ANNUAL REPORT 2011

Year Ended March 31, 2011

KANEKA CORPORATION

PROFILE

Kaneka Corporation was established in 1949 as a spin-off from the Kanegafuchi Spinning Co., Ltd. Initially, Kaneka's main products included caustic soda, soap, cosmetics, edible oils and electrical wires. The Company later diversified into polymers, fermentation, biotechnology and electronics, as well as other fields. Business activities now span a broad spectrum of markets ranging from 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, India, Australia and Vietnam.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

KANEKA CORPORATION and Consolidated Subsidiaries

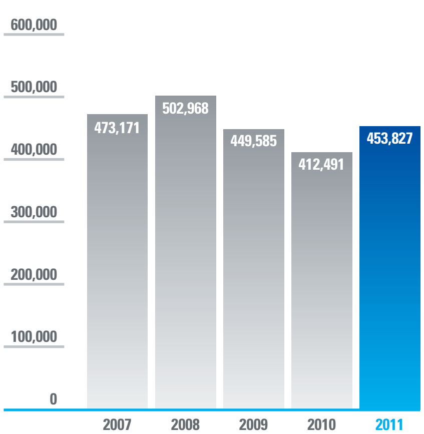
						Years ended March 31
					Millions of yen	Thousands of U.S. dollars
	2011	2010	2009	2008	2007	**2011**
Net sales	**¥453,827**	¥412,491	¥449,585	¥502,968	¥473,171	**$5,457,931**
Net income (loss)	**11,625**	8,406	(1,851)	18,817	18,364	**139,808**
Capital expenditures	**29,250**	24,322	33,979	31,569	35,569	**351,774**
Depreciation	**28,717**	26,210	27,163	24,731	24,461	**345,364**
Total assets	**455,141**	432,880	418,490	452,620	467,110	**5,473,734**
Net assets	**261,829**	257,175	249,529	267,598	271,280	**3,148,876**
Per Share of Common Stock:					Yen	U.S. dollars
Net income (basic)	**¥ 34.28**	¥ 24.78	¥ (5.45)	¥ 55.10	¥ 53.48	**$0.41**
Net income (diluted)	**34.26**	24.77	–	55.09	–	**0.41**
Cash dividends	**16.00**	16.00	16.00	16.00	16.00	**0.19**
Net assets	**743.88**	735.17	717.15	767.68	774.71	**8.9**
					%	%
Shareholders' equity ratio	**55.4%**	57.6%	58.1%	57.7%	56.8%	**55.4%**
Return on equity (ROE)	**4.6**	3.4	(0.7)	7.1	7.0	**4.6**
Return on assets (ROA)	**2.6**	1.9	(0.4)	4.2	3.9	**2.6**

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, 2011, which was ¥83.15 to US$1.00.

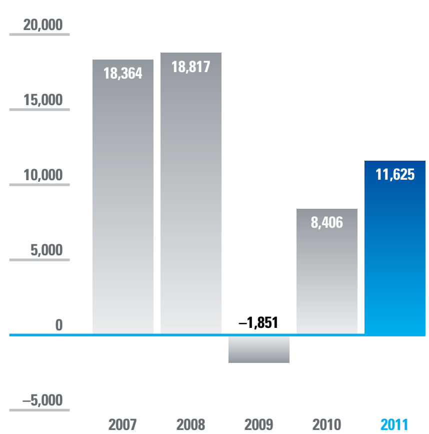
Note 2) Effective from the year ended March 31, 2007, net assets are calculated based on the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan), and the implementation guidance for the 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 3) Return on equity is calculated on the basis of the average shareholders' equity at the current and previous fiscal year-ends.

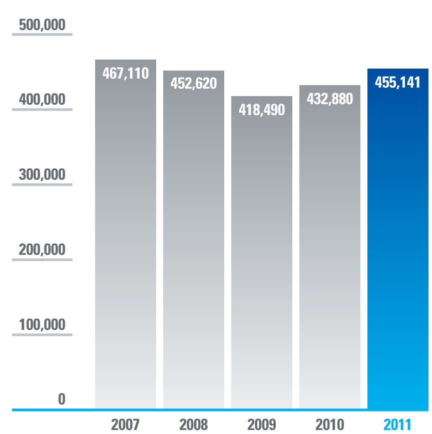
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Total Assets
(Millions of yen)



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.

TO OUR SHAREHOLDERS

Kimikazu Sugawara, President　　Masatoshi Takeda, Chairman of the Board

The Kaneka Group today is focused on ACT2012, a three-year medium-term management plan that serves as a vital element in making the Group's long-term management vision, "Declaration of Kaneka United for the future," a reality.

By transforming the Group's business portfolio and through a business shift into growth domains, Kaneka is targeting new growth and a dramatic leap forward.

BUSINESS PERFORMANCE IN FY2011

During FY2011, ended March 31, 2011, the global economy generally remained on a recovery track, supported by various countries' economic stimulus measures and economic growth in China and the rest of the Asia region, as well as in other emerging nations. This was despite uncertainties such as financial instability in Europe and recessionary concerns over the U.S. economy. The recovery gathered pace particularly in the second half of the fiscal year, driven by sustained growth in emerging markets and the improving European and U.S. economies. On the other hand, the risk of structural financial instability in Europe and the U.S. has yet to be dispelled. New sources of instability have appeared, such as geopolitical uncertainty in the Middle East and soaring resource prices. Consequently, the outlook for the global economy remains uncertain.

The Japanese economy showed a measure of improvement in domestic consumption, production and capital investment on the back of government economic stimulus measures and growth in exports primarily to Asia. However, employment conditions and income levels remain challenging. Combined with the persistently strong yen and surging resource prices, Japan's economy recovered only at a gradual pace. Furthermore, the Great East Japan Earthquake that struck on March 11, 2011 caused catastrophic damage mainly in the Tohoku and Kanto regions. The nuclear power station disaster, electricity shortages and supply chain disruptions also caused major problems. As a result, Japan's economy has been hit hard by the earthquake. Looking ahead, there are concerns over the risk of economic deterioration due to such factors as overseas economic developments and high resource prices, in addition to the effects of the earthquake. Consequently, the Japanese economy must be watched carefully going forward.

In this difficult environment, the Kaneka Group is investing management resources in key strategic fields, seeking to establish operations in the new areas of business we expect to drive growth and reinforcing their global development. We are also focusing on restructuring our businesses. Simultaneously, in existing business areas we are working to boost sales volumes and striving to enhance competitiveness by lowering manufacturing and overhead costs in a bid to recover profitability. In response to the Great East Japan Earthquake, the Kaneka Group set up an Earthquake Disaster Task Force within the company immediately after the disaster occurred. The Kaneka Group has worked to ensure the safety of all Group employees and related parties, while focusing on restoring operations at damaged production facilities, such as the Kashima Plant, as quickly as possible, in addition to ensuring the stable procurement of materials, supplies and other resources and rescheduling production and shipments. In this manner, the Kaneka Group is doing its utmost to minimize the effects of the earthquake on its business operations.

During FY2011, ended March 31, 2011, the Kaneka Group reported higher consolidated sales and earnings. Net sales were ¥453,827 million (up 10.0% year on year) and operating income was ¥21,235 million (up 21.3%). The Kaneka Group recorded net income of ¥11,625 million (up 38.3%). This was despite booking extraordinary losses such as a ¥1,220 million earthquake-related loss, comprising damages to production facilities caused by the Great East Japan Earthquake along with provisions to the allowance for doubtful accounts. Another extraordinary loss was a ¥518 million loss on valuation of investment securities. In FY2011, we paid a dividend for the year of ¥16 per share.

MANAGEMENT POLICY

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

We are moving into a period during which unprecedented changes are taking place in the industrial structure. While responding to the structural changes taking place in global markets, companies must also pay close attention to their social responsibilities.

To achieve these goals, the Kaneka Group aims to achieve the creative fusion of people and technology. This process, expressed in our management policies, should enable us to launch competitive businesses in growth fields as we continue to work toward our goals as a global company.

The global economy today continues to mount a more confident recovery, buoyed by growth in emerging markets, particularly those in Asia, and improved economic performance in the U.S. and Europe. In contrast, future economic trends in Japan remain uncertain, reflecting the impact of the Great East Japan Earthquake and other factors. Other causes of concern include possible economic volatility in the U.S., Europe and emerging markets, as well as surging resource prices and other worsening risks. In this operating environment, the Kaneka Group, acting in line with its basic management policies, will seek to accomplish the measures and Group business targets outlined in its long-term management vision through the initiatives detailed below.

1) Moving toward an "R&D-type" company

We will proceed with innovation in R&D, which will involve the creative combination of technologies from within and outside the Company to achieve innovations of value to society.

At the same time, innovation in production will also be pursued through process innovation, whereby all employees create new products and businesses while enhancing the value of their work.

2) Growth in a global market

We will accelerate the shift of operations overseas by actively utilizing overseas alliances while stepping up the development of overseas businesses, including both initiatives in emerging economies along with measures primarily focused on developed countries. At the same time, we will enhance the management capabilities of each overseas business base.

3) Develop group strategy

We will build relationships of equal standing with Group companies for the purpose of expanding business and raising efficiency across the entire value chain, including Group companies. Through this process, we aim to make each Group company self-reliant so as to achieve continuous evolution in group management. In addition, Group-wide synergies will also be harnessed by combining all our respective strengths to generate competitive value-added products and services.

4) Pursue alliances

We will effectively enhance research, development, production, and sales functions needed to develop business through the strategic use of alliances, with the aim of speedily expanding business.

5) Prioritize CSR

By putting into practice our corporate philosophy through the sincere and positive efforts of each and every employee of the Kaneka Group, we will fulfill our obligations as a corporate citizen.

PERFORMANCE FORECASTS

The outlook for the global economy is highly uncertain, particularly with regard to economic trends in the U.S., European nations and other developed countries, as well as in China and other emerging markets. The effects of the major earthquake in Japan are also clouding the outlook. This uncertainty makes it difficult to accurately forecast future shifts in the business environment. Under these circumstances, the Kaneka Group is redoubling its efforts to shore up its sales and income generation capacity and accelerating its initiatives targeting business structure reform. Our performance forecasts for the year ending March 31, 2012 are as follows:

CONSOLIDATED FORECASTS

Net sales of ¥500 billion (10.2% increase from the term ended March 31, 2011). Operating income of ¥25 billion (17.7% increase from the term ended March 31, 2011). Net income of ¥13 billion (11.8% increase from the term ended March 31, 2011).

The above performance forecasts for the Kaneka Group are regarded as reasonable based on information available at the time of announcement. Readers should be aware that actual results might vary from these forecasts because of various uncertainties.

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

June 2011

Masatoshi Takeda,
Chairman of the Board

Kimikazu Sugawara,
President

TOPICS

NEW BUSINESSES

SPRING LAUNCH OF OLED IN JAPAN AND EUROPE

World's first lineup of five colors (warm white, red, orange, blue and green)

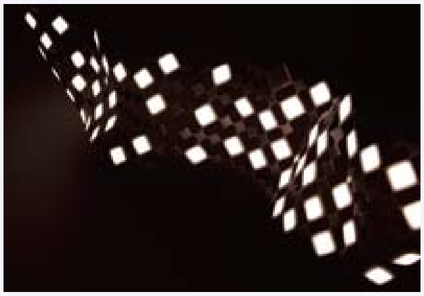
On March 22, 2011, Kaneka commenced domestic sales of the world's first OLED (organic light emitting diode) that comes in five colors (warm white, red, orange, blue and green). We launched sales in Europe in mid-April to coincide with our exhibit featuring the panel at the Milan Salone Internazionale del Mobile*, an international furniture trade fair.

OLED panels emit a soft warm light, and they can be extremely thin, which opens up many design possibilities. Because the panel itself emits light from the front surface, there is no need for optical components, such as diffusers. Moreover, the panel's high energy efficiency reduces power consumption, thus making it an energy-saving light source. On the environmental side, one great advantage is that it is mercury-free. By making the most of these benefits, our lighting panels can be used for hotel, restaurant and other commercial applications, designer lamps and lights for homes, and household furniture and construction materials with an added lighting function. Accordingly, Kaneka is targeting sales to manufacturers of high-end lighting fixtures, construction materials and household equipment who recognize the value of OLEDs. Europe is a promising market owing to its lighting culture that emphasizes design and favors soft lighting, like that given off by incandescent lights. We plan to accelerate development of a global OLED business by creating sales channels centering on the designer lighting market.

