ANNUAL REPORT **2010**

Year Ended March 31, 2010

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. Later the Company diversified into polymers, fermentation, biotechnology and electronics, as well as other fields. Business activities now span a broad spectrum of markets ranging from plastics, EPS resins, chemicals and foodstuffs to pharmaceuticals, medical devices, electrical and electronic materials and synthetic fibers.
The Company has been a leader among Japanese chemical companies in establishing overseas operations, beginning in 1970 with a subsidiary in Belgium. Kaneka now has overseas subsidiaries in Belgium, the United States, Singapore, Malaysia, China, India, Australia and Vietnam.

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CONSOLIDATED FINANCIAL HIGHLIGHTS

KANEKA CORPORATION and Consolidated Subsidiaries

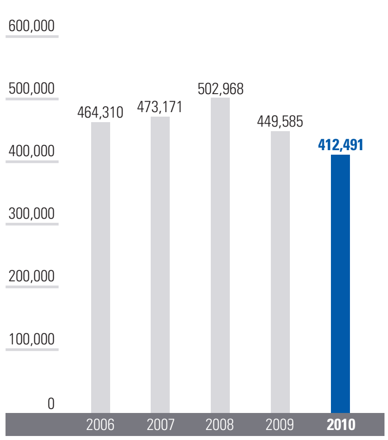
					Years ended March 31	
					Millions of yen	Thousands of U.S. dollars
	2010	2009	2008	2007	2006	**2010**
Net Sales	**¥412,491**	¥449,585	¥502,968	¥473,171	¥464,310	**$4,433,480**
Net Income (loss)	**8,406**	(1,851)	18,817	18,364	28,100	**90,348**
Capital expenditures	**24,321**	33,979	31,569	35,569	34,716	**261,404**
Depreciation	**26,210**	27,163	24,731	24,461	22,265	**281,708**
Total assets	**432,880**	418,490	452,620	467,110	453,159	**4,652,623**
Net assets	**257,175**	249,529	267,598	271,280	260,735	**2,764,134**
Per Share of Common Stock:					Yen	U.S. dollars
Net income (basic)	**¥ 24.78**	¥ (5.45)	¥ 55.10	¥ 53.48	¥ 80.80	**$0.27**
Net income (diluted)	**24.77**	–	55.09	–	–	**0.27**
Cash dividends	**16.00**	16.00	16.00	16.00	16.00	**0.17**
Net assets	**735.17**	717.15	767.68	774.71	756.96	**7.9**
					%	%
Shareholders' equity ratio	**57.6%**	58.1%	57.7%	56.8%	57.5%	**57.6%**
Return on equity (ROE)	**3.4**	(0.7)	7.1	7.0	11.6	**3.4**
Return on assets (ROA)	**1.9**	(0.4)	4.2	3.9	6.2	**1.9**

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, 2010, which was ¥93.04 to US$1.00.

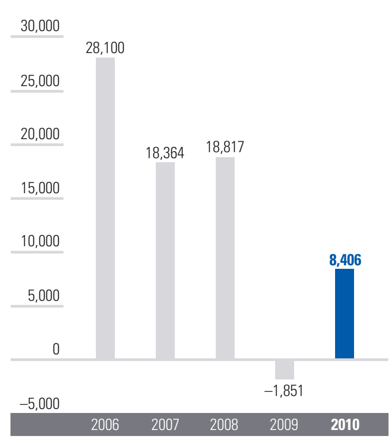
Note 2) Effective from the year ended March 31, 2007, net assets are calculated based on the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan), and the implementation guidance for the 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.

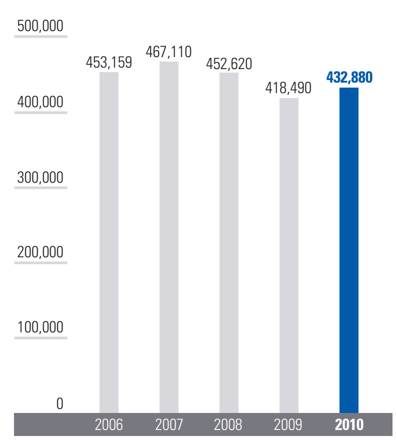
Net Sales
(Millions of yen)



