cells in Europe and increased sales volume of ultra-heat-resistant polyimide film, which was driven by higher demand for mobile phones and electronics products.

Net Income

During the year, other income included a ¥940 million gain on sales of investments in securities, and expenses included foreign exchange losses of ¥413 million. Other expenses included ¥1,171 million in impairment losses on fixed assets and a ¥1,458 million loss on business liquidation.

As a result, net income for the year edged up 2.5% to ¥18,817 million.

Financial Condition

Total assets for the year shrank 3.1% to ¥452,620 million.

Current assets edged down 0.4% to ¥218,439 million due in part to a decrease in notes and accounts receivable.

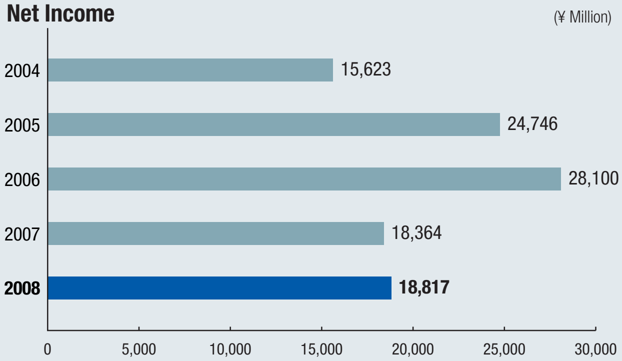
Tangible fixed assets were ¥160,615 million, up 0.8%. Primary capital expenditures for the period included those to boost production capacity for specialty PVC resins and for solar cells. Investments and other assets contracted 17.2% to ¥70,744 million as a result of a decrease in the market valuation of investment securities because of lower share prices.

Current liabilities amounted to ¥134,182 million, a 0.2% increase. Fixed liabilities shrank 17.8% to ¥50,840 million partly due to a decline in deferred tax assets.

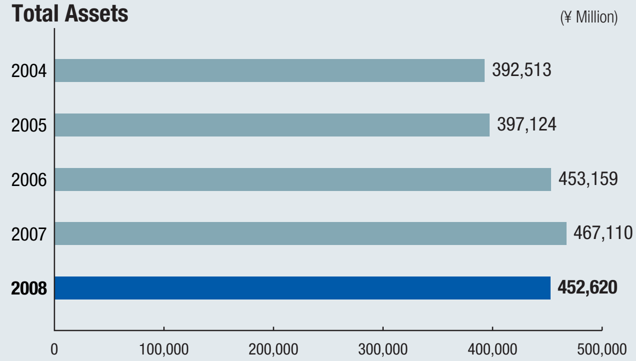
Despite the cancellation of treasury stock and an increase in retained earnings, falling share prices reduced unrealized gains on available-for-sale securities, decreasing net assets 1.4% to ¥267,598 million.

As a result, return on assets (ROA) was 7.4% compared to 8.0% for the previous year, the shareholders' equity ratio increased from 56.8% to 57.7% and the debt-to-equity ratio increased from 0.20 to 0.21.

Net Income



Total Assets



Financial Index Trends

	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008
Shareholders' equity ratio	52.2%	56.4%	57.5%	56.8%	57.7%
Shareholders' equity ratio based on market value	93.3%	103.5%	107.2%	82.4%	46.8%
Number of years of debt redemption	1.7	1.1	1.0	1.6	1.4
Interest coverage ratio	26.9	35.1	44.6	19.9	24.9

Notes)
Shareholders' equity ratio: Equity capital/total assets
Shareholders' equity ratio based on market value: Total market value of stock/total assets
Number of years of debt redemption: Liabilities with interest/operating cash flows
Interest coverage ratio: Operating cash flows/interest paid

* All calculated according to financial figures on a consolidated basis.
* The scope of cash flow is operating cash flows. The scope of liabilities with interest is all liabilities in the balance sheet for which interest is payable.

Cash Flows

Net cash from operating activities totaled ¥39,418 million, principally consisting of net income before taxes of ¥31,237 million and depreciation and amortization of ¥24,911 million, against increases in inventories of ¥7,236 million, a decrease in trade receivables of ¥4,110 million and the payment of ¥13,510 million in corporate income tax.

The principal component of net cash used in investing activities of ¥34,988 million was ¥32,991 million for the purchase of property, plant and equipment.

Net cash used in financing activities totaled ¥4,434 million, largely made up of ¥5,467 million for the payment of dividends, ¥1,647 million for the acquisition of treasury stock, and a ¥3,166 million increase in short-term borrowings.

As a result, the balance of cash and cash equivalents at the end of the current fiscal year was ¥21,988 million, down ¥648 million from the end of the previous fiscal year.

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, 2008; this is not an exhaustive list of risks borne by the Group.

(1) 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. Accordingly, international sales accounted for 37.2% of total sales in the current fiscal year. However, overseas business operations face various risks, including unexpected changes in laws, regulations and tax systems, transfer price taxation, and social and political disturbances resulting from terrorism and 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.

(2) 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, as 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.

(3) Risks associated with product liabilities, 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 in order to be prepared 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. Major disasters, 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.

(4) 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.

(5) 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. 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 significantly impact the Group's financial position and performance.

(6) 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 and administrative measures in connection with operations in Japan and abroad. If a significant action is filed against the Group, it is possible that the Group's financial position and performance would be significantly affected.

(7) Other risks

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, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and cash equivalents (Note 2)	¥ 21,988	¥ 22,636	$ 219,463
Marketable securities and funds in trust (Note 3)	–	–	–
Trade notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	1,407	1,661	14,043
Other	111,817	116,740	1,116,050
Inventories (Note 5)	71,314	65,277	711,788
Loans to unconsolidated subsidiaries and affiliates	244	372	2,435
Deferred tax assets (Note 11)	4,769	4,752	47,600
Other current assets	7,348	8,120	73,341
Allowance for doubtful receivables	(448)	(338)	(4,472)
Total current assets	218,439	219,220	2,180,248
Property, plant and equipment (Notes 6 and 12)**:**			
Land	22,729	22,975	226,859
Buildings and structures	132,841	129,848	1,325,891
Machinery and equipment	435,684	425,688	4,348,578
Construction in progress	13,499	10,000	134,734
Other	1,819	1,771	18,155
	606,572	590,282	6,054,217
Less accumulated depreciation	445,957	430,878	4,451,113
Property, plant and equipment, net	160,615	159,404	1,603,104
Intangible assets	2,822	3,030	28,166
Investments and other assets:			
Investments in securities (Notes 3):			
Unconsolidated subsidiaries and affiliates	3,188	3,092	31,820
Other	50,719	71,787	506,228
Loans receivable	1,410	1,444	14,073
Deferred tax assets (Note 11)	4,441	1,462	44,326
Other	11,284	8,000	112,626
Allowance for doubtful receivables	(298)	(329)	(2,974)
Allowance for investments in unconsolidated subsidiaries and affiliates	–	–	–
Total investments and other assets	70,744	85,456	706,099
	¥ 452,620	¥ 467,110	$ 4,517,617

See accompanying notes.