For our first time at Milan Salone, we adopted the theme of a traditional Japanese bar. Using primarily red and white OLED panels to represent cherry blossoms, we created a "yozakura" atmosphere, which is the Japanese custom of viewing illuminated cherry blossoms at night. We also displayed a work by Ayako Morita called "Pieces of Light," which won the Grand Prize in the Kaneka OLED Design Competition 2010, held in October 2010. During the six-day exhibition, approximately 25,000 people visited the Kaneka booth.

The world light sources market is expected to grow from around ¥2.8 trillion in 2009 to around ¥5 trillion by 2020. OLEDs will account for roughly 20% of light sources in Europe.

For the time being, Kaneka will



focus on the high-end lighting market. At the same time, we will work to enhance the performance and reduce the cost of our lineup of OLEDs, which come in five colors and were launched in Japan and Europe in the spring of 2011. Through such innovations, our aim is to expand the OLED business by targeting the general home and office lighting markets, as well as the market for interior vehicle lighting. We will expedite full-scale global expansion of the OLED business by focusing on the two strategic regions of North America and China in addition to our existing markets in Japan and Europe.

* Salone Internazionale del Mobile was first held in 1961. In the ensuing 50 years, it has become the single biggest annual event in the world of design. In 2010, around 300,000 visitors attended the exhibition, with 328 participating companies.
In 2011, the event was held in Milan, Italy, from April 12 through 17.

NEW BUSINESSES

LAUNCH OF TRIAL PRODUCTION SYSTEM FOR 100% PLANT-BASED POLYMER

Active rollout of Kaneka Biopolymer AONILEX®

In May 2011, Kaneka commenced full-scale production of a largely plant oil-based polyester biopolymer product, to be marketed as Kaneka Biopolymer AONILEX®. Our new production facility, constructed within the grounds of the Takasago plant in the city of Takasago in Hyogo Prefecture, will produce this new offering. This achievement comes on the heels of an earlier trial production system previously developed by Kaneka. At present, the plant's annual biopolymer production capacity is approximately 1,000 tons. We will also use the facility to develop innovative production technologies and processes for AONILEX® products, in combination with new product applications and experimental sales programs. We plan to boost production capacity to 10,000 tons in the next few years while closely monitoring market trends. We will incrementally expand our production facility, with an annual sales target of ¥10 billion or more.

AONILEX® is biodegradable, has excellent thermal resistance and hydrolysis resistance, and can act as a barrier to water vapor. It is the first 100% plant-based biopolymer in the world to offer both heat resistance and flexibility. It also exhibits a range of properties from hardness through to softness. Kaneka has successfully applied proprietary molding and resin mixing technologies to significantly enhance the product's strength. Our first application will be for packaging materials. Here, we will make use of the biopolymer's excellent biodegradability to make agricultural mulch films and composting bags for organic waste. We also plan to actively

develop molding technologies for applications that require durability, such as bottles, containers, vehicle interiors and electrical devices and equipment.

Biopolymers play an important role in environmental protection and reduction of carbon dioxide emissions, a cause of global warming. Accordingly, we expect the world biopolymer market to grow at an annual rate of around 20% in the future. Following this first-ever commercialization of a 100% plant-based biopolymer, Kaneka plans to aggressively foster its biopolymer business, which it has positioned as a strategic field.

NEW BUSINESSES

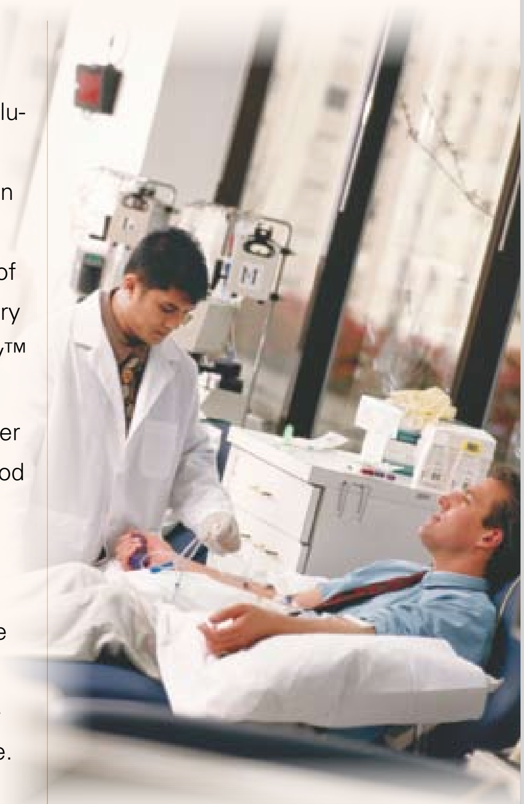
TARGETING FURTHER GROWTH OF THE VASCULAR INTERVENTION BUSINESS

Accelerating global expansion via business alliances in Europe and the United States

The Kaneka Group has positioned healthcare as a strategically important business domain. The vascular intervention*[1] business, centering on medical catheters used in intravascular therapy, is a key pillar of this strategy. In 1996, we began marketing balloon catheters developed by drawing on the Group's expertise in polymer and processing technologies. Since then, while forming alliances with healthcare providers, we have developed a succession of top-quality, highly functional catheters through the application of proprietary technologies. This business, which targets mainly the domestic and Asian markets, has grown over the years. Going forward, we plan to further expand the vascular intervention business into a global operation by increasing sales channels and establishing a presence in the U.S., the world's largest healthcare market, and in Europe, the next-biggest market. To this end, Kaneka recently formed business alliances with companies in the U.S. and Europe.

In the U.S., Kaneka signed an exclusive sales agreement with Atrium Medical Corporation for distribution in the U.S. market of catheters used in manual aspiration for the treatment of acute myocardial infarction. In January 2011, we introduced the Xpress-Way™ RX Extraction Catheter. This was the first time for a Japanese manufacturer to receive approval from the U.S. Food and Drug Administration (FDA) for a thrombus-aspiration*[2] catheter. A catheter used for the removal of thrombi from vessels must also have enhanced deliverability so that it can pass through meandering blood vessels to reach the site of the blockage. Boasting unsurpassed deliverability, our new product has received acclaim for its balanced performance as an emergency method of treatment.

In Europe, we signed an agreement with Terumo Corporation for the supply on an OEM basis of dilatation catheters used in PTA*[3] (PTA balloon catheters), and commenced supply in February 2011. To facilitate delivery of the catheter to the affected area, we have made the diameter of the balloon smaller and improved the flexibility of the tip. As a result, our catheters are highly acclaimed in the domestic market for their performance.



*1 Intervention: This refers to treatment methods that deliver a thin tube through the veins when treating illnesses that affect the heart, blood vessels, liver, brain, digestive organs and urinary organs, as well as administering therapy directly to affected areas.

*2 Thrombus-aspiration method: Acute myocardial infarction is the interruption of blood supply to the heart by blockage of a coronary artery that supplies nutrients to the heart, thus causing heart cells to die. Therefore, it can cause death if blood flow does not resume within a sufficient period of time. Normally, a thrombus-aspiration catheter is used to remove thrombi blocking vessels.

*3 PTA (percutaneous transluminal angioplasty): This is a treatment procedure where a catheter (a tube of around 1 mm in diameter) with a balloon positioned at its tip is inflated in the narrowed or occluded lesions of peripheral blood vessels in the arms and legs.

REVIEW OF OPERATIONS

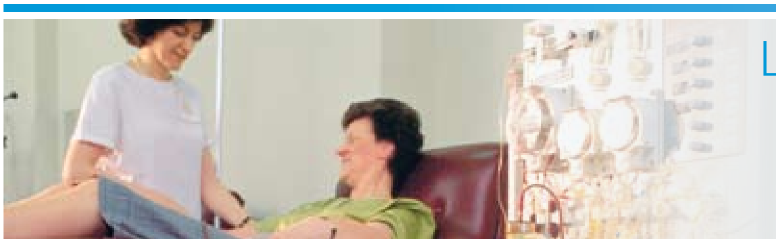
KANEKA at a Glance

CHEMICALS

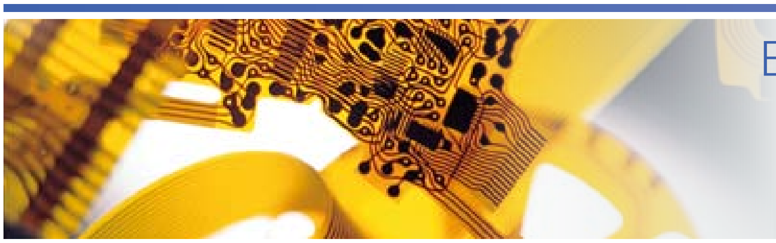
FUNCTIONAL PLASTICS

EXPANDABLE PLASTICS AND PRODUCTS

FOODSTUFFS PRODUCTS



LIFE SCIENCE PRODUCTS



ELECTRONIC PRODUCTS

SYNTHETIC FIBERS AND OTHERS

MAJOR PRODUCTS	NET SALES (Millions of yen) 2007	2008	2009	2010	2011	OPERATING INCOME (Millions of yen) 2007	2008	2009	2010	2011
■ Polyvinyl chloride (PVC) ■ Caustic soda ■ Hydrochloric acid ■ Flexible PVC compounds ■ Rigid PVC compounds ■ Paste PVC ■ Chlorinated PVC	93,121	102,468	92,309	79,551	**85,467**	5,684	5,177	–462	1,923	**2,764**
■ Modifiers ■ Liquid polymers (MS Polymer) ■ Weather-resistant acrylic film ■ Engineering plastic compounds	81,082	83,169	67,042	61,137	**69,993**	13,587	12,027	3,042	9,040	**8,297**
■ Extruded polystyrene foam boards ■ Polyolefin foam (beads and moldings) ■ Expandable polystyrene	71,532	73,800	69,223	54,365	**58,630**	–499	–56	1,310	5,149	**6,229**
■ Margarine and shortening ■ Confectionery fats ■ Bakery yeast ■ Spices	110,796	119,638	125,110	119,781	**123,782**	3,553	2,844	3,774	8,884	**7,960**
■ Ubidecarenone (Coenzyme Q10) ■ Ubiquinol (Active form of Coenzyme Q10) ■ Anti-hypertensive drug intermediates ■ Intermediates for antibiotics ■ Liposorber system (LDL-cholesterol adsorption system) ■ Lixelle® (Adsorption column for dialysis-related amyloidosis)	40,332	36,162	39,854	39,187	**47,517**	5,724	5,276	5,890	4,545	**9,280**
■ Ultra heat-resistant polyimide film ■ Bonded magnets ■ PVC pipes for underground cables ■ Solar modules ■ Optical films ■ Super thermal-conductive graphite sheets	51,488	57,044	33,567	36,476	**41,226**	9,303	9,066	–934	–6,698	**–5,815**
■ Modacrylic fibers	24,820	30,687	22,480	21,994	**27,212**	4,114	6,617	1,192	1,445	**787**

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

CHEMICALS

1

2


Supported by a recovery in demand from Japan and Asian markets, sales volumes for PVC resins were firm, and the Group also strove to adjust selling prices in line with rising raw materials costs, in addition to improving export prices. Meanwhile, domestic and overseas caustic soda prices were both low. Higher sales volume and price rises as well as cost reductions contributed to the performance in specialty PVC resins. As a result of the aforementioned factors, segment sales increased ¥5,916 million (up 7.4%) compared with the preceding fiscal year, resulting in net sales of ¥85,467 million. The segment posted operating income of ¥2,764 million, increasing ¥841 million (up 43.7%) from the preceding fiscal year.

1 Kanevinyl™
This ordinary PVC is used in fields ranging from products for daily life to industrial materials.

2 Kanevinyl™ Paste
This special resin is used in the paste-processing widely employed for wall and flooring materials, sailcloth, automobile parts, and many other products used in daily life.

FUNCTIONAL PLASTICS

1

2


Market demand for modifiers recovered in Asia, Europe and the U.S., lifting sales volumes year on year. Meanwhile, the Group strove to differentiate its products and reduce costs, but was strongly impacted by higher raw materials costs and the strong yen, which led to lower earnings despite higher sales. Modified silicone polymers saw increased sales volumes as a result of recovering demand in Japan, and growing demand in Europe and the U.S., but were also impacted by rising raw materials costs and the strong yen, resulting in reduced earnings on higher sales. As a result of the aforementioned factors, segment sales increased ¥8,856 million (up 14.5%) to ¥69,993 million. The segment posted operating income of ¥8,297 million, decreasing ¥743 million (down 8.2%) from the preceding fiscal year.

1 Kane Ace™ FM
Kane Ace™ FM enhances the weatherability of window frames and sidings for houses around the world.

2 Kaneka MS Polymer™
When this liquid polymer reacts to moisture in the air in the presence of curing catalyst, it becomes elastic.
MS Polymer gives elastic sealing materials excellent durability, heat and cold resistance, and offers good workability.