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

Kimikazu Sugawara, President

Masatoshi Takeda, Chairman of the Board

INITIATING "ACT2012"

—Realizing New Growth and a Dramatic Leap Forward as Part of Our "Kaneka United" Long-Term Management Vision

BUSINESS PERFORMANCE IN FY 2010

Net Sales Down 8.3%, Net Income Sharply Higher

During FY 2010, ended March 31, 2010, the global economy began to recover from the worldwide economic recession that ensued following financial crises in Europe and the United States in the second half of the previous fiscal year. In the second half of the year under review, economic stimulus measures enacted across the globe began to take effect, prompting economic rebounds in China and other emerging markets in Asia and elsewhere. Among developed countries, the rate of economic recovery varied significantly by country. Thus, while recovery is gaining momentum in the United States, European countries posted only modest gains.

The Japanese economy also emerged from the worst of the economic downturn triggered by the financial crisis, aided by higher exports to China and other markets. Although some signs of recovery were apparent, worsening employment conditions and growing deflationary pressure caused domestic consumption to remain lackluster. Meanwhile, the outlook for economic recovery is uncertain as major causes for concern linger. These include rising crude oil and naphtha prices, ongoing the yen's appreciation and the risk of economic malaise in overseas markets.

In this challenging environment, the Kaneka Group is channeling management resources into key strategic fields. Our goal here is to establish operations in new areas of business that we expect to drive growth and to reinforce their global development. Another focus is restructuring our businesses. In parallel, we are working in existing businesses areas to boost sales volumes and striving to enhance competitiveness by lowering manufacturing costs and expenses in a bid to recover profitability.

As a result, on a consolidated basis, net sales fell 8.3% year on year, to ¥412,491 million, however, operating income rose 130.2%, to ¥17,505 million. Net income improved significantly compared with the preceding term. Despite posting an extraordinary loss of ¥1,276 million, net income amounted to ¥8,406 million. In FY 2010, we paid a dividend for the year of ¥16 per share.

MANAGEMENT POLICY

Basic Management Policies

In September 2009, the Kaneka Group introduced "Declaration of Kaneka United for the future," our long-term management vision, under the slogan "Striking sustainable growth by innovation through communal ties. 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 with new product development, thus protecting the global environment and contributing to quality of life. In this way, we will foster an even greater presence as a global company, including in the markets of emerging economies.

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.

Target Management Indexes

Reform and growth are keywords on which the Kaneka Group will focus to achieve the objectives of its management policy. In the process, we will strive to be an attractive company and create a competitive business structure.

To continue expanding its scope of business and ensure ongoing profit, the Group's long-term management vision earmarks the environment and energy, health care, information and communications and food production support as important strategic domains. We will concentrate management resources on these four fields in a bid to generate robust growth. Ten years hence, we aim to generate annual sales of ¥1 trillion, operating income of ¥120 billion, and derive 70% of our sales from overseas.

In March 2010, we formulated ACT2012, "Action and Challenge for Tomorrow 2012", the first three-year plan designed to lead toward these objectives. This medium-term plan covers from fiscal year starting April 2010 to 2012. On a consolidated basis, this plan targets net sales of ¥600 billion and operating income of ¥55 billion. Foreseeing the pervasive sense of uncertainty among current economic trends and the possibility that the operating environment may return to a downward trend, we are adjusting our business portfolio and working to stay ahead of the curve in our shift into growth areas of business to achieve robust levels of new growth. These changes should enable us to meet all stakeholder expectations and also achieve strong recognition as a corporate entity.

Medium-Term Management Strategies

Under ACT2012, our newly enacted medium-term management plan, we will pursue the following measures to put important plan policies into action.

- We will concentrate our investment of management resources on the four important strategic domains defined by our long-term management vision.
- We will focus the Group's full efforts on accelerating innovation in our business structure, including aggressive upfront investment to develop new businesses and cultivate and expand new markets in important strategic domains.
- Recognizing Asia as key to global development, we will make an aggressive effort to shift our focus toward that region.
- We will reinforce integrated group-wide operational management, with the aim of accelerating specific development among those management measures that are designed to help us achieve the goals of our long-term vision.
- We will strive to achieve an early return to profitability in our Electronic Products and Functional Foodstuffs business.