Liabilities and net assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings (Note 12)	¥ 21,278	¥ 19,246	$ 212,376
Long-term debt due within one year (Note 12)	5,743	1,021	57,321
Notes and accounts payable:			
Trade	67,921	69,015	677,922
Construction	9,000	11,140	89,829
Other	14,042	15,480	140,154
Accrued income taxes	4,947	7,262	49,376
Accrued expenses	8,821	9,118	88,043
Other current liabilities	2,430	1,699	24,254
Total current liabilities	134,182	133,981	1,339,275
Long-term liabilities:			
Long-term debt due after one year (Note 12)	27,208	32,196	271,564
Employees' severance and retirement benefits (Note 13)	18,218	18,218	181,834
Retirement benefits for directors and statutory auditors	234	962	2,336
Deferred tax liabilities (Note 11)	1,593	7,082	15,900
Other Long-term liabilities	3,587	3,391	35,802
Total long-term liabilities	50,840	61,849	507,436
Contingent liabilities (Note 14)			
Net assets (Notes 2 and 16)**:**			
Shareholders' equity:			
Common stock			
Authorized — 750,000,000 shares			
Issued — 357,612,418 shares in 2007 350,000,000 shares in 2008	33,047	33,047	329,843
Capital surplus	34,837	34,857	347,709
Retained earnings	194,741	188,417	1,943,717
Less treasury stock, at cost — 15,379,120 shares in 2007 9,670,723 shares in 2008	(9,018)	(14,479)	(90,009)
Total shareholders' equity	253,607	241,842	2,531,260
Valuation and translation adjustments:			
Unrealized gains on available-for-sale securities	10,626	24,116	106,059
Unrealized gains on hedging derivatives	3	0	30
Foreign currency translation adjustments	(2,974)	(827)	(29,683)
Total valuation and translation adjustments	7,655	23,289	76,406
Stock acquisition rights	50	–	499
Minority interests	¥ 6,286	¥ 6,149	$ 62,741
Total net assets	267,598	271,280	2,670,906
	452,620	467,110	4,517,617

See accompanying notes.

Consolidated Statements of Income

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Net sales	¥ 502,968	¥ 473,171	¥ 464,310	$ 5,020,142
Cost of sales	376,031	344,520	328,509	3,753,179
Gross profit	126,937	128,651	135,801	1,266,963
Selling, general and administrative expenses	91,191	91,985	88,194	910,181
Operating income	35,746	36,666	47,607	356,782
Other income (expenses):				
Interest and dividend income	1,601	1,164	907	15,980
Interest expense	(1,488)	(1,719)	(1,071)	(14,852)
Gain on sales of investments in securities	940	1,661	677	9,382
Loss on disposals of property, plant and equipment	(1,292)	(1,429)	(1,626)	(12,895)
Foreign exchange gains (losses), net	(413)	854	1,416	(4,122)
Impairment losses on fixed assets (Note 6)	(1,171)	(1,864)	–	(11,688)
Environmental expenditures (Note 7)	–	–	(2,452)	–
Expenses to restructure functional foodstuffs business (Note 8)	–	(4,447)	–	–
Loss on business liquidation (Note 9)	(1,458)	–	–	(14,552)
Settlement of U.S. class-action lawsuit (Note 10)	–	(697)	–	–
Gain on sales of subsidiaries' stock	–	2,726	–	–
Other, net	(1,228)	(258)	(192)	(12,257)
Income before income taxes and minority interests	31,237	32,657	45,266	311,778
Income taxes (Note 11)				
Current	11,316	14,183	17,891	112,946
Deferred	628	(526)	(1,153)	6,268
Minority interests	476	636	428	4,751
Net income	¥ 18,817	¥ 18,364	¥ 28,100	$ 187,813

	Yen			U.S.dollars (Note 1)
Net income per share — basic	¥ 55.10	¥ 53.48	¥ 80.80	$ 0.55
Net income per share — diluted	55.09	–	–	0.55
Cash dividends, applicable to the year	16.00	16.00	16.00	0.16

See accompanying notes.

Consolidated Statements of Shareholders' Equity

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2006

	Millions of yen						
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2005	357,612,418	¥ 33,047	¥ 34,855	¥ 155,150	¥ 14,212	¥ (4,722)	¥ (8,399)
Net income	–	–	–	28,100	–	–	–
Increase due to expansion of the scope of consolidated subsidiaries	–	–	–	694	–	–	–
Gain on disposal of treasury stock	–	–	2	–	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	1,911	–
Increase in unrealized gains on available-for-sale securities	–	–	–	–	16,025	–	–
Purchase of treasury stock	–	–	–	–	–	–	(3,958)
Disposition of treasury stock	–	–	–	–	–	–	3
Cash dividends paid - ¥16.00 per share	–	–	–	(5,544)	–	–	–
Bonuses to directors and statutory auditors	–	–	–	(140)	–	–	–
Decrease due to expansion of the scope of consolidated subsidiaries	–	–	–	(501)	–	–	–
Balance at March 31, 2006	357,612,418	¥ 33,047	¥ 34,857	¥ 177,759	¥ 30,237	¥ (2,811)	¥ (12,354)

Consolidated Statements of Changes in Net Assets

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Year ended March 31, 2008 and 2007