EXPANDABLE PLASTICS AND PRODUCTS

Sales of expandable polystyrene saw lackluster demand for agricultural and fishing industry applications. With raw materials costs increasing, the Group made a thoroughgoing effort to lower production costs and overheads, while adjusting selling prices. Sales volumes of extruded polystyrene foam boards increased due to growing demand in the domestic market for use as insulation material in construction, in turn driven by a recovery in housing starts and the introduction of a residential version of the "eco-point" system. Sales volumes for polyolefin foam by beads method increased in Asia and Europe. As a result of the aforementioned factors, segment sales increased ¥4,265 million (up 7.8%) compared with the preceding fiscal year, resulting in net sales of ¥58,630 million. The segment posted operating income of ¥6,229 million, improving ¥1,080 million (up 21.0%) from the preceding fiscal year.

1 Kanelite Foam™
This material is widely used as insulation mainly in buildings, factories, and houses.

2 Eperan™
Eperan is an expanded polyethylene that Kaneka has succeeded in making from foamed beads.

FOODSTUFFS PRODUCTS

Reflecting consumer belt-tightening and increased preference for lower-priced items, demand for foodstuffs was lackluster. However, the Group recorded a year-on-year increase in sales volumes due to expansion of new product offerings and other efforts, and focused on generating earnings by reducing costs and through other means. However, the Group was affected by downward pressure on sales prices from intensifying competition and by rising raw materials costs. As a result of the aforementioned factors, segment sales increased ¥4,001 million (up 3.3%) compared with the preceding fiscal year, resulting in net sales of ¥123,782 million. The segment posted operating income of ¥7,960 million, decreasing ¥924 million (down 10.4%) from the preceding fiscal year.

1 LACHENTE™ (whipped cream) and FRANJE™ (cooking cream)
These mainly vegetable oil-based creams are made using Kaneka's proprietary "Fresh Asp" emulsification production method.

2 Concebeurre™
This new margarine uses flavorings that we have developed at Kaneka and contributes greatly to the fragrance and richness of butter.

LIFE SCIENCE PRODUCTS

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

Medical device sales and income increased, owing to steadily expanding sales from our intervention business. Sales and income from bulk and intermediate pharmaceuticals increased, due to higher sales volumes in overseas markets. In functional foodstuffs, the segment posted higher sales and income, despite a drop in the sales volume of pre-existing products. This result mainly reflected a steady increase in the sales volume of high-performance products primarily in the U.S. market, combined with the positive impact of cost reductions. As a result of the aforementioned factors, segment sales rose ¥8,330 million (up 21.3%) compared with the preceding fiscal year, resulting in net sales of ¥47,517 million. The segment posted operating income of ¥9,280 million, representing a substantial ¥4,735 million increase (up 104.2%) from the preceding fiscal year.

ELECTRONIC PRODUCTS

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

Although optical films experienced lackluster sales volume growth, sales volumes increased for ultra heat-resistant polyimide film in line with growing demand for use in smartphones and other applications. Solar cell sales volumes steadily increased in the Japanese market, along with growing exports to Asia. In the European market, however, sales volume fell owing to downward pressure on prices due to intensified competition. As a result of the aforementioned factors, segment sales increased ¥4,750 million (up 13.0%) compared with the preceding fiscal year, resulting in net sales of ¥41,226 million. However, the segment posted an operating loss of ¥5,815 million, ¥883 million less than in the preceding fiscal year.

SYNTHETIC FIBERS AND OTHERS

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

Bolstered by growth in overseas demand, synthetic fiber sales volumes increased. At the same time, the Kaneka Group strove to generate profits by augmenting our high-value-added product lineup and curtailing costs. However, the segment was heavily affected by the yen's appreciation and increased raw materials costs. In other products, sales decreased, but profits increased. As a result of the aforementioned factors, segment sales increased ¥5,218 million (up 23.7%) compared with the preceding fiscal year, resulting in net sales of ¥27,212 million. The segment posted operating income of ¥787 million, decreasing ¥658 million (down 45.5%) from the preceding fiscal year.

CORPORATE GOVERNANCE

BASIC APPROACH TO CORPORATE GOVERNANCE

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

1. CORPORATE GOVERNANCE FRAMEWORK AT KANEKA

Regarding the Corporate Governance Framework

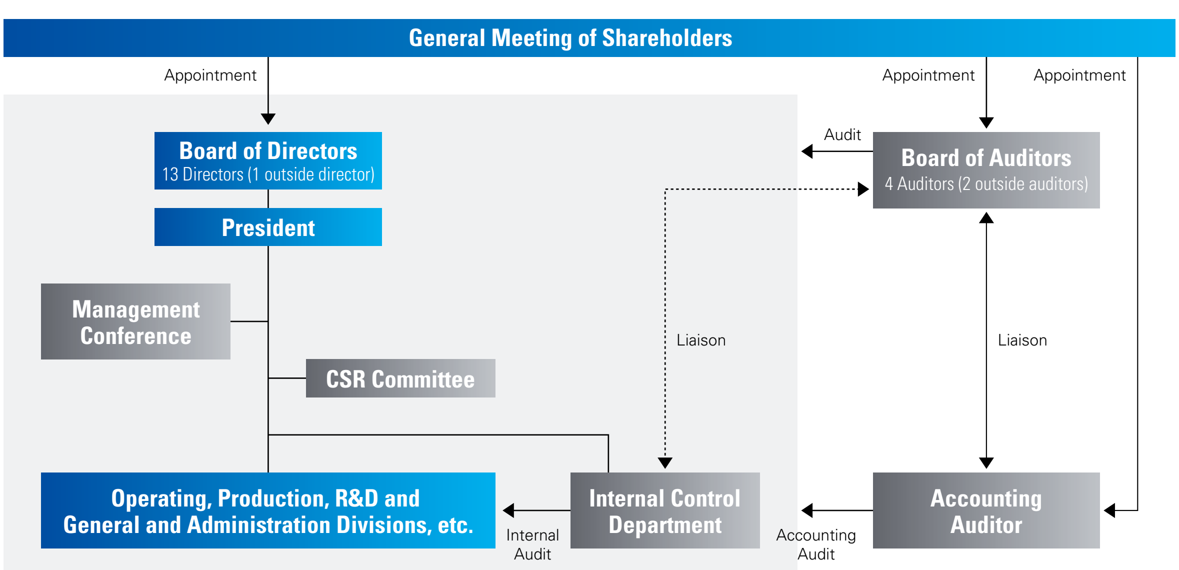
Corporate governance at Kaneka is underpinned by a Board of Directors and a Board of Auditors. Important management matters pertaining to management of the Kaneka Group are decided by resolution of the Board of Directors following deliberation by the Management Conference, a body consisting of the president and other executives of the Company. Meetings of the Board of Directors are convened, in principle, at least once a month. The Chairman of the Board leads discussion and debate of important matters regulated by laws and regulations, the Articles of Incorporation and Board of Directors regulations to the Board of Directors for resolution. In tandem, directors report to the Board of Directors on the status of execution of their prescribed duties, with the Board of Directors monitoring the legality and appropriateness of their actions.

The number of directors is capped at 13, of which 1 is an outside director, whose purpose is to bolster the oversight functions of the Board of Directors. The terms of office of directors are limited to one year in order to clarify management accountability. The Board of Auditors consists of four corporate auditors, two of which are outside auditors. Audits are conducted in coordination with the accounting auditors and the Internal Control Department. The corporate auditors meet periodically to exchange opinions with the Company's representative directors, and attend meetings of the Board of Directors, Management Conference, division manager meetings and other important meetings where key matters regarding business execution are decided. In this way, the corporate auditors properly monitor the status of operational execution at the Company.

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

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

The CSR Committee, chaired by the president, has been established to promote activities that contribute to society's sustainable development, as well as to guide the Company in ensuring legal and regulatory compliance, and fulfilling its accountability to stakeholders. Through adoption of the framework described above, the Company is pursuing the separation of business execution from auditing and oversight functions. At the same time, by taking on outside perspectives, the Company is ensuring the transparency and rationality of management decision-making, and maintaining the objectivity and neutrality of management monitoring functions, all while retaining flexible and agile business execution.



2. STATUS OF INTERNAL CONTROL SYSTEM

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

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

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

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

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

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

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

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

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

f. To ensure the reliability of our financial reporting, we have established and are enhancing internal controls related to such financial reporting.

These activities are supervised by the Internal Control Department.

2) Regulations and Other Systems to Manage Risk of Loss

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

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

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

3) System to Ensure Efficient Performance by Directors

a. Dynamic execution is ensured by giving division managers extensive authority over daily business operations, while 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.

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

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

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

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

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

a. The auditors attend the meetings of the Board of Directors, division manager meetings, Management Conferences and other important meetings.

b. Directors and others report to the auditors on the execution of important operations, such as the results of environment and safety inspections, internal audit results, monthly operations and financial overviews.

c. Important decision-related documents are passed on to the auditors, such as proposal documents, resolution notices regarding matters decided by the president and matters decided by officers in charge.

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

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

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

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

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

The Group has established a Basic Policy on Corporate Activities and Ethical Behavior Standards that provide the basic standards the Company's officers and employees are to adhere to in conducting business activities. These policies require absolutely no relationships with antisocial forces, that demands from antisocial forces are dealt with resolutely, and that unlawful or unjust demands are opposed on an individual level as well. The executive directors and others in top management discipline themselves to set an example in upholding these standards of behavior, working to develop internal structures and increase awareness within the Company. To address this issue, the Company has established a division to collect and manage information on a daily basis and coordinate with law enforcement and other outside entities and related organizations. The Company remains committed to developing and reinforcing its internal structure for eliminating antisocial forces.

Overview of Contracts for Limitation of Liability

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

4. INTERNAL AUDITS AND AUDITORS' AUDITS

The Kaneka Group has established the Internal Control Department, under the direct authority of the president, as an internal auditing division. Along with ensuring the installation, as well as evaluation and audit of the Company's internal control system, the department is responsible for developing and monitoring the operation of the Group's internal control systems. The department has a 12-member staff to conduct internal audits. Of the four corporate auditors, two are outside auditors. The standing corporate auditors are elected based on their years of experience with the Company's accounting and auditing divisions, as well as their formidable insight with respect to financial and accounting matters. A secretariat is established within the Board of Auditors and staffed by assistants who exclusively aid the corporate auditors in the performance of their duties. One replacement auditor is also appointed to assume audit duties in cases in which the number of corporate auditors falls below the minimum number required by law. The Board of Auditors periodically requests meetings to receive reports from the Internal Control Department regarding the status of internal audits. Similarly, the Board of Auditors holds meetings to receive regular audit reports from and exchange opinions with the accounting auditors, in an effort to perform audits in mutual cooperation with all audit-related entities.

5. RELATIONSHIP WITH OUTSIDE DIRECTORS AND AUDITORS

Outside director Takeo Inokuchi is a senior advisor for Mitsui Sumitomo Insurance Co., Ltd. Mr. Inokuchi has been involved in the management of this non-life insurance company for many years, possessing great insight and a wealth of practical experience as a manager. Furthermore, Mr. Inokuchi stands independently from the current management team, and as such was deemed to present no risks with respect to the interests of the Company's common shareholders. Mr. Inokuchi is a sitting member of the special committee for determining basic policies to prevent any attempted large-scale acquisitions of Kaneka shares. The Company newly appointed Mr. Inokuchi as an outside director at the 87th Ordinary General Meeting of Shareholders held on June 29, 2011. In addition to taking advantage of Mr. Inokuchi's tremendous management insight and practical experience in the Company's own management, Mr. Inokuchi is expected to monitor management from his external viewpoint. Outside corporate auditors Hiroaki Tsukamoto and Kouji Hirokawa were appointed because of their high degree of insight as attorneys and their abundant experience applicable to audit activities. Both auditors are independent from the Company's current management, and were deemed to present no risk with respect to the interests of common shareholders. The outside corporate auditors attend meetings of the Board of Directors and Board of Auditors, where they offer input as necessary. They also hold regular meetings to exchange opinions with the Company's representative directors. In addition to examining important decision-making documents, the outside corporate auditors receive monthly reports from the standing corporate auditors on audit operations performed, and exchange opinions regarding the content of these reports. The outside directors and corporate auditors have no noteworthy special interest relationship with the Company.

6. STATUS OF ACCOUNTING AUDITS

The certified public accountants who provided the Company with accounting audit services during the year are Koichi Inoue, Teruo Watanuma, and Yoshitaka Yamaguchi, all belonging to KPMG AZSA LLC. Other personnel who assisted in accounting audit tasks include four certified public accountants and 14 junior certified public accountants.