PERFORMANCE FORECASTS

Accelerating Business Structure Reform and Bolstering Our Earnings Structure Amid Continued Uncertainty

The outlook for the world economy is surrounded by uncertainty, unclear economic recoveries in the Americas, Europe and other developed countries, as well as economic growth in China and other emerging economies. 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, 2011, are as follows.

CONSOLIDATED FORECASTS

Net sales ¥450 billion (9.1% increase from the year ended March 31, 2010). Operating income ¥23 billion (31.4% increase from the year ended March 31, 2010). Net income ¥11 billion (30.9% increase from the year ended March 31, 2010)

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 2010

Masatoshi Takeda, Chairman

Kimikazu Sugawara, President

ELECTRONIC PRODUCTS

LAUNCH OF THIN-FILM PHOTOVOLTAIC MODULES AND NEW PRODUCTS FOR JAPANESE RESIDENTIAL MARKET

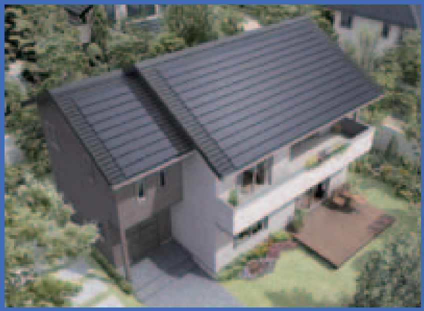
—SOLTILEX Solar Panels Specifically for Slate Roofing Tile—

For Japanese residential market, Kaneka in April 2010 launched a new thin-film photovoltaic (PV) module product called SOLTILEX. These solar cells are specifically designed for slate roofing tiles*1. The name of the product derives from the Latin word for sun (SOL), the word TILE, and the letter X, symbolizing infinite potential. One of the key features of SOLTILEX is that it enables a beautiful exterior finish that blends in more naturally with a house rooftop than conventional stationary solar products. This advantage comes courtesy of an increasingly frameless design and thinner form factor. Special attention was also given durability as roof tiles (water and wind resistance), culminating in an installation method*2 that requires no drilling into the roofing material. The replacement of solar modules after installation is very simple, and the minimum installation unit is just from two solar modules, making SOLTILEX appropriate even for small roofs or roofs with complex designs. Kaneka in the past has been contributing to the R&D efforts of original products that take advantage of the features offered by thin-film PV modules. These include traditional stationary solar panel GRANSOLA, as well as VISOLA (Built Integrated PV) which can be aesthetically integrated with flat clay roofing materials. VISOLA, however, is limited to flat-shape roof tiles. The new product was developed with this point in mind, in response to requests for a product that puts emphasis on design and can be installed on the roughly 20% share of Japanese residential market with slate roofing tiles. With SOLTILEX release, Kaneka has achieved almost full lineup of solar products applicable to the diverse roofing materials in Japan, including flat-shape roof tiles, slate roofing tile, Japanese-shape clay roof tiles, and concrete flat roofs.

The start of government incentives to encourage the installation of solar power systems is expected to fuel substantial business growth going forward in the sale of solar panels to Japanese residential housing market. Accordingly, we are targeting ¥10 billion in SOLTILEX sales in two years. Kaneka's policy will be to further accelerate business expansion in Japanese residential housing market by continuing promotion of products that leverage the unique features of thin-film PV modules in the coming years.

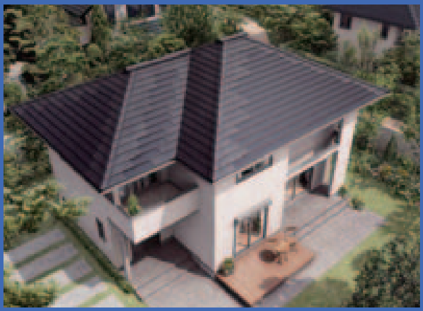
*1: Slate tile is a general term for thin slabs of slate used primarily as roofing material. Slate tile can consist of natural slate, which uses actual rock, or manmade replica slate. These lightweight roofing materials are being widely used for the benefits they offer in terms of strong weather- and earthquake-resistance properties, the latter due to their light weight.

*2: In cases where new roofing material (slate roofing tile) will be used.