	Shares of common stock	Millions of yen									
		Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on hedging derivatives	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total
Balance at March 31, 2006	357,612,418	¥ 33,047	¥ 34,857	¥ 177,759	¥ (12,354)	¥ 30,237	–	¥ (2,811)	–	¥ 5,667	¥ 266,402
Cash dividends paid — ¥16.00 per share	–	–	–	(5,500)	–	–	–	–	–	–	(5,500)
Bonuses to directors and statutory											
auditors	–	–	–	(141)	–	–	–	–	–	–	(141)
Net income	–	–	–	18,364	–	–	–	–	–	–	18,364
Decrease in retained earnings due to											
change in accounting standards at									–		
overseas subsidiaries	–	–	–	(129)	–	–	–	–	–	–	(129)
Purchase of treasury stock	–	–	–	–	(2,130)	–	–	–	–	–	(2,130)
Disposition of treasury stock	–	–	–	–	5	–		–		–	5
Decrease due to expansion of the									–		
scope of consolidated subsidiaries	–	–	–	(1,936)	–	–	–	–	–	–	(1,936)
Net chages during the year	–	–	–	–	–	(6,121)	0	1,984	–	482	(3,655)
Balance at March 31, 2007	357,612,418	¥ 33,047	¥ 34,857	¥ 188,417	¥ (14,479)	¥ 24,116	¥ 0	¥ (827)	–	¥ 6,149	¥ 271,280
Cash dividends paid — ¥16.00 per share	–	–	–	(5,467)	–	–	–	–	–	–	(5,467)
Net income	–	–	–	18,817	–	–	–	–	–	–	18,817
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	–	–	–	52	–	–	–	–	–	–	52
Purchase of treasury stock	–	–	–	–	(1,647)	–		–	–	–	(1,647)
Cancellation of treasury stock	(7,612,418)	–	(20)	(7,078)	7,098	–		–	–	–	–
Disposition of treasury stock	–	–	(0)	–	10			–	–	–	10
Net chages during the year	–	–	–	–	–	(13,490)	3	(2,147)	50	137	(15,447)
Balance at March 31, 2008	350,000,000	¥ 33,047	¥ 34,837	¥ 194,741	¥ (9,018)	¥ 10,626	¥ 3	¥ (2,974)	¥ 50	¥ 6,286	¥ 267,598

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gains (losses) on available-for-sale securities	Unrealized gains (losses) on hedging derivatives	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total
Balance at March 31,2007	$ 329,843	$ 347,909	$1,880,597	$ (144,515)	$ 240,703	–	$ (8,254)	–	$ 61,373	$2,707,656
Cash dividends paid — ¥16.00 per share	–	–	(54,566)	–	–	–	–	–	–	(54,566)
Net income	–	–	187,813	–	–	–	–	–	–	187,813
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	–	–	519	–	–	–	–	–	–	519
Purchase of treasury stock	–	–	–	(16,440)	–	–	–	–	–	(16,440)
Cancellation of treasury stock	–	(200)	(70,646)	70,846	–		–	–	–	–
Disposition of treasury stock	–	(0)	–	100	–	–	–	–	–	100
Net chages during the year	–	–	–	–	(134,644)	30	(21,429)	499	1,368	(154,176)
Balance at March 31, 2008	$ 329,843	$ 347,709	$1,943,717	$ (90,009)	$ 106,059	$ 30	$ (29,683)	$ 499	$ 62,741	$2,670,906

See accompanying notes.

Consolidated Statements of Cash Flows

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2008, 2007, and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 31,237	¥ 32,657	¥ 45,266	$ 311,778
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	24,911	24,584	22,436	248,638
Impairment losses on fixed assets	1,171	1,864	–	11,688
Decrease in provision for severance and retirement benefits	(1,635)	(1,308)	(540)	(16,319)
Increase (decrease) in allowance for doubtful receivables	95	4	(463)	948
Interest and dividend income	(1,601)	(1,164)	(907)	(15,980)
Interest expense	1,488	1,719	1,071	14,852
Loss on disposals of property, plant and equipment	770	1,400	1,122	7,685
Gain on sales of subsidiaries' stock	–	(2,726)	–	–
Loss on business liquidation	1,458	–	–	14,552
Gain on sales of investments in securities	(940)	(1,661)	(676)	(9,382)
Expenses to restructure functional foodstuffs business	–	4,447	–	–
Settlement of U.S. class-action lawsuit	–	697	–	–
Environmental expenditure	–	–	2,452	–
Equity in earnings of unconsolidated subsidiaries and affiliates	(60)	(5)	(23)	(599)
Decrease (increase) in trade receivables	4,110	(9,220)	(2,987)	41,022
Increase in inventories	(7,236)	(9,324)	(5,388)	(72,223)
Increase (decrease) in trade payables	(322)	8,316	1,795	(3,214)
Other, net	(539)	1,138	352	(5,380)
Subtotal	52,907	51,418	63,510	528,066
Interest and dividend received	1,605	1,159	913	16,020
Interest paid	(1,584)	(1,648)	(1,062)	(15,810)
Income taxes paid	(13,510)	(18,186)	(15,959)	(134,844)
Net cash provided by operating activities	39,418	32,743	47,402	393,432
Cash flows from investing activities:				
Purchases of marketable securities	–	–	(1,900)	–
Proceeds from sales of marketable securities	–	1,600	3,871	–
Purchases of property, plant and equipment	(32,991)	(34,879)	(30,237)	(329,284)
Purchases of intangible assets	(684)	(769)	(913)	(6,827)
Purchases of investments in securities	(2,867)	(4,886)	(2,959)	(28,616)
Proceeds from sales and maturities of investments in securities	1,853	2,893	3,365	18,495
Proceeds from sales of consolidated subsidiaries	–	2,860	–	–
Purchases of consolidated subsidiaries' stock	–	(57)	(52)	–
Payments for loans receivable	(67)	(401)	(5,704)	(669)
Proceeds from collections of loans receivable	300	376	139	2,994
Other, net	(532)	(632)	(715)	(5,310)
Net cash used in investing activities	(34,988)	(33,895)	(35,105)	(349,217)
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	3,166	6,653	(43)	31,600
Proceeds from long-term debt	867	6,915	2,550	8,654
Repayment of long-term debt	(1,152)	(7,822)	(2,022)	(11,498)
Proceeds from issuance of bonds	–	–	(5,000)	–
Dividends paid	(5,467)	(5,500)	(5,544)	(54,566)
Dividends paid to minority shareholders	(211)	(203)	(186)	(2,106)
Purchases of treasury stock	(1,647)	(2,130)	(3,958)	(16,439)
Proceeds from reissuance of treasury stock	10	5	5	100
Net cash used in financing activities	(4,434)	(2,082)	(14,198)	(44,255)
Effect of exchange rate changes on cash and cash equivalents	(644)	301	310	(6,428)
Net decrease in cash and cash equivalents	(648)	(2,933)	(1,591)	(6,468)
Effect of changes in consolidated subsidiaries	–	524	1,115	–
Cash and cash equivalents at beginning of year	22,636	25,045	25,521	225,931
Cash and cash equivalents at end of year	¥ 21,988	¥ 22,636	¥ 25,045	$ 219,463

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 of 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 shareholders' equity for 2006 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.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile.

The consolidated balance sheets as of March 31, 2008 and 2007, which have been prepared in accordance with the new accounting standard as discussed in Note 2 are presented with the consolidated balance sheet as of March 31, 2006 prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2, the consolidated statements of changes in net assets for the years ended March 31, 2008 and 2007 have been prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required to be filed with the Local Finance Bureau.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008 which was ¥100.19 to U.S. $1.00. The convenience 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 (the "Companies") over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control by the Company. Investments in non-consolidated 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 52 (52 in 2007 and 50 in 2006) consolidated subsidiaries and 2 (2 in 2007 and 2006) affiliates accounted for by the equity method.