7. BREAKDOWN OF CORPORATE OFFICER COMPENSATION

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

Position	Total Compensation (Millions of yen)	Breakdown of Compensation by Type (Millions of yen)			Persons Compensated
		Monthly (fixed) Compensation	Stock option equity compensation	Bonuses	
Directors	594	466	34	94	15
Corporate auditors	48	48			2
Outside directors and corporate auditors	34	34			2

Notes:
1. Amounts less than the specified unit have been rounded off.
2. Persons compensated and monthly (fixed) compensation include compensation paid to two directors who retired from their positions at the close of the 86th Ordinary General Meeting of Shareholders on June 25, 2010.
3. Maximum compensation to directors is ¥46 million per month (fixed salary) (resolved at the 76th Ordinary General Meeting of Shareholders on June 29, 2000), and annual stock option equity compensation is ¥75 million (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).
4. Maximum compensation to corporate auditors is ¥7.8 million per month (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).

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

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

8. POLICY FOR DETERMINING CORPORATE OFFICER COMPENSATION

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

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

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

9. STATUS OF STOCKHOLDING

Investment Stocks Held for Other Than Purely Investment Purposes

153 different stocks

Total reported balance sheet value: ¥38,730 million

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

(FY2011)

Specified investment securities

Stock Name	No. of Shares	Reported Balance Sheet Value (Millions of yen)	Holding Purpose
Ibiden Co., Ltd.	1,000,000	2,627	Stock held to maintain and enhance business relationships.
Sumitomo Mitsui Financial Group	1,003,112	2,594	Same as above
Nippon Shokubai Co., Ltd.	2,400,000	2,500	Same as above
Mitsui & Co., Ltd.	1,031,093	1,537	Same as above
Kubota Corporation	1,952,966	1,531	Same as above
Mitsubishi UFJ Financial Group, Inc.	3,885,700	1,492	Same as above
Nitto Denko Corporation	300,000	1,323	Same as above
JMS Co., Ltd.	4,385,000	1,227	Stock held for business and capital alliance purposes.
Mitsubishi Corporation	519,251	1,198	Stock held to maintain and enhance business relationships.
NOK Corporation	760,000	1,120	Same as above
Shionogi & Co., Ltd.	672,000	953	Same as above
Terumo Corporation	210,875	924	Same as above
MS&AD Insurance Group Holdings, Inc.	471,990	893	Same as above
Daiwa House Industry Co., Ltd.	767,000	783	Same as above
Duskin Co., Ltd.	500,000	771	Same as above
Mitsubishi Chemical Holdings Corporation	1,384,171	723	Same as above
Nissin Foods Holdings Co., Ltd.	227,074	665	Same as above
Onamba Co., Ltd.	829,212	655	Same as above
Mitsui Chemicals, Inc.	2,053,000	603	Same as above
Takiron Co., Ltd.	1,318,201	458	Same as above
Asahi Intec Co., Ltd.	240,000	416	Same as above
Konishi Co., Ltd.	342,000	413	Same as above
Morinaga & Co., Ltd.	2,082,528	399	Same as above
Ezaki Glico Co., Ltd.	392,075	378	Same as above
Meiwa Industry Co., Ltd.	2,854,833	331	Stock held for business and capital alliance purposes.
Dainichiseika Color & Chemicals Mfg. Co., Ltd.	809,000	323	Stock held to maintain and enhance business relationships.
Osaka Organic Chemical Industry Ltd.	700,000	308	Same as above
The Sumitomo Trust & Banking Co., Ltd.	700,244	301	Same as above
Yamazaki Baking Co., Ltd.	296,432	287	Same as above
Nice Holdings, Inc.	1,133,000	243	Same as above

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

10. NUMBER OF DIRECTORS

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

11. REQUIREMENTS FOR DETERMINATION OF DIRECTOR APPOINTMENTS

The Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable at the General Meeting of Shareholders shall attend the meeting and determine the appointment of directors based on a majority vote. The Articles of Incorporation further specify that the appointment of directors shall not be resolved by cumulative voting.

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

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

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

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

14. COMPENSATION FOR AUDITS

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

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

	Fiscal Year Ended March 31, 2010		Fiscal Year Ended March 31, 2011	
	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)
Kaneka	74	2	74	36
Consolidated Subsidiaries	3	–	4	–
Total	78	2	78	36

2. Other Significant Compensation

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

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

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

4. Method of Determining Compensation for Audits

Nothing to report.

TAKEOVER DEFENSE MEASURES

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

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

An overview is provided below.

1. CONTENT OF THE BASIC POLICY

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

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

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

To realize this long-term management vision, the Company, in a bid for business expansion, will heavily invest management resources into the aforementioned important strategic domains, concentrating as well on the creation of new businesses, alongside the development and expansion of new markets. By reinforcing unified Group business management, the Company will fundamentally emphasize "execution and achievement," and bring the Group's collective capabilities to bear in accelerating business structure reform.

The Company is implementing the following takeover defense measures to prevent its decisions on financial and business policies from being controlled by entities regarded as inappropriate according to the Basic Policy.

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

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

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

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

DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

BOARD OF DIRECTORS

Chairman of the Board

Masatoshi Takeda

President

Kimikazu Sugawara*

Executive Vice President

Masatoshi Hatori*

Member of the Board Senior Managing Executive Officers

Tetsuro Hara
Masao Nakagawa
Hirosaku Nagano

Member of the Board Managing Executive Officers

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

Independent Member of the Board

Takeo Inokuchi

CORPORATE AUDITORS

Standing Corporate Auditors

Sataro Inui
Yasuo Inoguchi

Corporate Auditors

Hiroaki Tsukamoto
Kouji Hirokawa

EXECUTIVE OFFICERS

Senior Managing Executive Officer

Masakazu Kajiwara

Managing Executive Officers

Hideyuki Matsui
Tohru Yoshinari
Haruo Tomita
Atsushi Ikenaga
Akihiko Iguchi

Executive Officers

Kouji Sanpei
Koichi Nakamura
Yoshimi Uchida
Shinji Mizusawa
Yasuyoshi Ueda
Atsushi Kawakatsu
Mamoru Kadokura
Shigeo Furuyoshi
Shinobu Ishihara
Hidesuke Amachi
Shinichirou Kametaka
Yoshiki Takeoka

*Representative Directors (as of June 29, 2011)

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

The Kaneka Group's net sales for FY2011 (April 1, 2010 to March 31, 2011) increased 10.0% from the previous fiscal year to ¥453,827 million. Overseas sales were enhanced by the economic recovery in Asia, Europe and North America. As a result, both total exports and overseas subsidiaries posted higher sales. Overseas sales rose 17.9% to ¥160,825 million, and the ratio of overseas sales to total sales increased from 33.1% to 35.4%. Sales grew in all the 7 segments.

COST OF SALES AND SG&A EXPENSES

During FY2011, cost of sales increased by 9.4% to ¥339,382 million. Net sales rose by a larger percentage, 10.0%, and the cost of sales ratio fell from 75.2% to 74.8%. SG&A expenses increased 10.0% to ¥93,210 million, but the ratio of SG&A expenses to sales leveled off at 20.5%.

OPERATING INCOME

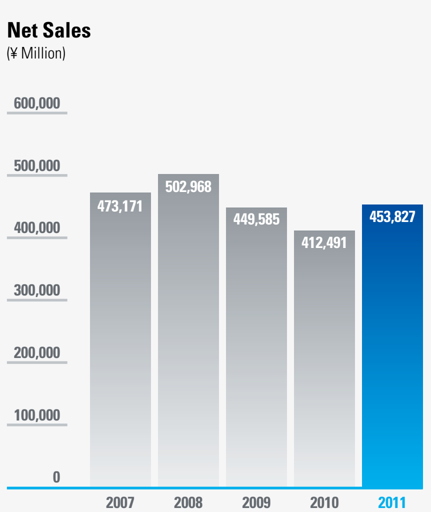
Operating income during FY2011 increased 21.3% to ¥21,235 million. Operating income increased in the Chemicals, Expandable Plastics and Products, Life Science Products and the Electronic Products segments but decreased in the other 3 segments.

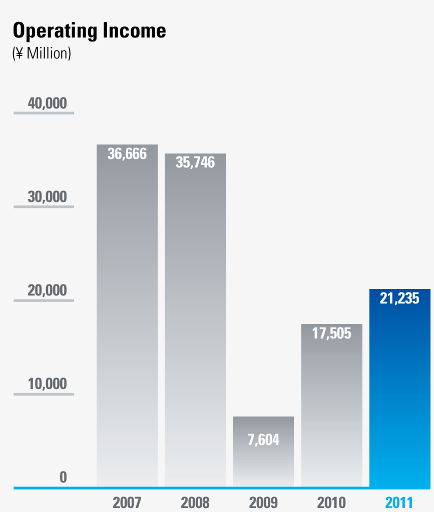
NET INCOME

During the year, the Group recorded net income of ¥11,625 million (up 38.3%), despite booking extraordinary losses such as the ¥1,220 million loss from damage to production facilities caused by the Great East Japan Earthquake and provisions for the allowance for doubtful accounts. Another extraordinary loss was a ¥518 million loss on valuation of investment securities.

FINANCIAL CONDITION

As of March 31, 2011, total assets came to ¥455,141 million, up ¥22,261 million from March 31, 2010, mainly because of an increase in working capital such as notes and accounts receivable—trade and higher goodwill following the consolidation of subsidiaries. Also, the ratio of ordinary income to total assets (ROA) was 2.6%, up from 1.9% for the previous fiscal year. Interest-bearing debt stood at ¥66,594 million as of March 31, 2011, up ¥3,020 million from a year earlier. Net assets increased ¥4,654 million from the end of the preceding year to ¥261,829 million, reflecting mainly higher retained earnings and lower foreign currency translation adjustments. As a result, the equity ratio came to 55.4%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.25.





CASH FLOWS

Cash and cash equivalents on March 31, 2011, came to ¥36,978 million, ¥3,536 million less than at the end of the preceding year.

Net cash provided by operating activities was ¥34,933 million, ¥22,480 million less than in the preceding fiscal year. Major sources of cash were income before income taxes and minority interests of ¥19,437 million and depreciation and amortization of ¥28,892 million. Major uses of cash were reflected in an ¥8,923 million increase in notes and accounts receivable—trade.

Net cash used in investing activities amounted to ¥34,933 million, ¥9,311 million more than in the preceding fiscal year. The principal factors were the purchase of property, plant and equipment, which used cash of ¥26,386 million, and the purchase of investments in subsidiaries, which used cash of ¥4,019 million.

Net cash used in financing activities was ¥4,342 million, ¥12,484 million less than in the preceding fiscal year. The principal factor in this category was cash dividends paid in the amount of ¥5,427 million.

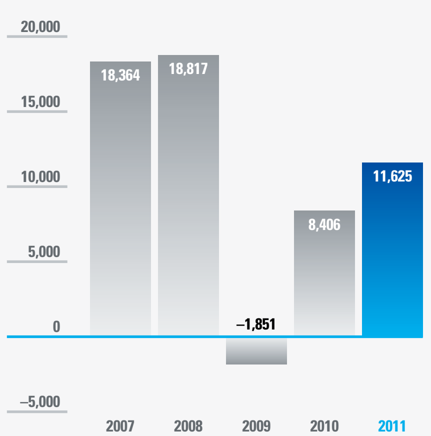
Financial Index Trends

	Term ended March 31, 2007	Term ended March 31, 2008	Term ended March 31, 2009	Term ended March 31, 2010	Term ended March 31, 2011
Shareholders' equity ratio	56.8%	57.7%	58.1%	57.6%	55.4%
Shareholders' equity ratio based on market value	82.4%	46.8%	39.2%	47.5%	43.1%
Interest-bearing debt coverage ratio	1.6	1.4	2.7	1.1	1.9
Interest coverage ratio	19.9	24.9	19.7	61.6	39.5

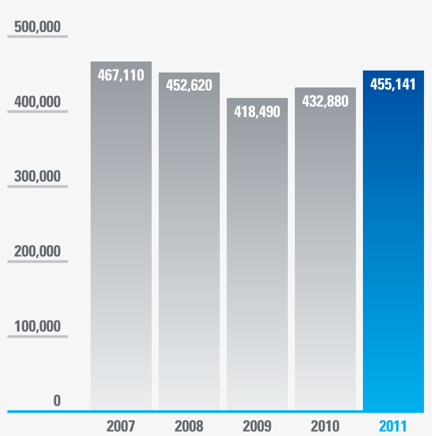
Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:

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

Net Income
(¥ Million)



Total Assets
(¥ Million)



BUSINESS RISKS AND UNCERTAINTIES

Factors that may significantly affect the performance and the financial position of the Kaneka Group include those described below. Please note that the matters described are only those that we considered risks as of March 31, 2011 and that this is not an exhaustive list of risks borne by the Group.

