

To Our Shareholders

Putting Structural Reform into High Gear under “Kaneka United” and Aiming for a Leap Forward as a New Kaneka



Performance during the current term

Affected by the global economic downturn, net sales dropped 10.6% compared to previous year; first net loss in 31 years

During FY 2009, ended March 31, 2009, the global economy was affected by sharply higher raw material prices. At the same time, uncertainty in the U.S. financial system precipitated into the real economy, having an increasingly pronounced negative effect. By the third quarter, the impact of financial crises in Europe and the United States had spread throughout the world, including emerging countries, creating the historically unparalleled situation of a simultaneous economic downturn on a global scale. This situation also had severe implications for the Japanese economy. Exports, which had served as springboard for economic recovery, fell off sharply. The employment situation and consumer sentiment worsened significantly, increasing the severity of and prolonging the country's economic retraction.

Under these conditions, the Kaneka Group mounted an initiative to transform its business structure, research and development, and human resources. These efforts call for us to reform our business portfolio. We are withdrawing from areas of business in which we are unable to maintain technological superiority in the face of the changing business climate while aggressively focusing management resources on areas that offer long-term promise. Although we sought to bring down inventory levels and engaged in efforts to recover our ability to generate revenue and profits by redoubling cuts in production and overhead costs, the rapidly changing business environment significantly affected performance in the Chemicals, Functional Plastics, Electronic Products, and Synthetic Fibers and Others segments. As a result, consolidated net sales fell 10.6% year on year, to ¥449,585 million, and operating income dropped 78.7%, to ¥7,604 million.

After the posting of extraordinary losses, including a ¥4,207 million loss on valuation of investment securities, ¥1,467 million in impairment losses on fixed assets and a ¥925 million loss on liquidation of business, while liquidating ¥1,536 million in deferred tax assets, the Group recorded a net loss of ¥1,851 million (net income for the year ended March 31, 2008, was ¥18,817 million), making this the first time in 31 years it has ended in the red. Despite the net loss this year, priority was placed on maintaining steady dividends, so the annual dividends for the year ending March 31, 2009, will be ¥16 per share. Additionally, we acquired 1 million shares of treasury stock from the market to add to the 1.827 million shares acquired last year.

Direction of the Company's efforts

Transforming into a “modernized Kaneka”

Our aim is to contribute greatly to the betterment of society and become a research-and-development-oriented company that is active on the global stage by confidently improving our specialized technologies and steadily introducing new products for emerging industries to markets around the world. The forecast for the year ending March 31, 2010, is for continued harsh economic conditions worldwide, but we are going to take this as an opportunity to transform into a “modernized Kaneka” and bring together the strengths of the group under “Kaneka United” to accelerate the structural reforms that have been taking place up until now and make this year a turning point for a new Kaneka.

- Business structure reform: We recognize information/communications, environment/energy, security/safety and health as areas with a high potential for growth. Therefore, our strategic focus is on becoming a distinguished, innovative manufacturer of electronics products, life

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science products and functional plastics. We will make a short list of the promising core technologies and businesses that fall within our specialties and accelerate bold and concentrated investment of management resources from a global perspective, including M&A.

- Shifting from a diversified to a complementary management approach: We are working on a major rebinding of business segments and research systems to develop a platform. This will allow us to put the technologies and business models we have developed up to this point together in new combinations and bring in outside resources to create new business domains.
- Research and development reform: We will greatly accelerate the development of new businesses and products by reforming our research and development system. By flattening the organizational structure, authority will be shifted to the front lines, and we will be able to develop deeper relationships with outside research institutes and improve our specialty technologies. At the same time, we will break away from our go-it-alone approach and make use of M&A and alliances to expand and improve our technological platform.
- Promotion of globalization: We will strengthen our efforts to expand our business not only in Europe and the United States, where we have already established a foundation, but also in BRICs and other emerging markets.
- Strengthening of Group management: In order to succeed in reforming our business structure, we have to supplement and reinforce our value chain in more downstream business domains and will work together with affiliated companies as independent and equal partners to strengthen the Group.
- Reengineering of existing businesses: Core and mature businesses provide the necessary foundation for supporting growth areas, so we will step up our efforts at business revitalization and reengineering.

Forecast for next year

Performance to be turned around in the midst of harsh circumstances to quickly put the Group back on a path of growth

There are currently no signs of a full-scale global economic recovery, but we are focusing all our efforts on putting the brakes on declining profits and turning our performance around to quickly get back on a path of growth through such actions as lowering the break-even point and accelerating the implementation of action plans designed to reform the structure of each business segment. The consolidated forecasts for the year ending March 31, 2010 include net sales of ¥410 billion (an 8.8% decrease from the year ended March 31, 2009), operating income of ¥13 billion (a 71.0% increase from the year ended March 31, 2009) and net income of ¥6 billion (compared with a net loss of ¥1.8 billion in the year ended March 31, 2009). We consider these figures reasonable in light of the information that is currently available to the Kaneka Group, but uncertainties are inherent in our forecasts. Therefore, actual results could differ substantially from these forecasts.

Thank you in advance for your continued understanding and confidence in the Kaneka Group.

June 2009



Masatoshi Takeda
Chairman of the Board



Kimikazu Sugawara
President