Four of the Company's subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

Inter-company 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 subsidiaries. The difference between the cost of investment in the subsidiary and the equity in the net assets at the date of acquisition is, with minor exceptions, amortized over five years.

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 receivables

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 has been individually estimated.

Allowance for investments in unconsolidated subsidiaries and affiliates

Allowance for investments in unconsolidated subsidiaries and affiliates is provided for possible losses from the investments based on an assessment of the financial and other conditions of respective subsidiary of affiliate.

Securities

The Company and its consolidated domestic subsidiaries 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 gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated domestic subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are 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 contracts is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

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

Property, plant and equipment
Property, plant and equipment are stated at cost net of accumulated loss from impairment. Cumulative amounts of recognized impairment losses have been deducted from acquisition costs. Depreciation is principally computed over the estimated useful life of the assets on the declining balance method. However the straight-line method is applied to buildings. Repairs, maintenance and minor renewals are charged to expense as incurred.

Effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed the accounting method for the depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in Corporation Tax Law of Japan.

As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥ 924 million ($9,222 thousand), respectively, compared to what would have been reported under the previous method.

See note 18 for the effect of this charge on segment information.

As for property, plant and equipment acquired on or before March 31, 2007, differences between 5% equivalent of acquisition costs, which is the limits of depreciable amounts under the former Corporation Tax Law, and memorandum value are depreciated equally over 5 years from the year after such assets are thoroughly depreciated to the limits of depreciable amounts.

As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥ 526 million ($5,250 thousand), respectively, compared to what would have been reported under the previous method.

See note 18 for the effect of this charge on segment information.

Employees' severance and 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 non-contributory funded pension plan, which covers substantially all employees. Domestic consolidated subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provides 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 within the average of the estimated remaining service years. Actuarial gains and losses are recognized using the straight-line method over 10 years, which was determined within the average of the estimated remaining service years commencing with the following period.

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

The Company abolished entitling directors and statutory auditors to retirement benefits prospectively by the resolution of the shareholders' meeting on June 28, 2007. Upon this resolution, the Company recognized the corresponding amounts of the previous years' benefits as other long-term liabilities.

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, 2008, 2007 and 2006 were ¥16,611 million ($165,795 thousand), ¥16,870 million and ¥16,862 million, respectively.

Finance leases
Finance leases, which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

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. Diluted net income per share in 2007 and 2006 are not disclosed, because there was no latent stock that diluted net income per share at March 31, 2007 and 2006.

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2008 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Accounting standard for presentation of net assets in the balance sheet
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006 prepared pursuant to the previous presentation rules, comprises the assets, liabilities, minority interests and shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently from March 31, 2007 compared to March 31, 2006.

The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section from March 31, 2007. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥265,131 million would have been presented.

Accounting standard for statement of changes in net assets
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, has not been adapted to the new presentation rules of 2007.

Bonuses to directors
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Directors' Bonus" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005). As a result of the adoption, selling, general and administrative expenses increased by ¥126 million and operating income and income before income taxes and minority interests decreased by ¥126 million compared with the amounts that would have been recorded under the previous accounting method.

3. 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, 2008:

Securities with book values exceeding acquisition costs:	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2008			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 11,056	¥ 32,684	¥ 21,628	$ 110,350	$ 326,220	$ 215,870
Bonds	–	–	–	–	–	–
	¥ 11,056	¥ 32,684	¥ 21,628	$ 110,350	$ 326,220	$ 215,870

Securities with book values not exceeding acquisition costs:	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2008			2008		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 13,527	¥ 9,963	¥ (3,564)	$ 135,013	$ 99,441	$ (35,572)
Bonds	–	–	–	–	–	–
	¥ 13,527	¥ 9,963	¥ (3,564)	$ 135,013	$ 99,441	$ (35,572)

The following table summarizes book values of securities with no available fair values as of March 31, 2008:

(1) Investments in unconsolidated subsidiaries and affiliated companies	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	2008
	¥ 2,788	$ 27,827

(2) Available-for-sale securities:	Millions of yen	Thousands of U.S. dollars (Note 1)
	2008	2008
Non-listed equity securities	¥ 6,929	$ 69,159
Bonds	250	2,495
Investment trust	1,907	19,034
Other	893	8,913
	¥ 9,979	$ 99,601

Available-for-sale securities with maturities are as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2008			2008		
	Within one year	Within five years	Total	Within one year	Within five years	Total
Bonds	¥ –	¥ 250	¥ 250	$ –	$ 2,495	$ 2,495

Total sales of available-for-sale securities in the year ended March 31, 2008 amounted to ¥1,269 million ($12,666 thousand), and related gains amounted to ¥940 million ($9,382 thousand).

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2007:

Securities with book values exceeding acquisition costs:

	Millions of yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	¥ 21,967	¥ 62,959	¥ 40,992
Bonds	–	–	–
	¥ 21,967	¥ 62,959	¥ 40,992

Securities with book values not exceeding acquisition costs:

	Millions of yen		
	2007		
	Acquisition cost	Book value	Difference
Equity securities	¥ 897	¥ 791	¥ (106)
Bonds	–	–	–
	¥ 897	¥ 791	¥ (106)

The following table summarizes book values of securities with no available fair values as of March 31, 2007:

(1) Investments in unconsolidated subsidiaries and affiliated companies

Millions of yen
2007
¥ 2,692

(2) Available-for-sale securities:

	Millions of yen
	2007
Non-listed equity securities	¥ 7,141
Investment trust	2,358
Other	896
	¥ 10,395

Total sales of available-for-sale securities in the year ended March 31, 2007 amounted to ¥2,207 million and related gains amounted to ¥1,659 million.

4. Derivative financial instruments and hedging transaction

The Companies utilize forward foreign currency exchange contracts and currency swaps to hedge foreign currency risk exposure related to foreign currency denominated trade receivables, trade payables, securities and loans receivables. Interest rate swaps are used to convert fixed and variable interest rates on bonds and borrowings in order to manage and reduce net interest costs.

The Companies do not enter into derivative transactions for speculative purposes. The Companies have established rules and policies to control and minimize credit and market risk, including using highly rated financial institutions as counterparties, restrictions on scope and purpose, designation of responsible department, and establishing reporting and review requirements.

5. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Finished products	¥ 42,881	¥ 38,644	$ 427,997
Work-in-process	9,436	8,842	94,181
Raw materials and supplies	18,997	17,791	189,610
	¥ 71,314	¥ 65,277	$ 711,788

6. Impairment of fixed assets

The Companies recognized impairment losses for the following group of fixed assets in the year ended March 31, 2008.