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

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

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

For the Kaneka Group, globalization is a key element of its management strategy. For example, overseas sales accounted for 35.4% of total sales in the fiscal year ended March 31, 2011. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems and transfer price taxation and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position.

Meanwhile, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions, as appropriate, to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments may seriously affect the performance and financial position of the Group.

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

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

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

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

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

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

(6) Impact of environment related regulations

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

(7) Risks associated with legal action

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

(8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could suffer impairment losses, owing to the application of the Accounting Standard for Financial Instruments.

With regard to fixed assets, a substantial worsening in the operating environment could cause further decline in the market value of idle land held by the Group. Consequently, the Group could record impairment losses, owing to the application of the Accounting Standard for Impairment of Fixed Assets.

For retirement benefit obligations and retirement benefit expenses, actuarial calculations are used each year to determine the discount rate and other core ratios, incorporating the expected rate of investment return on core assets. However, a downturn in the discount rate or a decrease in investment yields on pension assets could affect the Kaneka Group's financial position and performance. Deferred tax assets are posted against future temporary differences in the assumption that they can be recovered by offsetting future taxable income. However, if taxable income differs from expectations, the affect on the liquidation of deferred tax assets could affect the Group's financial position and performance.

The Group's financial position and performance may otherwise be significantly affected by such factors as fluctuations in the markets for its products, changes in laws and regulations delays in research and development and technical innovations.

CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2011 and 2010

Assets	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
Current assets:			
Cash and cash equivalents (Note 2)	¥ 36,978	¥ 40,514	$ 444,714
Notes and accounts receivable—trade			
Unconsolidated subsidiaries and affiliates	541	1,092	6,506
Other	103,350	92,902	1,242,934
Inventories (Note 7)	68,154	61,994	819,651
Short-term loans receivable from unconsolidated subsidiaries and affiliates	707	383	8,503
Deferred tax assets (Note 11)	6,142	5,117	73,867
Other current assets	6,953	6,503	83,621
Allowance for doubtful accounts	(400)	(369)	(4,811)
Total current assets	222,425	208,136	2,674,985
Property, plant and equipment (Notes 9 and 12)**:**			
Land	30,210	28,727	363,319
Buildings and structures	150,489	142,837	1,809,850
Machinery, equipment and vehicles	449,172	437,072	5,401,948
Construction in progress	9,961	12,731	119,796
Other	4,896	3,126	58,881
	644,728	624,493	7,753,794
Less accumulated depreciation	481,662	463,060	5,792,688
Property, plant and equipment, net	163,066	161,433	1,961,106
Intangible assets	7,199	1,859	86,578
Investments and other assets:			
Investment securities (Note 5):			
Unconsolidated subsidiaries and affiliates	5,488	4,335	66,001
Other	41,444	42,952	498,425
Long-term loans receivable	1,775	1,418	21,347
Deferred tax assets (Note 11)	5,167	5,031	62,141
Other	9,146	8,036	109,994
Allowance for doubtful accounts	(569)	(320)	(6,843)
Total investments and other assets	62,451	61,452	751,065
	¥ 455,141	¥ 432,880	$ 5,473,734

See accompanying notes.

Liabilities and net assets	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
Current liabilities:			
Short-term loans payable (Note 12)	**¥ 19,211**	¥ 18,155	**$ 231,040**
Current portion of long-term loans payable (Note 12)	**6,972**	1,614	**83,848**
Notes and accounts payable:			
Trade	**60,771**	53,493	**730,860**
Construction	**8,121**	6,721	**97,667**
Other	**14,195**	11,998	**170,716**
Income taxes payable	**4,145**	3,614	**49,850**
Accrued expenses	**9,022**	8,549	**108,503**
Provision for the administrative fine	**605**	605	**7,276**
Other current liabilities	**3,524**	2,709	**42,380**
Total current liabilities	**126,566**	107,458	**1,522,140**
Noncurrent liabilities:			
Long-term debt due after one year (Note 12)	**41,239**	44,205	**495,959**
Provision for retirement benefits (Note 13)	**19,228**	19,233	**231,245**
Provision for directors' retirement benefits	**321**	283	**3,860**
Deferred tax liabilities (Note 11)	**1,083**	334	**13,025**
Other noncurrent liabilities	**4,875**	4,192	**58,629**
Total noncurrent liabilities	**66,746**	68,247	**802,718**
Contingent liabilities (Note 14)			
Net assets (Note 15)**:**			
Shareholders' equity:			
Capital stock			
Authorized — 750,000,000 shares Issued — 350,000,000 shares	**33,047**	33,047	**397,438**
Capital surplus	**34,837**	34,837	**418,966**
Retained earnings	**197,463**	191,250	**2,374,781**
Less treasury stock, at cost — 11,082,130 shares in 2011 10,771,253 shares in 2010	**(9,760)**	(9,599)	**(117,378)**
Total shareholders' equity	**255,587**	249,535	**3,073,807**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**6,677**	8,148	**80,301**
Foreign currency translation adjustments	**(10,149)**	(8,290)	**(122,057)**
Total accumulated other comprehensive income	**(3,472)**	(142)	**(41,756)**
Subscription rights to shares (Note 16)	**127**	110	**1,527**
Minority interests	**9,587**	7,672	**115,298**
Total net assets	**261,829**	257,175	**3,148,876**
	¥ 455,141	¥ 432,880	**$ 5,473,734**

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	**2011**
Net sales	**¥ 453,827**	¥ 412,491	¥ 449,585	**$ 5,457,931**
Cost of sales	**339,382**	310,251	353,179	**4,081,563**
Gross profit	**114,445**	102,240	96,406	**1,376,368**
Selling, general and administrative expenses	**93,210**	84,735	88,802	**1,120,986**
Operating income	**21,235**	17,505	7,604	**255,382**
Other income (expenses):				
Interest and dividends income	**1,117**	1,181	1,455	**13,434**
Interest expenses	**(893)**	(929)	(1,258)	**(10,740)**
Gain on sales of investment securities	**4**	240	850	**48**
Loss on disposals of noncurrent assets	**(1,081)**	(1,175)	(909)	**(13,001)**
Foreign exchange gains, net	**114**	205	31	**1,371**
Equity in earnings (losses) of affiliates	**1,118**	169	(489)	**13,446**
Gain on negative goodwill	**192**	–	–	**2,309**
Gain on sales of noncurrent assets (Note 8)	**–**	190	–	**–**
Non-recurring depreciation on noncurrent assets	**–**	(671)	–	**–**
Provision for the administrative fine	**–**	(605)	–	**–**
Loss on valuation of investment securities	**(518)**	–	(4,207)	**(6,230)**
Impairment loss on noncurrent assets (Note 9)	**–**	–	(1,467)	**–**
Loss on liquidation of business (Note 10)	**–**	–	(925)	**–**
Loss on disaster	**(1,220)**	–	–	**(14,672)**
Others	**(631)**	(855)	(1,439)	**(7,589)**
Income (loss) before income taxes and minority interests	**19,437**	15,255	(754)	**233,758**
Income taxes (Note 11)				
Current	**6,818**	4,542	3,069	**81,996**
Deferred	**(36)**	1,408	(2,181)	**(433)**
Minority interests in income	**1,030**	899	209	**12,387**
Net income (loss)	**¥ 11,625**	¥ 8,406	¥ (1,851)	**$ 139,808**

	Yen			U.S. dollars (Note 1)
Net income (loss) per share—basic	**¥ 34.28**	¥ 24.78	¥ (5.45)	**$ 0.41**
Net income per share—diluted	**34.26**	24.77	–	**0.41**
Cash dividends applicable to the year	**16.00**	16.00	16.00	**0.19**

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Income before minority interests	¥ 12,655	$ 152,195
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,451)	(17,450)
Foreign currency translation adjustment	(1,948)	(23,428)
Share of other comprehensive income of associates accounted for using equity method	(9)	(108)
Total other comprehensive income	(3,408)	(40,986)
Comprehensive income	¥ 9,247	$ 111,209
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	¥ 8,296	$ 99,772
Comprehensive income attributable to minority interests	951	11,437

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Shareholders' equity				
Capital stock				
Balance at the end of previous period	¥ 33,047	¥ 33,047	¥ 33,047	$ 397,438
Changes of items during the period				
Total changes of items during the period	–	–	–	–
Balance at the end of current period	33,047	33,047	33,047	397,438
Capital surplus				
Balance at the end of previous period	34,837	34,837	34,837	418,966
Changes of items during the period				
Total changes of items during the period	–	–	–	–
Balance at the end of current period	34,837	34,837	34,837	418,966
Retained earnings				
Balance at the end of previous period	191,250	188,357	194,741	2,300,060
Increase by union of accounting policies applied to foreign subsidiaries	–	–	808	–
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,427)	(5,429)	(5,442)	(65,268)
Net income (loss)	11,625	8,406	(1,851)	139,808
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	21	(80)	115	253
Disposal of treasury stock	(6)	(4)	(14)	(72)
Total changes of items during the period	6,213	2,893	(7,192)	74,721
Balance at the end of current period	197,463	191,250	188,357	2,374,781
Treasury stock				
Balance at the end of previous period	(9,599)	(9,584)	(9,018)	(115,442)
Changes of items during the period				
Purchase of treasury stock	(187)	(34)	(616)	(2,249)
Disposal of treasury stock	26	19	50	313
Total changes of items during the period	(161)	(15)	(566)	(1,936)
Balance at the end of current period	(9,760)	(9,599)	(9,584)	(117,378)
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at the end of previous period	8,148	4,644	10,626	97,992
Changes of items during the period				
Net changes of items other than shareholders' equity	(1,471)	3,504	(5,982)	(17,691)
Total changes of items during the period	(1,471)	3,504	(5,982)	(17,691)
Balance at the end of current period	6,677	8,148	4,644	80,301
Deferred gains or losses on hedges				
Balance at the end of previous period	–	1	3	–
Changes of items during the period				
Net changes of items other than shareholders' equity	–	(1)	(2)	–
Total changes of items during the period	–	(1)	(2)	–
Balance at the end of current period	–	–	1	–

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Foreign currency translation adjustment				
Balance at the end of previous period	¥ (8,290)	¥ (7,997)	¥ (2,974)	$ (99,699)
Changes of items during the period				
Net changes of items other than shareholders' equity	(1,859)	(293)	(5,023)	(22,358)
Total changes of items during the period	(1,859)	(293)	(5,023)	(22,358)
Balance at the end of current period	(10,149)	(8,290)	(7,997)	(122,057)
Subscription rights to shares				
Balance at the end of previous period	110	76	50	1,323
Changes of items during the period				
Net changes of items other than shareholders' equity	17	34	26	204
Total changes of items during the period	17	34	26	204
Balance at the end of current period	127	110	76	1,527
Minority interests				
Balance at the end of previous period	7,672	6,148	6,286	92,267
Changes of items during the period				
Net changes of items other than shareholders' equity	1,915	1,524	(138)	23,031
Total changes of items during the period	1,915	1,524	(138)	23,031
Balance at the end of current period	9,587	7,672	6,148	115,298
Total net assets				
Balance at the end of previous period	257,175	249,529	267,598	3,092,904
Increase by union of accounting policies applied to foreign subsidiaries	–	–	808	–
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,427)	(5,429)	(5,442)	(65,268)
Net income (loss)	11,625	8,406	(1,851)	139,808
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	21	(80)	115	253
Purchase of treasury stock	(187)	(34)	(616)	(2,249)
Disposal of treasury stock	20	15	36	241
Net changes of items other than shareholders' equity	(1,398)	4,768	(11,119)	(16,813)
Total changes of items during the period	4,654	7,646	(18,877)	55,972
Balance at the end of current period	¥ 261,829	¥ 257,175	¥ 249,529	$ 3,148,876