SOLTILEX (specifically for slate roofing tile)

GRANSOLA (stationary type)



VISOLA (roof tile-integrated type)

ADVANCEMENT INTO TRANSDERMAL MEDICAL PRODUCTS

Joint venture Established With Net Sales Target of Approximately ¥5 Billion in Five Years

In fall of 2009, Kaneka teamed up with pharmaceutical developer MEDRx Co. Ltd. to establish KM Transderm Ltd., a joint venture for the R&D and production of transdermal medical products. Since its inception, MEDRx has pursued ongoing R&D and business commercialization involving DDS (Drug Delivery System) technology.

In this way, MEDRx has sought to improve the QOL (Quality Of Life) of patients by changing the form and delivery methods of drugs to improve drug efficacy and lessen side effects. The new company will integrate MEDRx's technology and expertise with Kaneka's own in polymer materials, and will also make use of the powerful network that Kaneka has developed with leading pharmaceutical companies worldwide. These advantages will enable KM Transderm to embark on the development of groundbreaking medical products that meet physicians' needs and contribute to the QOL of patients. Among existing DDS technologies, transdermal medical products, which allow the absorption of active drug ingredients through the skin, have gained attention as a technology with a proven track record, both in the ability to enhance patient QOL and its applicability to an increasingly wide range of medical products. The joint venture is promoting R&D targeting areas such as the central nervous system and pain. The medical products developed will be marketed through sales alliances with pharmaceutical companies and other channels, with a goal of achieving net sales of around ¥5 billion in five years' time.

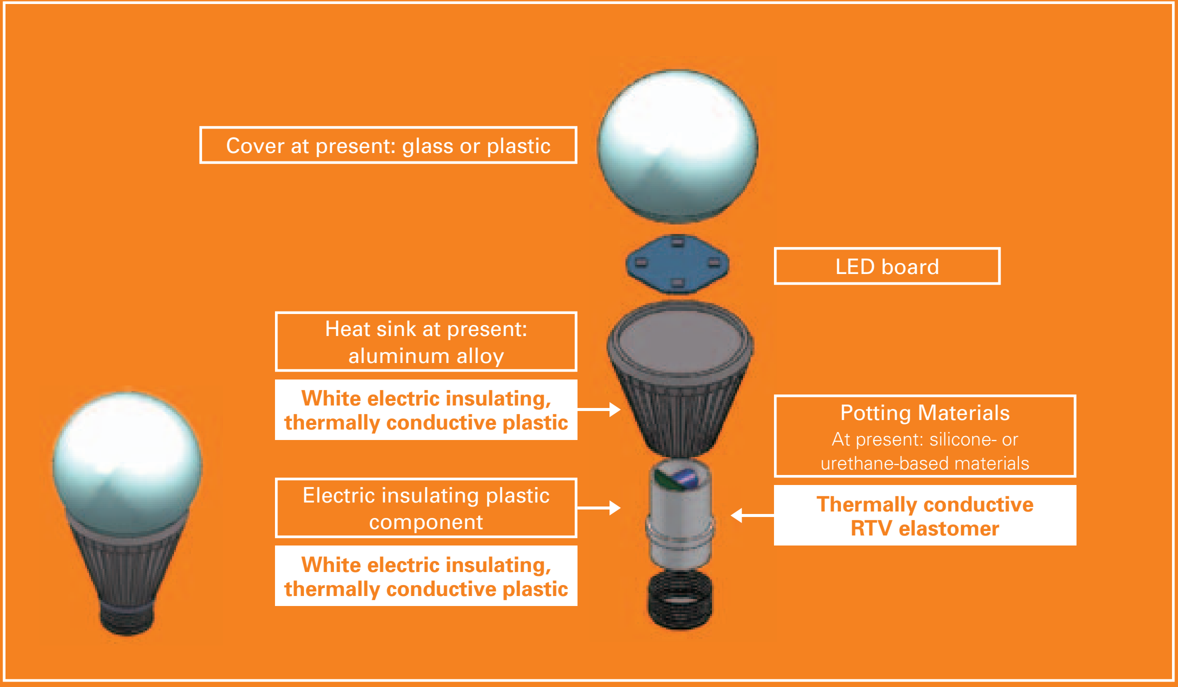
In addition to its existing pharmaceutical intermediate and bulk businesses, Kaneka has made a full-scale advance into the antibody development domain and other medical product areas. In this way, we are striving to further upgrade and expand our life sciences business, of which entry into transdermal medical products will play an important part.