Location	Use	Type
Ikoma City, Nara Prefecture	Idle land	Land
Kaneka Nutrients L.P.	Functional foodstuff production equipment and facilities	Machinery and equipment, buildings, etc.
Kaneka Corporation's Osaka plant	Polystyrene foam sheet production facilities	Machinery and equipment
Sunpolymer Corporation	Polystyrene foam sheet production facilities	Machinery and equipment, etc.

Land owned by the Company in Ikoma City, Nara Prefecture was acquired for the purpose of building research laboratories, but this land is currently an idle asset and its price has declined. Therefore, its book value was written down to the recoverable value, and the write-down amount of ¥194 million ($1,936 thousand) was accounted for as an impairment loss as other expenses. The recoverable value of the land was appraised according to the net selling price based on the road rating evaluated by the National Tax Agency.

Owing to lower profitability stemming from increasingly stringent competition, the book value of the functional foodstuffs production equipment and facilities of Kaneka Nutrients L.P. was reduced to its recoverable value, and the write-down amount of ¥423 million ($4,222 thousand) was accounted for as an impairment loss as other expenses. The primary components of this amount are machinery and equipment of ¥291 million ($2,904 thousand) and buildings of ¥107 million ($1,068 thousand). As the recoverable value is estimated at value in use, future cash flows have been discounted at the rate of 10%.

As profitability of the polystyrene foam sheet production facilities at the Kaneka Corporation's Osaka plant and Sunpolymer Corporation worsened as a result of sharply higher raw material prices, the book values of these facilities was reduced to their recoverable values, and the reduction amount of ¥553 million ($5,520 thousand) was recorded as an impairment loss and posted as other expenses. The primary component of this amount is machinery and equipment of ¥539 million ($5,380 thousand). As the recoverable value is estimated at value in use, future cash flows have been discounted at a rate of 2.5%.

The Companies recognized impairment losses for the following group of fixed assets in the year ended March 31, 2007.

Location	Use	Type
Kaneka Texas Corporation, Jackson Plant	Facility for production of polyolefin foams by beads method	Machinery, equipment, buildings and other

As future cash flows from the facility at the Kaneka Texas Corporation's Jackson Plant that manufacturers products using the polyolefin foams by beads method became unlikely, the Company reduced to zero the entire book value of said assets and declared the resulting ¥1,864 million impairment loss as other expenses. Of this loss, machinery and equipment accounted for ¥1,402 million, buildings for ¥453 million and other assets for ¥7 million.

The Kaneka Group groups its assets mainly according to the business units of the Company. Leased assets and idle assets are grouped individually in their respective asset groups.

7. Environmental expenditures

Environmental expenditures refer to expenses incurred in the disposition of polychlorinated biphenyl waste obliged under the Law Concerning Special Measure against Polychlorinated Biphenyl Waste, calculated on the basis of the unit disposal cost published by the Japan Environmental Safety Corporation.

8. Expenses to restructure functional foodstuffs business

A consolidated subsidiary generated ¥3,813 million in impairment losses, and ¥634 million in losses resulted from expenses related to business restructuring at the Company.

Impairment losses were recorded for the following assets of a consolidated subsidiary.

Location	Use	Type
Kaneka Nutrients L.P.	Functional foodstuffs production facility	Machinery, equipment, buildings

As a result of increasingly severe competition, the profitability of the functional foodstuffs production facility of Kaneka Nutrients L.P. worsened, and an extraordinary loss was posted when writing down the book value of the facility to the recoverable value. Machinery and equipment accounted for ¥2,838 million of this amount, and buildings for ¥974 million. The recoverable value in use of the facility was calculated by discounting future cash flows at interest rate of 10%.

9. Loss on business liquidation

The primary components of the loss on business liquidation are a loss of ¥552 million ($5,510 thousand) upon a sale of a part of the expandable plastics and products molding business of a North American consolidated subsidiary, a ¥589 million ($5,879 thousand) loss on disposal of fixed assets and ¥273 million ($2,725 thousand) in early retirement costs involving the withdrawal from business of a consolidated subsidiary in the electronic products segment.

10. Settlement of U.S. class-action lawsuit

The company recognized the settlement of a class action in the United States in the Modifier business as other expenses.

11. Income taxes

The Companies 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, 2008, 2007 and 2006.

The following table summarizes the significant differences between the statutory tax rates and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2008, 2007 and 2006.

	2008	2007	2006
Statutory tax rate	40.64%	40.64%	40.64%
Valuation allowance	0.90%	6.01%	(0.03%)
Foreign tax credit	(5.86%)	(5.85%)	(4.64%)
Non-deductible expenses	0.71%	0.69%	0.41%
Non-taxable dividends received	(1.77%)	(1.58%)	(0.92%)
Elimination of dividends on consolidation	3.34%	3.78%	2.40%
Other	0.27%	(1.87%)	(0.88%)
Effective tax rate	38.23%	41.82%	36.98%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Deferred tax assets:			
Retirement benefits	¥ 6,180	¥ 6,979	$ 61,683
Loss carryforwards	6,348	4,412	63,360
Write-down of investments in securities	1,643	1,671	16,399
Excess bonuses accrued	1,916	1,934	19,124
Impairment losses on fixed assets	2,887	3,132	28,815
Net unrealized holding losses on securities	1,453	44	14,502
Other	7,300	8,114	72,862
Subtotal	27,727	26,286	276,745
Valuation allowance	(7,697)	(7,271)	(76,824)
Total deferred tax assets	20,030	19,015	199,921
Deferred tax liabilities:			
Net unrealized holding gains on securities	8,782	16,649	87,654
Other	3,631	3,234	36,241
Total deferred tax liabilities	12,413	19,883	123,895
Net deferred tax assets (liabilities)	¥ 7,617	¥ (868)	$ 76,026

12. Short-term borrowings and long-term debt

Short-term borrowings are generally represented by unsecured notes, generally for three months, with average interest rates of 2.03% and 4.56% at March 31, 2008 and 2007, respectively. Such borrowings are generally renewable at maturity.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Secured:			
Loans principally from banks and insurance companies, interest rates from 1.07% to 2.80% (1.07% to 2.80% in 2007), maturing serially through 2013	¥ 666	¥ 654	$ 6,647
Unsecured:			
Loans from banks and insurance companies, interest rates from 0.78% to 5.52% (0.74% to 5.68% in 2007) maturing serially through 2019	17,285	17,563	172,523
Bonds, interest rate of 2.66%, due September 9, 2008	5,000	5,000	49,905
Bonds, interest rate of 2.09%, due July 27, 2009	5,000	5,000	49,905
Bonds, interest rate of 2.45%, due July 27, 2011	5,000	5,000	49,905
	32,951	33,217	328,885
Less amounts due within one year	5,743	1,021	57,321
	¥ 27,208	¥ 32,196	$ 271,564