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2011	2010	2009	2011
Net cash provided by (used in) operating activities				
Income (loss) before income taxes and minority interests	¥ 19,437	¥ 15,255	¥ (754)	$ 233,758
Adjustments to reconcile net income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	28,892	26,393	27,353	347,468
Impairment loss	–	–	1,467	–
Increase (decrease) in provision for retirement benefits	(156)	3,283	6	(1,876)
Increase (decrease) in allowance for doubtful accounts	279	(30)	(25)	3,355
Interest and dividends income	(1,117)	(1,181)	(1,455)	(13,434)
Interest expenses	893	929	1,258	10,740
Loss (gain) on disposal of noncurrent assets	856	1,229	2,999	10,295
Loss on valuation of investment securities	518	–	4,207	6,230
Loss on liquidation of business	–	–	925	–
Non-recurring depreciation on noncurrent assets	–	671	–	–
Provision for the administrative fine	–	605	–	–
Equity in (earnings) losses of affiliates	(1,118)	(169)	489	(13,446)
Decrease (increase) in notes and accounts receivable—trade	(8,923)	(6,355)	24,595	(107,312)
Decrease (increase) in inventories	(5,975)	5,860	1,688	(71,858)
Increase (decrease) in notes and accounts payable—trade	6,907	9,281	(23,814)	83,067
Others	65	2,822	(4,759)	782
Subtotal	40,558	58,593	34,180	487,769
Interest and dividends income received	1,180	1,230	1,465	14,191
Interest expenses paid	(883)	(932)	(1,342)	(10,619)
Income taxes paid	(5,922)	(1,478)	(7,838)	(71,220)
Net cash provided by (used in) operating activities	34,933	57,413	26,465	420,120
Net cash provided by (used in) investing activities				
Purchase of property, plant and equipment	(26,386)	(23,910)	(35,328)	(317,330)
Proceeds from sales of property, plant and equipment	–	189	–	–
Purchase of intangible assets	(1,133)	(380)	(969)	(13,626)
Purchase of investment securities	(1,552)	(1,645)	(4,489)	(18,665)
Proceeds from sales and distributions of investment securities	15	947	4,675	180
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(4,019)	–	–	(48,334)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	220	–	–	2,646
Purchase of stocks of subsidiaries and affiliates	(1,424)	(463)	(761)	(17,126)
Proceeds from sales of stocks of subsidiaries and affiliates	108	479	550	1,299
Payments of loans receivable	(637)	(265)	(199)	(7,661)
Collection of loans receivable	96	206	96	1,155
Others	(221)	(780)	76	(2,658)
Net cash provided by (used in) investing activities	(34,933)	(25,622)	(36,349)	(420,120)
Net cash provided by (used in) financing activities				
Net increase (decrease) in short-term loans payable	825	(21,459)	18,947	9,922
Proceeds from long-term debt	4,067	2,943	5,842	48,912
Repayment of long-term debt	(3,009)	(2,188)	(836)	(36,188)
Proceeds from issuance of bonds	–	15,000	–	–
Redemption of bonds	–	(5,000)	(5,000)	–
Repayments of lease obligations	(536)	(429)	(543)	(6,446)
Cash dividends paid	(5,427)	(5,429)	(5,442)	(65,268)
Cash dividends paid to minority shareholders	(158)	(241)	(119)	(1,900)
Purchase of treasury stock	(107)	(26)	(605)	(1,287)
Proceeds from sales of treasury stock	3	3	29	36
Others	–	–	35	–
Net cash provided by (used in) financing activities	(4,342)	(16,826)	12,308	(52,219)
Effect of exchange rate change on cash and cash equivalents	806	201	(171)	9,693
Net increase (decrease) in cash and cash equivalents	(3,536)	15,166	2,253	(42,526)
Cash and cash equivalents at beginning of period	40,514	24,241	21,988	487,240
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	–	1,107	–	–
Cash and cash equivalents at end of period	¥ 36,978	¥ 40,514	¥ 24,241	$ 444,714

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective country of domicile. As discussed in Note 3 (6), the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for six specified items as applicable.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2011 which was ¥83.15 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

The Company has 66 consolidated subsidiaries (52 in 2010 and 51 in 2009) and 3 affiliates accounted for by the equity method (3 in 2010 and 3 in 2009). 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 the consolidated financial statements.

Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. The difference between the cost of an investment in a 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 accounts

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

Provision for the administrative fine

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

Securities

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

Inventories
Prior to April 1, 2008, inventories were stated at cost, determined principally by the average method. As discussed in Note 3 (7), effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for measurement of inventories and stated the inventories at the lower of average cost or net realizable value at March 31, 2009.

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

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

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

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

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

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

Provision for directors retirement benefits
Directors and statutory auditors leaving certain 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.

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, 2011, 2010, and 2009 were ¥18,262 million ($219,627 thousand), ¥16,322 million and ¥17,203 million, respectively.

Finance leases
Finance leases that do not transfer ownership of the lease assets to the lessee 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 (loss) per share
The computations of net income (loss) per share of common stock are based on the weighted average number of shares outstanding during each period. Although the potential for stock dilution exists, diluted net income per share for 2009 was not indicated because the Company posted a net loss.

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2011 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. CHANGES IN ACCOUNTING POLICIES

(1) Asset Retirement Obligations
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 18, "Asset Retirement Obligations," and Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations," issued on March 31, 2008. This change had no material impact on the consolidated financial statements for the year ended March 31, 2011.

(2) Business Combinations
Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 21, "Accounting Standard for Business Combinations," Statement No. 22, "Accounting Standard for Consolidated Financial Statements," Statement No. 23, "Partial Amendments to Accounting Standard for Research and Development Costs," Statement No. 7, "Revised Accounting Standard for Business Divestitures," Statement No. 16, "Revised Accounting

Standard for Equity Method of Accounting for Investments," and Guidance No. 10, "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," issued on December 26, 2008.

(3) Presentation of Comprehensive Income

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 25, "Accounting Standard for Presentation of Comprehensive Income," issued on June 30, 2010. However, the amounts recorded as "accumulated other comprehensive income and total accumulated other comprehensive income" for the previous fiscal year are the amounts recorded as "valuation and translation adjustments" and "total valuation and translation adjustments," respectively, for the previous fiscal year.

(4) Equity Method of Accounting for Investments

Effective from the fiscal year ended March 31, 2011, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," and ASBJ PITF No. 24, "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method," issued on July 31, 2008. This change had no impact on the consolidated financial statements for the year ended March 31, 2011.

(5) Provision for Retirement Benefits

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries have adopted the Accounting Standards Board of Japan ("ASBJ") Statement No. 19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," issued on July 31, 2008. The new accounting standard requires domestic companies to use the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined benefit plan. Previously, domestic companies were allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the year ended March 31, 2010.

(6) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

On March 17, 2006, the Accounting Standards Board of Japan issued Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" ("PITF No. 18"). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances be, in principle, unified for the preparation of the consolidated financial statements. As a tentative measure, however, PITF No. 18 allows a parent company to prepare consolidated financial statements using its foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the six specified items are required in the consolidation process so that their impact on net income (loss) can be accounted for in accordance with Japanese GAAP, unless the impact is not material. As a result of adopting PITF No. 18 effective April 1, 2008, operating income decreased by ¥63 million, and loss before income taxes and minority interests increased by ¥37 million for the year ended March 31, 2009 compared to what would have been reported under the previous method.

(7) Inventories

On July 5, 2006, the Accounting Standards Board of Japan issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." As permitted under the superseded accounting standard, the Company and its consolidated domestic subsidiaries previously stated inventories at cost. The new accounting standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value. As a result of adopting ASBJ Statement No. 9, operating income decreased by ¥294 million and loss before income taxes and minority interests increased by ¥294 million for the year ended March 31, 2009 compared to what would have been reported by the previous method.

(8) Finance leases

On March 30, 2007, the Accounting Standards Board of Japan issued Statement No. 13, "Accounting Standard for Lease Transactions," and Guidance No. 16, "Guidance on Accounting Standard for Lease Transactions." The new accounting standards require that all finance leases transactions be treated as capital leases.

Effective April 1, 2008, the Company and its consolidated domestic subsidiaries adopted the new accounting standards for finance leases commencing after March 31, 2008 and capitalized assets used under such leases, except for certain immaterial or short-term finance leases accounted for as operating leases. As permitted, finance leases that commenced prior to April 1, 2008 and have been accounted for as operating leases continue to be accounted for as operating leases.

The effects of adopting the new standards on the consolidated balance sheet as of March 31, 2009 were to increase property, plant and equipment and intangible assets by ¥912 million and ¥99 million, respectively, compared to the amounts that would have been reported under the previous standard. Adopting the new standards had no effect on the consolidated statement of operations for the year ended March 31, 2009 and no material effect on segment information.

4. FINANCIAL INSTRUMENTS

(Additional information)

Effective from the fiscal year ended March 31, 2010, the Company adopted ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," revised on March 10, 2008, and ASBJ Guidance No. 19, "Guidance on Disclosures about Fair Value of Financial Instruments," revised on March 10, 2008. Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is as follows:

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

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

(2) Description of financial instruments and inherent risks

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

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

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

(3) Risk management system relating to financial instruments

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

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

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

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2011.

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

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

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

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

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

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

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

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

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

2. Matters regarding the fair values of financial instruments

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

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 37,685	¥ 37,685	¥ –
(2) Notes and accounts receivable—trade	103,891	103,891	–
(3) Marketable and investment securities			
Available-for-sale securities	35,452	35,284	(168)
(4) Long-term loans receivable	1,775	1,364	
Allowance for doubtful receivables(*1)	(244)		
	1,531	1,364	(167)
Total assets	178,559	178,224	(335)
(1) Notes and accounts payable	60,771	60,771	–
(2) Short-term loans payable	21,176	21,176	–
(3) Bonds	20,149	20,565	416
(4) Long-term debt	26,096	26,216	120
Total liabilities	128,192	128,728	536
Derivative transactions(*2)			
– Hedge accounting is applied	477	477	–
– Hedge accounting is not applied	–	–	–

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2010 (the consolidated accounts settlement date of the fiscal year under review), their fair values, and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values are deemed extremely difficult to assess are not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 40,514	¥ 40,514	¥ –
(2) Notes and accounts receivable—trade	93,993	93,993	–
(3) Marketable and investment securities			
Available-for-sale securities	36,961	36,871	(90)
(4) Long-term loans receivable	1,418	1,217	
Allowance for doubtful receivables(*1)	(0)		
	1,418	1,217	(201)
Total assets	172,886	172,595	(291)
(1) Notes and accounts payable	53,493	53,493	–
(2) Short-term loans payable	19,770	19,770	–
(3) Bonds	20,000	20,234	234
(4) Long-term debt	24,205	24,668	463
Total liabilities	117,468	118,165	697
Derivative transactions(*2)			
– Hedge accounting is applied	750	750	–
– Hedge accounting is not applied	–	–	–

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

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

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	$ 453,217	$ 453,217	$ –
(2) Notes and accounts receivable—trade	1,249,441	1,249,441	–
(3) Marketable and investment securities			
Available-for-sale securities	426,362	424,341	(2,021)
(4) Long-term loans receivable	21,347	16,404	
Allowance for doubtful receivables(*1)	(2,935)		
	18,412	16,404	(2,008)
Total assets	2,147,432	2,143,403	(4,029)
(1) Notes and accounts payable	730,860	730,860	–
(2) Short-term loans payable	254,672	254,672	–
(3) Bonds	242,321	247,324	5,003
(4) Long-term debt	313,843	315,286	1,443
Total liabilities	1,541,696	1,548,142	6,446
Derivative transactions(*2)			
– Hedge accounting is applied	5,737	5,737	–
– Hedge accounting is not applied	–	–	–

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

Assets

(1) Cash and cash equivalents
The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

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

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

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

Liabilities

(1) Notes and accounts payable, (2) Short-term borrowings
The fair value of notes and accounts payable and short-term borrowings approximate book value because they are mostly settled in a short period of time. Thus, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by certain period at a rate that takes into account the time to maturity and credit risk.

(3) Bonds
The fair value of bonds issued by the Company is measured based on the market price.

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

Derivative transactions

Please refer to "Derivative Transactions."