DEVELOPMENT OF THERMALLY CONDUCTIVE PLASTICS WITH ELECTRIC INSULATING PROPERTIES TO COUNTER HEAT BUILDUP IN ELECTRONIC DEVICES

Attention Mounting as a Material to Counter Heat in LED Lighting

Kaneka has successfully developed thermally conductive plastics with electric insulating properties. The new plastics have a specific gravity below 2.0, making them lighter than conventional thermally conductive plastics and aluminum alloys. The materials also offer improved strength, overcoming one of the key issues long associated with such plastics. Beyond their incorporation in electronic components used in products such as PCs, mobile phones and digital home appliances, plans call for promoting applications for these new plastics in light-emitting diode (LED) lighting, for which future market expansion is anticipated.

As PCs, mobile phones and other electronic devices become smaller and lighter, materials with excellent thermal diffusion properties are in increasing demand. To address problems related to heat, Kaneka in 2008 released a thermal diffusion graphite sheet, followed in 2009 by the unveiling of a new thermally conductive room-temperature vulcanizing (RTV) elastomer. Kaneka's new thermally conductive plastics thus represent its third major thermal solutions material in this field. The newly developed plastics are based on our modified PET resin product Hyperite® and feature a combination of polyester resin and thermally conductive filler. This merger of materials enables the new plastics to exhibit both electric insulating and thermal conductive properties. In addition to molded articles being white in color with good surface finish, Kaneka has grades on hand suitable for either injection or extrusion molding with outstanding coating properties. Currently, we are targeting sales of roughly ¥2.0 billion for these products in fiscal 2015.



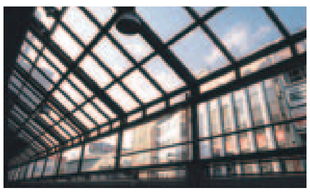
KANEKA at a Glance

Major Products

CHEMICALS


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

FUNCTIONAL PLASTICS




- Modifiers
- Liquid polymers (MS Polymer)
- Weather-resistant acrylic film
- Engineering plastic compounds

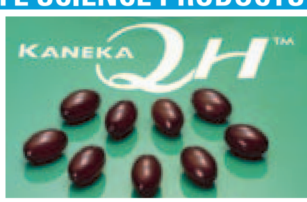
EXPANDABLE PLASTICS AND PRODUCTS


- Extruded polystyrene foam boards
- Polyolefin foam (beads and moldings)
- Expandable polystyrene