At March 31, 2008, assets pledged as collateral for secured long-term debt, short-term borrowings and trade payables totaling ¥3,386 million ($33,796 thousand) are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	¥ 2,247	$ 22,427
Land	498	4,971
	¥ 2,745	$ 27,398

The aggregate annual maturities of long-term debt are as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2009	¥ 5,743	$ 57,321
2010	5,477	54,666
2011	1,265	12,626
2012	5,853	58,419
2013	5,659	56,483
2014 and thereafter	8,954	89,370
	¥ 32,951	$ 328,885

13. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consist of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥ 74,332	¥ 73,000	$ 741,909
Less fair value of pension assets	(49,236)	(51,922)	(491,426)
Less unrecognized actuarial differences	(9,530)	(4,131)	(95,119)
Less unrecognized prior service cost (credit)	55	478	549
Prepaid pension cost	2,597	793	25,921
Severance and retirement benefits	¥ 18,218	¥ 18,218	$ 181,834

Certain subsidiaries use the simplified method in calculating the retirement benefit obligation.

Included in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 were severance and retirement benefit expenses comprised of the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	2008
Service costs — benefits earned during the year	¥ 3,158	¥ 3,123	¥ 3,131	$ 31,521
Interest costs on projected benefit obligation	1,714	1,664	1,591	17,107
Expected return on plan assets	(1,264)	(1,152)	(946)	(12,616)
Amortization of actuarial differences	1,106	1,142	1,538	11,039
Amortization of prior service cost (credit)	(423)	(423)	(784)	(4,222)
Severance and retirement benefit expenses	¥ 4,291	¥ 4,354	¥ 4,530	$ 42,829

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

	2008	2007	2006
Allocation method for projected benefits:	straight-line	straight-line	straight-line
Discount rate:	2.5%	2.5%	2.5%
Expected rate of return:	2.5%	2.5%	2.5%
Period of amortizing prior service cost:	5 years	5 years	5 years
Period of amortizing actuarial differences:	10 years	10 years	10 years

14. Contingent liabilities

At March 31, 2008 and 2007, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Notes endorsed	¥ 151	¥ 46	$ 1,507
Notes discounted	745	1,047	7,436
Guarantees	223	262	2,226
Letters of awareness	327	185	3,264
	¥ 1,446	¥ 1,540	$ 14,433

15. Leases

The Companies lease certain machinery, vehicles and other equipment.

Information for non-capitalized finance leases is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Non-capitalized finance leases at March 31, 2008 and 2007:			
Original lease obligations, including interest	¥ 2,891	¥ 3,143	$ 28,855
Payments to date	(1,556)	(1,697)	(15,530)
	¥ 1,335	¥ 1,446	$ 13,325
Future lease payments including interest at March 31, 2008 and 2007:			
Due within one year	¥ 517	¥ 606	$ 5,160
Due thereafter	818	840	8,164
	¥ 1,335	¥ 1,446	$ 13,324
Lease payments for the years ended March 31, 2008 and 2007:	¥ 536	¥ 610	$ 5,350

Information for operating leases is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Operating leases at March 31, 2008 and 2007:			
Future lease payments			
Due within one year	¥ 86	¥ 99	$ 858
Due thereafter	55	95	549
	¥ 141	¥ 194	$ 1,407

16. Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

On May 12, 2008, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2008, on the shares of stock then outstanding, at the rate of ¥8.0 ($0.08) per share or a total of ¥2,723 million ($27,178 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008. Such appropriations are recognized in the period in which they are approved by the directors.

17. Stock options

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

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

Stock options granted in FY 2007

Category and number of people granted stock options	Company directors, 13
Number of stock options granted, by category of stock	57,000 shares of common stock
Date granted	September 10, 2007
Vesting conditions	No provision
Exercise period	From September 11, 2007 through September 10, 2032 (*)

(*) In case a party who holds stock acquisition rights loses his/her position as Company director during the above-stated exercise period, he/she may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarized the movements and prices of stock acquisition rights:

Stock options granted on September 10, 2007

Outstanding as of March 31, 2007	–
Vested	57,000
Exercised	–
Expired or forfeited	–
Outstanding as of March 31, 2008	57,000
Exercise price (yen)	1
Weighted average market value per stock at the dates exercised (yen)	–
Fair value per stock at the date granted (yen)	883
Exercise price (US$)	0.01
Weighted average market value per stock at the dates exercised (US$)	–
Fair value per stock at the date granted (US$)	8.81

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥50 million ($499 thousand) for the year ended March 31, 2008.

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

Stock options granted on September 10, 2007

Expected volatility	22.77%
Expected holding period	3 years
Expected dividend	16 yen
Risk-free interest rate	0.896%

18. Segment information

The Companies' businesses are divided into the following segments;

The "Chemicals" segment principally includes caustic soda and polyvinyl chloride (PVC).

The "Functional Plastics" segment principally includes Modifier and modified silicone polymers.

The "Expandable Plastics and Products" segment principally includes extruded polystyrene foam boards, expandable polystyrene and polyolefin foam by beads method.

The "Foodstuffs Products" segment primarily consists of margarine, shortening and bakery yeast.

The "Life Science Products" segment primarily consists of pharmaceutical intermediates, functional foodstuffs and medical devices.

The "Electronic Products" segment primarily consists of ultra heat-resistant polyimide film, optical films and solar cells.

The "Synthetic Fibers and Others" segment primarily consists of modacrylic fibers and a diversified line of businesses such as engineering services.

By business category:

Millions of yen

	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Corporate and Eliminations	Consolidated
2008									
Net sales:									
Customers	¥ 102,468	¥ 83,169	¥ 73,800	¥ 119,638	¥ 36,162	¥ 57,044	¥ 30,687	¥ –	¥ 502,968
Intersegment	2,803	415	799	13	–	–	5,626	(9,656)	–
	105,271	83,584	74,599	119,651	36,162	57,044	36,313	(9,656)	502,968
Costs and expenses	100,094	71,557	74,655	116,807	30,886	47,978	29,696	(4,451)[1]	467,222
Operating income	¥ 5,177	¥ 12,027	¥ (56)	¥ 2,844	¥ 5,276	¥ 9,066	¥ 6,617	¥ (5,205)	¥ 35,746
Identifiable assets	¥ 78,919	¥ 58,118	¥ 57,760	¥ 65,495	¥ 61,164	¥ 52,159	¥ 19,656	¥ 59,350[2]	¥ 452,621
Depreciation	3,888	3,866	3,202	2,420	3,775	5,213	1,424	943	24,731
Impairment loss on fixed assets	–	–	553	–	424	–	–	194	1,171
Capital expenditures	7,649	5,244	3,280	1,888	2,568	7,261	2,595	1,084	31,569
2007									
Net sales:									
Customers	¥ 93,121	¥ 81,082	¥ 71,532	¥ 110,796	¥ 40,332	¥ 51,488	¥ 24,820	¥ –	¥ 473,171
Intersegment	2,306	313	1,142	12	–	–	6,659	(10,432)	–
	95,427	81,395	72,674	110,808	40,332	51,488	31,479	(10,432)	473,171
Costs and expenses	89,743	67,808	73,173	107,255	34,607	42,185	27,365	(5,631)[1]	436,505
Operating income	¥ 5,684	¥ 13,587	¥ (499)	¥ 3,553	¥ 5,725	¥ 9,303	¥ 4,114	¥ (4,801)	¥ 36,666
Identifiable assets	¥ 78,561	¥ 55,538	¥ 61,973	¥ 68,738	¥ 59,043	¥ 52,160	¥ 19,237	¥ 71,860[2]	¥ 467,110
Depreciation	4,578	3,446	3,329	2,347	4,147	4,384	1,406	824	24,461
Impairment loss on fixed assets	–	–	1,864	–	3,813	–	–	–	5,677
Capital expenditures	7,522	6,646	3,641	4,092	3,978	6,588	2,161	941	35,569
2006									
Net sales:									
Customers	¥ 87,923	¥ 73,191	¥ 68,305	¥ 107,568	¥ 49,147	¥ 47,160	¥ 31,016	¥ –	¥ 464,310
Intersegment	2,282	301	1,385	9	–	-	6,879	(10,856)	–
	90,205	73,492	69,690	107,577	49,147	47,160	37,895	(10,856)	464,310
Costs and expenses	84,628	61,504	69,560	102,860	30,196	38,330	35,373	(5,748)[1]	416,703
Operating income	¥ 5,577	¥ 11,988	¥ 130	¥ 4,717	¥ 18,951	¥ 8,830	¥ 2,522	¥ (5,108)	¥ 47,607
Identifiable assets	¥ 72,982	¥ 49,145	¥ 59,628	¥ 61,801	¥ 60,796	¥ 49,660	¥ 17,922	¥ 81,225[2]	¥ 453,159
Depreciation	3,869	3,061	3,708	2,259	3,287	3,942	1,302	837	22,265
Impairment loss on fixed assets	–	–	–	–	–	–	–	–	–
Capital expenditures	6,236	4,122	3,707	2,765	6,575	8,587	2,030	694	34,716

2008	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Corporate and Eliminations	Consolidated
	Thousands of U.S. dollars (Note 1)								
Net sales:									
Customers	$ 1,022,737	$ 830,113	$ 736,600	$ 1,194,111	$ 360,934	$ 569,358	$ 306,288	$ –	$ 5,020,142
Intersegment	27,977	4,142	7,975	130	–	–	56,153	(96,377)	–
	1,050,714	834,255	744,575	1,194,241	360,934	569,358	362,441	(96,377)	5,020,142
Costs and expenses	999,042	714,213	745,134	1,165,855	308,274	478,870	296,397	(44,426)(1)	4,663,359
Operating income	$ 51,672	$ 120,042	$ (559)	$ 28,386	$ 52,660	$ 90,488	$ 66,044	$ (51,951)	$ 356,782
Identifiable assets	$ 787,693	$ 580,078	$ 576,505	$ 653,708	$ 610,480	$ 520,601	$ 196,187	$ 592,374(2)	$ 4,517,626
Depreciation	38,806	38,587	31,959	24,154	37,678	52,031	14,213	9,412	246,840
Impairment loss on fixed assets	–	–	5,520	–	4,232	–	–	1,936	11,688
Capital expenditures	76,345	52,341	32,738	18,844	25,631	72,472	25,901	10,819	315,091

(1) Corporate costs and expenses included in the corporate and eliminations column of ¥5,328 million ($53,179 thousand), ¥4,936 million and ¥4,984 million for the years ended March 31, 2008, 2007 and 2006, respectively, consist principally of fundamental research and development expenses of the Company.

(2) Corporate and eliminations column includes corporate assets of ¥59,350 million ($592,374 thousand), ¥71,860 million and ¥81,708 million for the years ended March 31, 2008, 2007 and 2006, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

(3) As is mentioned in Note 2, effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed accounting method for depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in corporation tax law of Japan.

As a result of this change, costs and expenses in each business category of Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products and Synthetic Fibers and Others, increased by ¥112 million ($1,118 thousand), ¥118 million ($1,178 thousand), ¥139 million ($1,387 thousand), ¥50 million ($499 thousand), ¥80 million ($798 thousand), ¥316 million ($3,154 thousand) and ¥109 million ($1,088 thousand), respectively, for the year ended March 31, 2008, compared to what would have been reported under the previous method. Operating income in each business category decreased by the corresponding amounts.

As for property, plant and equipment acquired on or before March 31, 2007, differences between 5% equivalent of acquisition cost, which is the limits of depreciable amount under the former corporation tax law, and memorandum value are equally depreciated over 5 years from the year after such assets are thoroughly depreciated to the limits of depreciable amount.

As a result of this change, costs and expenses in each business category of Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products and Synthetic Fibers and Others, increased by ¥94 million ($938 thousand), ¥40 million ($399 thousand), ¥171 million ($1,707 thousand), ¥55 million ($549 thousand), ¥45 million ($449 thousand), ¥46 million ($459 thousand) and ¥75 million ($749 thousand), respectively, for the year ended March 31, 2008, compared to what would have been reported under the previous method. Operating income in each business category decreased by the corresponding amounts.