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

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Unlisted equity securities	¥ 11,309	¥ 10,418	$ 136,003

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

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

	Millions of yen			
	2011			
	Within one year	Over one year to five years	Over five years to ten years	Over 10 years
Cash and cash equivalents	¥ 37,685	¥ –	¥ –	¥ –
Notes and accounts receivable—trade	103,891	–	–	–
Marketable securities and investment securities				
Available-for-sale securities with maturity dates	–	250	–	–
Long-term loans receivable	49	516	243	723
Total	¥ 141,625	¥ 766	¥ 243	¥ 723

	Millions of yen			
	2010			
	Within one year	Over one year to five years	Over five years to ten years	Over 10 years
Cash and cash equivalents	¥ 40,514	¥ –	¥ –	¥ –
Notes and accounts receivable—trade	93,993	–	–	–
Marketable securities and investment securities				
Available-for-sale securities with maturity dates	–	250	–	–
Long-term loans receivable	67	370	168	812
Total	¥ 134,574	¥ 620	¥ 168	¥ 812

	Thousands of U.S. dollars (Note 1)			
	2011			
	Within one year	Over one year to five years	Over five years to ten years	Over 10 years
Cash and cash equivalents	$ 453,217	$ –	$ –	$ –
Notes and accounts receivable—trade	1,249,441	–	–	–
Marketable securities and investment securities				
Available-for-sale securities with maturity dates	–	3,007	–	–
Long-term loans receivable	589	6,205	2,922	8,695
Total	$ 1,703,247	$ 9,212	$ 2,922	$ 8,695

Note 4.
Maturity schedules after the consolidated balance sheet date for bonds and long-term debt

	Millions of yen					
	2011					
	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Bonds	¥ 5,006	¥ 33	¥ –	¥ 5,050	¥ 60	¥ 10,000
Long-term debt	–	7,268	9,129	2,689	6,044	966
Total	¥ 5,006	¥ 7,301	¥ 9,129	¥ 7,739	¥ 6,104	¥ 10,966

	Millions of yen					
	2010					
	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Bonds	¥ –	¥ 5,000	¥ –	¥ –	¥ 5,000	¥ 10,000
Long-term debt	–	1,784	6,757	9,270	140	6,254
Total	¥ –	¥ 6,784	¥ 6,757	¥ 9,270	¥ 5,140	¥ 16,254

	Thousands of U.S. dollars (Note 1)					
	2011					
	Within one year	Over one year to two years	Over two years to three years	Over three years to four years	Over four years to five years	Over five years
Bonds	$ 60,204	$ 397	$ –	$ 60,734	$ 721	$ 120,265
Long-term debt	–	87,408	109,790	32,339	72,688	11,618
Total	$ 60,204	$ 87,805	$ 109,790	$ 93,073	$ 73,409	$ 131,883

5. SECURITIES

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

Securities with book values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2011			2011		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 12,320	¥ 25,455	¥ 13,135	$ 148,166	$ 306,133	$ 157,967
Bonds	–	–	–	–	–	–
	¥ 12,320	¥ 25,455	¥ 13,135	$ 148,166	$ 306,133	$ 157,967

Securities with book values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2011			2011		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 9,766	¥ 8,206	¥ (1,560)	$ 117,450	$ 98,689	$ (18,761)
Bonds	–	–	–	–	–	–
	¥ 9,766	¥ 8,206	¥ (1,560)	$ 117,450	$ 98,689	$ (18,761)

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

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2011			2011		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	¥ 5	¥ 4	¥ –	$ 60	$ 48	$ –
Bonds	–	–	–	–	–	–
	¥ 5	¥ 4	¥ –	$ 60	$ 48	$ –

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2010:

Securities with book values exceeding acquisition costs:

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Equity securities	¥ 11,727	¥ 26,738	¥ 15,011
Bonds	–	–	–
	¥ 11,727	¥ 26,738	¥ 15,011

Securities with book values not exceeding acquisition costs:

	Millions of yen		
	2010		
	Acquisition cost	Book value	Difference
Equity securities	¥ 9,718	¥ 8,693	¥ (1,025)
Bonds	–	–	–
	¥ 9,718	¥ 8,693	¥ (1,025)

The following table summarizes sales of available-for-sale securities as of March 31, 2010:

	Millions of yen		
	2010		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 911	¥ 309	¥ (71)
Bonds	–	–	–
	¥ 911	¥ 309	¥ (71)

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

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

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Writing U.S. dollar	¥ 1,841	¥ 1,862	$ 22,141	$ 22,393
Writing Euro	638	657	7,673	7,901
Writing Pound Sterling	97	94	1,167	1,130
Writing Franc	93	91	1,118	1,094
Currency swaps	5,485	515	65,965	6,194

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay fixed and receive floating	¥ 65	¥ (2)	$ 782	$ (24)

Derivatives transaction to which hedging accounting was applied as of March 31, 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay floating and receive fixed	¥ 3,000	(*)	$ 36,079	(*)
Pay fixed and receive floating	333	(*)	4,005	(*)

Derivative transactions to which hedging accounting was not applied as of March 31, 2010 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Writing U.S. dollar	¥ 1,914	¥ 1,954
Writing Euro	583	587
Currency swaps	8,161	795

Derivatives transaction to which hedging accounting was applied as of March 31, 2010 were as follows:

	Millions of yen	
	Contract amount	Fair value
Interest rate swaps		
Pay floating and receive fixed	¥ 3,400	(*)
Pay fixed and receive floating	412	(*)

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

7. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Merchandise and finished goods	**¥ 38,024**	¥ 34,399	**$ 457,294**
Work-in-process	**8,018**	8,404	**96,428**
Raw materials and supplies	**22,112**	19,191	**265,929**
	¥ 68,154	¥ 61,994	**$ 819,651**

8. GAIN ON SALES OF NONCURRENT ASSETS

The primary component of the gain on sales of noncurrent assets for the year ended March 31, 2010 was ¥190 million due to the sale of vacant property related to the withdrawal from the Expandable Plastics and Products business at a consolidated subsidiary in North America in the year ended March 31, 2009.

9. IMPAIRMENT LOSS ON NONCURRENT ASSETS

The Companies recognized impairment losses for the following group of noncurrent assets in the year ended March 31, 2009.

Location	Use	Type
Kaneka Corporation's Osaka plant and Kashima plant	Production facility for polyolefin foam by beads method	Machinery and equipment, buildings, etc.
Sanwa Kasei Industrial Corporation	Production facility for shape molding of polyolefin foam by beads method	Machinery and equipment, buildings, etc.

Because of sluggish demand and worsening profitability, the book value of equipment for bead forming of polyolefin foam at Kaneka Corporation's Osaka and Kashima plants and at Sanwa Kasei Industrial Corporation was written down to its recoverable value, and the Company posted an impairment loss of ¥1,467 million. Of this amount, machinery and equipment accounted for ¥974 million and buildings for ¥287 million. As the recoverable value was estimated at value in use, future cash flows were discounted at a rate of 2.5%.

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

10. LOSS ON LIQUIDATION OF BUSINESS

The primary components of the loss on liquidation of business in 2009 were a loss of ¥475 million related to the withdrawal from the Expandable Plastics and Products business at a consolidated subsidiary in North America and the following impairment losses:

Location	Use	Type
Kaneka Texas Corporation	Production facility for polyolefin foam by beads method	Machinery and equipment, etc.

As future cash flows from Kaneka Texas Corporation's facility for beads forming of polyolefin foam became unlikely, the Company wrote off the entire book value of the related assets and recorded a loss on liquidation of business of ¥450 million. Machinery and equipment accounted for the majority of this amount, ¥385 million.

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, 2011, 2010 and 2009.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2011, 2010 and 2009.

	2011	2010	2009
Statutory tax rate	40.64%	This information is omitted as the differences between the statutory tax rates and the Companies' effective tax rates is not more than 5% of the statutory tax rates.	This information is omitted as the Company posted a loss before income taxes during the period.
Valuation allowance	(1.13%)		
Foreign tax credit	(5.48%)		
Nondeductible expenses	4.90%		
Nontaxable dividends received	(1.93%)		
Elimination of dividends on consolidation	(2.36%)		
Other	0.25%		
Effective tax rate	34.89%		

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Deferred tax assets:			
Retirement benefits	¥ 7,318	¥ 7,560	$ 88,010
Loss carryforwards	7,142	6,882	85,893
Loss on valuation of investment securities	1,313	1,336	15,791
Excess bonuses accrued	1,914	1,852	23,019
Impairment losses on noncurrent assets	3,235	3,620	38,905
Valuation difference on available-for-sale securities	668	441	8,034
Other	7,171	6,924	86,241
Subtotal	28,761	28,615	345,893
Valuation allowance	(7,875)	(8,356)	(94,708)
Total deferred tax assets	20,886	20,259	251,185
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	5,291	6,085	63,632
Other	5,501	4,482	66,158
Total deferred tax liabilities	10,792	10,567	129,790
Net deferred tax assets (liabilities)	¥ 10,094	¥ 9,692	$ 121,395

12. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 0.67% and 0.78% at March 31, 2011 and 2010, respectively. Such borrowings are generally renewable at maturity.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.05% to 5.42% in 2011 and 0.01% to 2.35% in 2010, maturing serially through 2018	¥ 2,250	¥ 836	$ 27,060
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 5.55% in 2011 and 0.00% to 4.79% in 2010 maturing serially through 2021	25,812	24,983	310,427
Bonds at interest rate of 2.45%, due July 27, 2011	5,000	5,000	60,132
Bonds at interest rate of 1.61%, due June 29, 2012	39	-	469
Bonds at interest rate of 1.30%, due May 22, 2014	50	-	601
Bonds at interest rate of 0.86%, due September 16, 2014	5,000	5,000	60,132
Bonds at interest rate of 1.10%, due April 27, 2015	60	-	722
Bonds at interest rate of 1.67%, due September 13, 2019	10,000	10,000	120,265
	48,211	45,819	579,808
Less amounts due within one year	6,972	1,614	83,848
	¥ 41,239	¥ 44,205	$ 495,959

At March 31, 2011, assets pledged as collateral for secured long-term debt, short-term borrowings and trade payables totaling ¥4,725 million ($56,825 thousand) were as follows:

		Millions of yen		Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	¥	**3,673**	$	**44,173**
Land		**2,275**		**27,360**
Deposits and investment securities		**98**		**1,179**
	¥	**6,046**	$	**72,712**

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

Years ending March 31,		Millions of yen		Thousands of U.S. dollars (Note 1)
2012	¥	6,972	$	83,848
2013		7,300		87,793
2014		9,129		109,790
2015		7,739		93,073
2016		6,104		73,410
2017 and thereafter		10,967		131,894
	¥	48,211	$	579,808

13. PROVISION FOR RETIREMENT BENEFITS

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2011 and 2010 consisted of the following:

		Millions of yen				Thousands of U.S. dollars (Note 1)
		2011		2010		**2011**
Projected benefit obligation	¥	**76,169**	¥	74,932	$	**916,043**
Less fair value of pension assets		**(49,790)**		(47,644)		**(598,797)**
Less unrecognized actuarial differences		**(8,110)**		(8,055)		**(97,535)**
Prepaid pension cost		**959**		–		**11,534**
Retirement benefits	¥	**19,228**	¥	19,233	$	**231,245**

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

Included in the consolidated statements of income for the years ended March 31, 2011, 2010 and 2009 were severance and retirement benefit expenses that comprised the following:

		Millions of yen						Thousands of U.S. dollars (Note 1)
		2011		2010		2009		**2011**
Service costs—benefits earned during the year	¥	**3,116**	¥	3,071	¥	3,217	$	**37,474**
Interest costs on projected benefit obligation		**1,762**		1,734		1,750		**21,191**
Expected return on plan assets		**(1,164)**		(1,040)		(1,197)		**(13,999)**
Amortization of actuarial differences		**2,033**		2,480		1,757		**24,450**
Amortization of prior service cost (credit)		**–**		–		(55)		**–**
Retirement benefit expenses	¥	**5,747**	¥	6,245	¥	5,472	$	**69,116**

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

	2011	2010	2009
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 for amortizing prior service cost	**5 years**	5 years	5 years
Period for amortizing actuarial differences	**10 years**	10 years	10 years

14. CONTINGENT LIABILITIES

At March 31, 2011 and 2010, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Notes endorsed	**¥ 2**	¥ 35	**$ 24**
Notes discounted	**705**	522	**8,479**
Guarantees	**112**	228	**1,347**
Letters of awareness	**279**	417	**3,355**
	¥ 1,098	¥ 1,202	**$ 13,205**

15. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.
Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

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

On May 12, 2011, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2011, on the shares of stock then outstanding, at the rate of ¥8.0 ($0.10) per share or a total of ¥2,711 million ($32,604 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

16. STOCK OPTIONS

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

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

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

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

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

	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Beginning of term	–	75,000	64,000	28,000
Vested	75,000	–	–	–
Exercised	–	10,000	8,000	6,000
Expired or forfeited	–	–	–	–
Unexercised balance	75,000	65,000	56,000	22,000
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	–	509	509	509
Fair value per stock at the date granted (yen)	456	622	600	883
Exercise price (US$)	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (US$)	–	6.12	6.12	6.12
Fair value per stock at the date granted (US$)	5.48	7.48	7.22	10.62

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥34 million ($409 thousand), ¥47 million, ¥45 million and ¥50 million for the years ended March 31, 2011, 2010, 2009 and 2008, respectively.

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

	Stock options granted on August 10, 2010
Expected volatility	33.00%
Expected holding period	5 years
Expected dividend	16 yen
Risk free interest rate	0.339%

17. SEGMENT INFORMATION

(Additional information)
From the fiscal year under review, the Company began applying the Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17, issued on March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20, issued on March 21, 2008).