FOODSTUFFS PRODUCTS

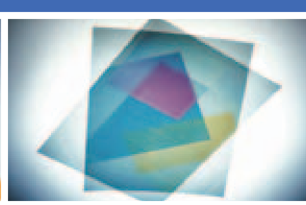

- Margarine and shortening
- Confectionery fats
- Bakery yeast

LIFE SCIENCE PRODUCTS



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

ELECTRONIC PRODUCTS

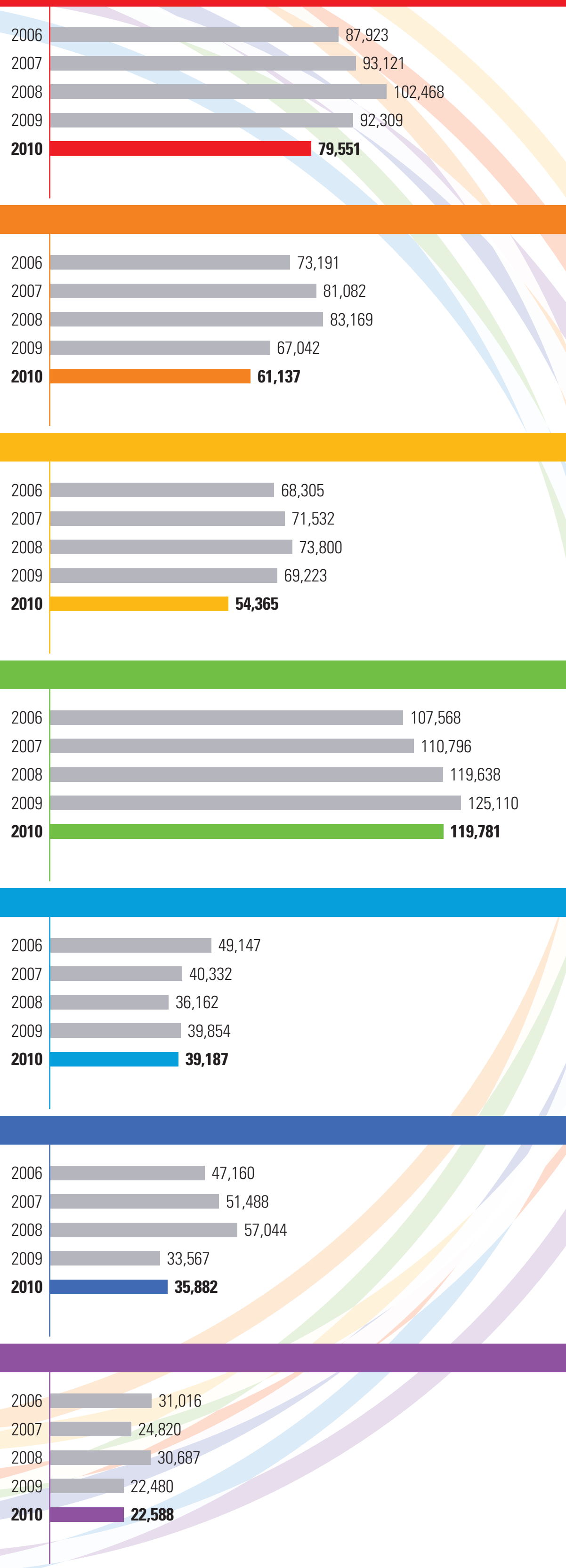



- Ultra heat-resistant polyimide film
- Bonded magnets
- PVC pipes for underground cables
- Solar Modules
- Optical films
- Super thermal-conductive Graphite Sheets