By geographic area:

	Japan	Other areas	Corporate and eliminations	Consolidated
	Millions of yen			
2008				
Net sales:				
Customers	¥ 406,642	¥ 96,326	¥ –	¥ 502,968
Intersegment	20,473	8,704	(29,177)	–
	427,115	105,030	(29,177)	502,968
Costs and expenses	392,219	99,333	(24,330) (1)	467,222
Operating income	¥ 34,896	¥ 5,697	¥ (4,847)	¥ 35,746
Identifiable assets	¥ 336,886	¥ 73,191	¥ 42,544 (2)	¥ 452,621
2007				
Net sales:				
Customers	¥ 379,519	¥ 93,652	¥ –	¥ 473,171
Intersegment	23,235	5,670	(28,905)	–
	402,754	99,322	(28,905)	473,171
Costs and expenses	365,559	94,875	(23,929) (1)	436,505
Operating income	¥ 37,195	¥ 4,447	¥ (4,976)	¥ 36,666
Identifiable assets	¥ 337,024	¥ 72,732	¥ 57,354 (2)	¥ 467,110
2006				
Net sales:				
Customers	¥ 389,845	¥ 74,465	¥ –	¥ 464,310
Intersegment	12,204	4,459	(16,663)	–
	402,049	78,924	(16,663)	464,310
Costs and expenses	354,842	73,446	(11,585) (1)	416,703
Operating income	¥ 47,207	¥ 5,478	¥ (5,078)	¥ 47,607
Identifiable assets	¥ 326,436	¥ 51,722	¥ 75,001 (2)	¥ 453,159

2008	Japan	Other areas	Corporate and eliminations	Consolidated
	Thousands of U.S. dollars (Note 1)			
Net sales:				
Customers	$ 4,058,708	$ 961,433	$ –	$ 5,020,141
Intersegment	204,342	86,875	(291,217)	–
	4,263,050	1,048,308	(291,217)	5,020,141
Costs and expenses	3,914,752	991,446	(242,839) (1)	4,663,359
Operating income	$ 348,298	$ 56,862	$ (48,378)	$ 356,782
Identifiable assets	$ 3,362,471	$ 730,522	$ 424,633 (2)	$ 4,517,626

The main countries included in Other areas are as follows:
North America: United States of America
Europe: Belgium
Asia: Malaysia and Singapore

(1) Corporate costs and expenses included in the corporate and eliminations column of ¥5,328 million ($53,179 thousand), ¥4,936 million and ¥4,984 million for the years ended March 31, 2008, 2007 and 2006, respectively, consist principally of fundamental research and development expenses of the Company.

(2) Corporate and eliminations column includes corporate assets of ¥59,350 million ($592,374 thousand), ¥71,860 million and ¥81,708 million for the years ended March 31, 2008, 2007 and 2006, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

(3) As is mentioned in Note 2, effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed accounting method for depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in Corporation Tax Law of Japan.
As a result of this change, costs and expenses in Japan increased by ¥924 million ($9,222 thousand) for the year ended March 31, 2008, compared to what would have been reported under the previous method. Operating income in Japan decreased by the corresponding amounts.

As for property, plant and equipment acquired on or before March 31, 2007, differences between 5% equivalent of acquisition cost, which is the limits of depreciable amount under the former Corporation Tax Law, and memorandum value are equally depreciated over 5 years from the year after such assets are thoroughly depreciated to the limits of depreciable amount.
As a result of this change, costs and expenses in Japan increased by ¥526 million ($5,250 thousand) for the year ended March 31, 2008, compared to what would have been reported under the previous method. Operating income in Japan decreased by the corresponding amounts.

Overseas sales:

For the years ended March 31, 2007, 2006 and 2005, overseas sales by geographic area were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	**2007**	**2006**	**2008**
Asia	¥ 77,852	¥ 68,601	¥ 64,493	$ 777,044
North America	36,543	42,088	49,652	364,737
Europe	56,772	50,061	45,748	566,643
Others	15,986	11,019	9,390	159,557
	¥ 187,153	¥ 171,769	¥ 169,283	$1,867,981

Overseas sales include overseas subsidiaries' sales to overseas third parties as well as the Company's and domestic subsidiaries' expoort sales to third parties.

The main countries included in Asia, North America, Europe, and Others are as follows:
Asia: China, Korea and Taiwan
North America: United States of America and Mexico
Europe: Belgium and United Kingdom
Others: Australia and Togo

Independent Auditors' Report

To the Board of Directors of Kaneka Corporation:

We have audited the accompanying consolidated balance sheets of Kaneka Corporation and its consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income for each of the three years in the period ended March 31, 2008, the consolidated statement of changes in net assets for the years ended March 31, 2008 and 2007, the consolidated statements of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kaneka Corporation and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

June, 20, 2008

KPMG AZSA & Co.

KPMG AZSA & Co.
Osaka, Japan

Kaneka Corporation

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

Date of establishment
September 1, 1949

Number of employees (as of March 31, 2008)
3,218 (Kaneka Corporation)
7,498 (including consolidated subsidiaries)

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

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

Research institutes
Frontier Materials Development Laboratories
Foam Plastics Technology Research Laboratories
Frontier Biochemical & Medical Research Laboratories
Foods Research Laboratories
Process Technology Laboratories

Directors, Corporate Auditors and Executive Officers

•Board of Directors

Chairman of the Board:
Masatoshi Takeda*

President:
Kimikazu Sugawara*

Member of the Board and Senior Management Executive Officer:
Setsuo Shimazaki
Masatoshi Hatori

Member of the Board and Management Executive Officer:
Yoichi Shima
Satomi Takahashi
Toshiji Kanou
Toshihiro Suzuki
Nobuyuki Koyama
Tetsuro Hara
Tetsuo Ikuno
Hirosaku Nagano
Shigeru Kamemoto

•Corporate Auditors

Standing Corporate Auditors:
Sataro Inui
Yasuo Inoguchi

Outside Corporate Auditors:
Hiroaki Tsukamoto
Kouji Hirokawa

•Executive Officers

Senior Management Executive Officer:
Shigenori Yamazaki

Management Executive Officer:
Masakazu Kajiwara
Masao Nakagawa
Mikio Hatta
Kennosuke Ogura

Executive Officer:
Atsushi Ikenaga
Hideyuki Matsui
Kouji Sanpei
Toshio Nakamura
Tohru Yoshinari
Koichi Nakamura
Haruo Tomita
Akihiko Iguchi
Akira Iwazawa

*Representative Directors (as of June 27, 2008)

Investor Information (as of March 31, 2008)

Common stock traded
Tokyo, Osaka, Nagoya

Transfer agent
Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch
1-1-5, Dojimahama, Kita-ku, Osaka 530-0004, Japan

Certified public accountants
KPMG AZSA & Co.
Ginsen Bingomachi Bldg. 6-5, 3-chome, Kawara-machi,
Chuo-ku, Osaka 541-0048, Japan

Authorized capital
750,000,000 shares

Issued shares
350,000,000 shares

Number of shareholders
21,665

Common stock price range (Tokyo Stock Exchange: in yen)

Fiscal Year	2002	2003	2004	2005	2006	2007	**2008**
High	1,200	975	1,055	1,231	1,606	1,450	**1,209**
Low	695	519	501	922	1,071	963	**573**

KANEKA CORPORATION
3-2-4, Nakanoshima, Kita-ku, Osaka 530-8288, Japan
Telephone: +81-6-6226-5019 Facsimile: +81-6-6226-5106
URL http://www.kaneka.co.jp/

PRINTED WITH SOY INK™
The print of this catalog uses
environment-friendly botanical soybean oil ink.