1) Overview of Reporting Segments

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

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

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

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

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

3) Segment Information by Business Category

Millions of yen

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

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

Millions of yen

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

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

Thousands of U.S. dollars (Note 1)

2011	Segment Information								Adjustments	Consolidated
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total		
Sales										
Customers	$1,027,865	$ 841,768	$ 705,111	$1,488,659	$ 571,461	$ 495,803	$ 327,264	$5,457,931	$ –	$5,457,931
Intersegment	36,080	6,157	2,333	0	1,299	7,156	17,234	70,259	(70,259)	–
Total	1,063,945	847,925	707,444	1,488,659	572,760	502,959	344,498	5,528,190	(70,259)	5,457,931
Segment profit / loss	33,241	99,784	74,913	95,731	111,605	(69,934)	9,465	354,805	(99,423)	255,382
Segment assets	882,309	659,267	553,169	832,832	760,168	811,918	245,099	4,744,762	728,972	5,473,734
Other Items										
Depreciation	59,928	42,393	28,936	31,124	35,683	93,265	43,909	335,238	10,126	345,364
Amortization of goodwill	–	–	565	–	2,706	–	–	3,271	–	3,271
Investment in equity method	–	21,491	13,734	–	–	–	–	35,225	–	35,225
Increase in assets	66,578	24,330	23,031	31,004	24,402	122,369	19,519	311,233	40,541	351,774

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

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Income			
Segment total	¥ 29,502	¥ 24,288	$ 354,805
Elimination of intersegment transactions	(4)	0	(48)
Companywide expenses (Note)	(8,217)	(6,854)	(98,822)
Other adjustments	(46)	71	(553)
Operating income in the quarterly consolidated statements of income	¥ 21,235	¥ 17,505	$ 255,382

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

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 1) 2011
Income			
Segment total	¥ 394,527	¥ 362,043	$ 4,744,762
Elimination of intersegment transactions	(5,245)	(2,739)	(63,079)
Companywide assets (Note)	66,147	74,108	795,514
Other adjustments	(288)	(532)	(3,464)
Total assets in the quarterly consolidated statements of income	¥ 455,141	¥ 432,880	$ 5,473,734

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

	Segment total		Other		Adjustments		Consolidated	
Millions of yen	2011	2010	2011	2010	2011	2010	2011	2010
Other Items								
Depreciation	¥ 27,875	¥ 25,405	¥ 842	¥ 805	¥ –	¥ –	¥ 28,717	¥ 26,210
Increase in assets	25,879	23,321	3,371	1,001	–	–	29,250	24,322

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

Thousands of U.S. dollars (Note 1) 2011	Segment total	Other	Adjustments	Consolidated
Other Items				
Depreciation	$ 335,238	$ 10,126	$ –	$ 345,364
Increase in assets	311,233	40,541	–	351,774

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

(Related Information)

Current fiscal year from April 1, 2010 to March 31, 2011

1) Information by Product and Service

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

2) Geographic Area

(1) Sales

Millions of yen

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

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

Thousands of U.S. dollars (Note 1)

Japan	Asia	North America	Europe	Other areas	Total
$ 3,523,776	$ 832,748	$ 350,367	$ 541,732	$ 209,308	$ 5,457,931

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

(2) Property, plant and equipment

				Millions of yen
Japan	Asia	North America	Europe	Total
¥ 136,554	¥ 6,446	¥ 14,181	¥ 5,885	¥ 163,066

				Thousands of U.S. dollars (Note 1)
Japan	Asia	North America	Europe	Total
$ 1,642,261	$ 77,522	$ 170,547	$ 70,776	$ 1,961,106

3) Information on Major Customers

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

(Information on Impairment Loss on Fixed Assets by Reporting Segment)
Current fiscal year from April 1, 2010 to March 31, 2011
Nothing to report

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)
Current fiscal year from April 1, 2010 to March 31, 2011

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

	Segment Information									Thousands of U.S. dollars (Note 1)
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	$ –	$ –	$ 565	$ –	$ 2,706	$ –	$ –	$ 3,271	$ –	$ 3,271
Balance	–	–	–	–	53,349	–	–	53,349	–	53,349
(Negative goodwill)										
Amortization	–	–	169	1,010	–	1,828	–	3,007	–	3,007
Balance	–	–	–	2,213	–	5,472	–	7,685	–	7,685

(Information on Gain on Negative Goodwill by Reporting Segment)
Current fiscal year from April 1, 2010 to March 31, 2011
In the Foodstuffs Products segment, the Company recorded negative goodwill of ¥192 million in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2011.

18. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Consolidated Statements of Comprehensive Income at March 31, 2010 consisted of the following:

	Millions of yen
	2010
Comprehensive Income in the Previous Fiscal Year	
Comprehensive income attributable to Kaneka Corporation	¥ 11,616
Comprehensive income attributable to minority interests	856
Total Comprehensive Income	¥ 12,472
Other Comprehensive Income in the Previous Fiscal Year	
Valuation difference on available-for-sale securities	¥ 3,508
Deferred gains or losses on hedges	(1)
Foreign currency translation adjustment	(354)
Share of other comprehensive income of associates accounted for using equity method	14
Total Other Comprehensive Income	¥ 3,167

19. BUSINESS COMBINATIONS AND OTHERS

Business combinations at March 31, 2011 consisted of the following:
The company acquired Eurogentec S.A. and combined as shown below.

Business combinations by acquisition

1. Outline of the business combination

(1) Name and business of acquired company

Name	Eurogentec S.A.
Description of business	Development, manufacture and sale of pharmaceutical products

(2) Major reasons for business combinations
To rapidly build up systems enabling the Company to contract the manufacturing of biopharmaceuticals.

(3) The date of business combinations
July 29, 2010

(4) Legal form of business combinations
By acquiring shares with cash.

(5) Name of the acquiree after business combinations
Eurogentec S.A.

(6) Shares with voting rights acquired

Shares with voting rights owned before the Business Combinations:	nil
Shares with voting rights acquired on the date of Business Combinations:	68.93%
Shares with voting rights after the acquisition:	68.93%

(7) Major background to determine the acquired company
The Company concluded that it could quickly develop businesses relating to biopharmaceuticals.

2. Accounting period for inclusion of acquired company in the consolidated financial statements

From July 1, 2010 to March 31, 2011 the acquired company is included, as the acquired company is regarded as acquired on July 1, 2010.

3. The cost of acquisition and its breakdown

Cost to acquire common stock of Eurogentec S.A.:	¥4,017 million
Additional cost of acquisition (Advisory expenses and others):	317 million
Total cost of acquisition	¥4,334 million

4. Difference between the cost of the acquired company and the sum of the cost of each transaction of the acquisition

Not applicable

5. Amount of, reason for generation and method and period of amortization of goodwill

(1) Amount of goodwill generated: ¥4,282 million
(2) Reason for goodwill generated: As excess earning power, the difference between the equity stake in the acquired company and the cost of the acquisition
(3) Method and period of amortization: Straight line method over 15 years.

6. Amount and major breakdown of the assets acquired and liabilities assumed on the date of business combinations

Current assets:	¥1,719 million
Noncurrent assets:	¥2,583 million
Total assets:	¥4,302 million
Current liabilities:	¥2,403 million
Noncurrent liabilities:	¥1,377 million
Total liabilities:	¥3,780 million

7. Approximate impact on Consolidated Statements of Income for the fiscal year ended March 31, 2011, assuming the business combinations had been carried out at the beginning of the fiscal year ended March 31, 2011 and the method of such assumption.

Net sales:	¥1,494 million
Operating income:	(¥66 million)
Ordinary income:	(¥57 million)
Income before income taxes and minority interests:	(¥15 million)
Net income:	(¥38 million)
Net income per share:	(¥0.11)

Method of assumption made

The impact shown above is the difference between the amount of sales and income estimated assuming the business combinations had been carried out at the beginning of the fiscal year ended March 31, 2011 and those of Consolidated Statements of Income of the acquired company. This note is not subject to the audit certificate.

Business combinations at March 31, 2010 consisted of the following:
Not applicable

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kaneka Corporation:

We have audited the accompanying consolidated balance sheets of Kaneka Corporation and consolidated subsidiaries as of March 31, 2011 and 2010, the related consolidated statements of operations and comprehensive income for the year ended March 31, 2011, statements of operations for the years ended March 31, 2010 and 2009, and statements of changes in net assets and cash flows for each of the three years in the period ended March 31, 2011, 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 financial position of Kaneka Corporation and subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2011, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 18 to the consolidated financial statements, in which the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
Osaka, Japan
June, 29, 2011

GLOBAL NETWORK

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

EUROPE

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

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

● **Eurogetec S.A. <Belgium>**
Sales and manufacture of medical devices

U.S.A.

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

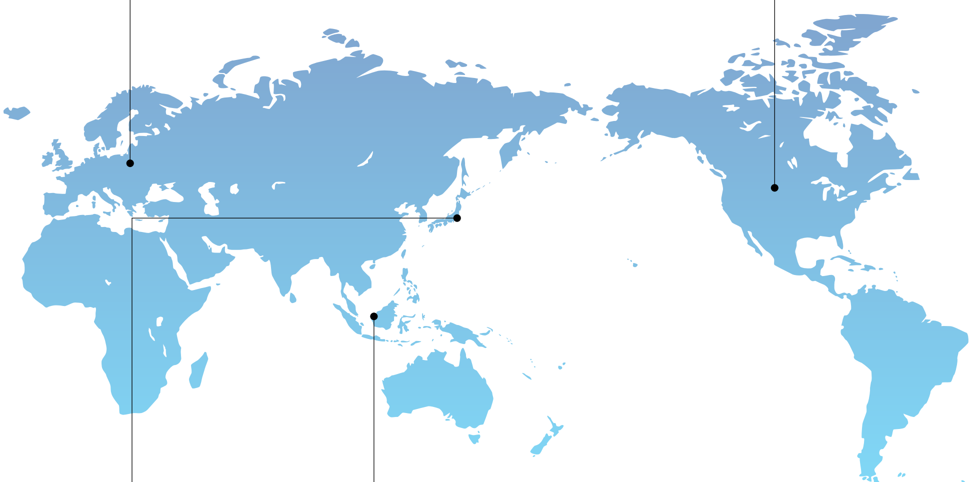
● **Kaneka New York Holding Company, Inc.**
Holding company for Kaneka Nutrients L.P., Kaneka America LLC and Kaneka Pharma America LLC

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

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

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

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



ASIA OUTSIDE OF JAPAN / OCEANIA

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

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

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

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

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

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

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

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

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

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

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

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

JAPAN

■ **Monbetsu Kasei Co., Ltd.**

■ **Shibetsu Kasei Co., Ltd.**

■ **Koto Co., Ltd.**

■ **Tsukasa Co., Ltd.**

■ **Miyagi Jushi Co., Ltd.**

■ **Kitaura Jushi Co., Ltd.**

■ **Cosmo Kasei Co., Ltd.**

■ **Toyo Styrol Co., Ltd.**

■ **Hanepack Co., Ltd.**

■ **Sanwa Kasei Kogyo Co., Ltd.**

■ **Hokkaido Kaneka Co., Ltd.**

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

■ **Kaneka Foods Corporation**

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

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

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

■ **Kaneka Foam Plastics Co., Ltd.**

■ **Hane Co., Ltd.**

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

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

■ **Kaneka Shokuhin Corporation**

■ **Tokyo Kaneka Shokuhin Corporation**

■ **Tokai Kaneka Shokuhin Corporation**

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

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

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

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

■ **Hokkaido Kanepearl Co., Ltd.**

■ **Kanto Styrene Co., Ltd.**

■ **Kochi Styrol Co., Ltd.**

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

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

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

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

■ **Sanvic Inc.**

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

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

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

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

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

▲ **Ibidenjushi Co., Ltd.**

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

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

CORPORATE DATA

KANEKA CORPORATION

OFFICES

Osaka Head office:

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

Tokyo Head office:

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

DATE OF ESTABLISHMENT

September 1, 1949

NUMBER OF EMPLOYEES (as of March 31, 2011)

3,278 (Kaneka Corporation)
8,400 (including consolidated subsidiaries)

PLANTS

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

RESEARCH INSTITUTES

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

INVESTOR INFORMATION (as of March 31, 2011)

COMMON STOCK TRADED

Tokyo, Osaka, Nagoya

TRANSFER AGENT

Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch
3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502

ACCOUNTING AUDITOR

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

AUTHORIZED CAPITAL

750,000,000 shares

ISSUED SHARES

350,000,000 shares

NUMBER OF SHAREHOLDERS

20,300

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

Fiscal Year	2004	2005	2006	2007	2008	2009	2010	**2011**
High	1,055	1,231	1,606	1,450	1,209	820	720	**623**
Low	501	922	1,071	963	573	334	486	**420**

KANEKA CORPORATION
3-2-4, Nakanoshima, Kita-ku, Osaka 530-8288, Japan
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