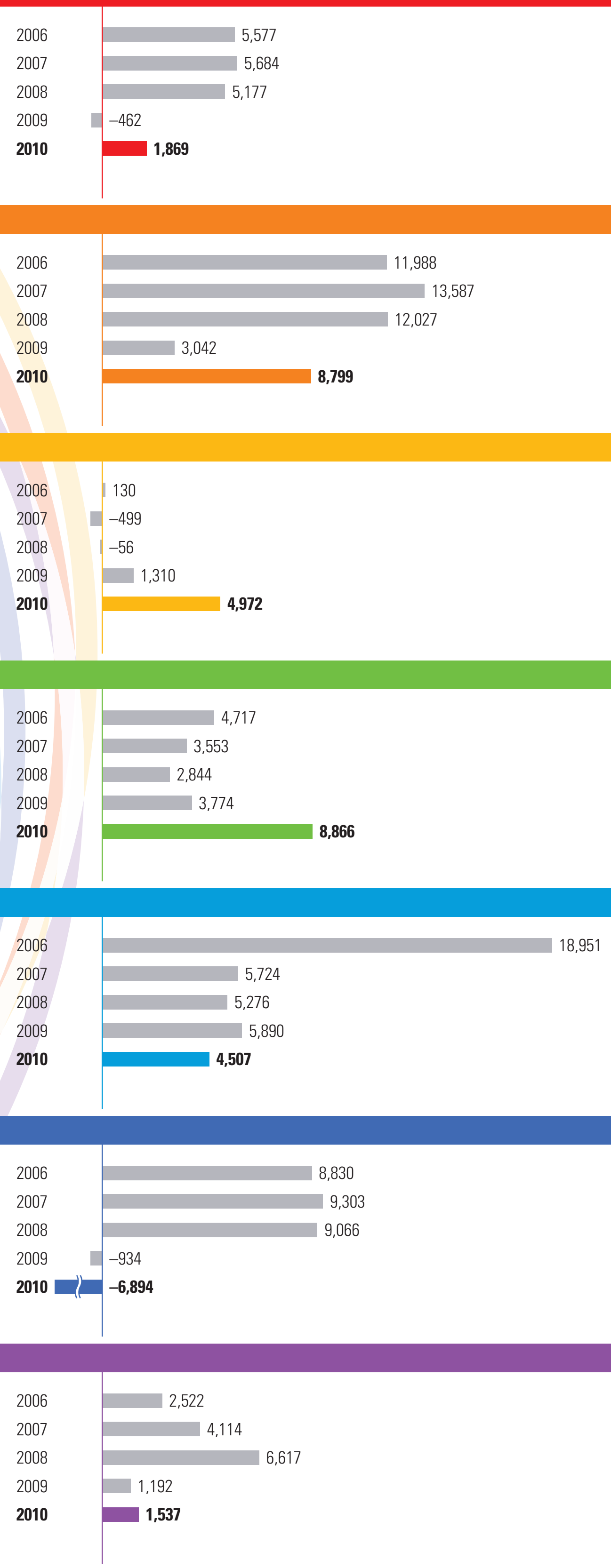
SYNTHETIC FIBERS AND OTHERS


- Modacrylic fibers

Net Sales (Millions of yen)



Operating Income (Millions of yen)



CHEMICALS

Although domestic demand for PVC resins remained sluggish, in overseas markets prices recovered, and selling prices were negotiated upward to reflect a rise in feedstock costs. These factors had positive results on income, although sales declined. Domestic demand for specialty PVC resins was lackluster, but overseas demand increased, and efforts to reduce costs contributed to higher income. Domestic demand for caustic soda was subdued, and overseas market conditions worsened significantly. As a result of the abovementioned factors, segment sales decreased ¥12,758 million (down 13.8%) compared with the preceding fiscal year, resulting in net sales of ¥79,551 million. Operating income in the segment was ¥1,869 million, up ¥2,331 million from the previous fiscal year.

FUNCTIONAL PLASTICS

Demand for modifiers recovered in Asian markets, but sales have not yet fully recovered in European or U.S. markets. The Japanese market also remained slack, leading to a sales decline. However, we succeeded in boosting income through profitability-enhancement measures, such as better product differentiation and cost reductions. In modified silicone polymers, Japanese and European demand for construction-related uses was lackluster, drawing down sales, but cost reductions and other efforts to bolster our profit structure succeeded in raising income. As a result of the abovementioned factors, segment sales decreased ¥5,905 million (down 8.8%) compared to a year ago, resulting in net sales of ¥61,137 million. The segment posted operating income of ¥8,799 million, improving ¥5,757 million (up 189.3%) from the preceding fiscal year.

EXPANDABLE PLASTICS AND PRODUCTS

In the Japanese market, although demand for expandable polystyrene and extruded polystyrene foam boards was stagnant and sales volumes declined, we sought to retain profitability through lower production costs and overhead. The discontinuation of operations involving polystyrene paper and certain other products also reduced sales from previous years' levels. In polyolefin foam by beads method, the withdrawal from U.S. operations prompted a major sales decline, but meeting demand in Japan, Asia and European markets and realigning costs helped to improve profitability. As a result of the abovementioned factors, segment sales decreased ¥14,858 million (down 21.5%) compared with the preceding fiscal year, resulting in net sales of ¥54,365 million. The segment posted operating income of ¥4,972 million, improving ¥3,662 million (up 279.5%) year on year.

FOODSTUFFS PRODUCTS

Demand for foodstuffs struggled, reflecting the consumer trend toward curtailing expenditures and preferences for lower-priced items. Although sales volumes and selling prices fell, owing to stringent competition, we sought to recover profit by reducing costs and expanding sales of new products. Nevertheless, in this segment sales fell ¥5,329 million (down 4.3%) from the preceding fiscal year, to ¥119,781 million. At the same time, the segment reported operating income of ¥8,866 million, improving ¥5,092 million (up 134.9%) from the preceding fiscal year, when income was affected by the delayed effect of price adjustments and a rebound from a major downturn.

LIFE SCIENCE PRODUCTS

Medical device sales and income increased, owing to steadily expanding sales from our intervention business. On the other hand, sales and income from bulk and intermediate pharmaceuticals declined, owing to disappointing sales volumes, compared with the preceding term. In functional foodstuffs, the sales volume of high-performance products trended upward, but competition resulted in lower selling prices for pre-existing products, causing sales and income to drop. In this segment, sales were down ¥667 million (down 1.7%) from the preceding fiscal year, to ¥39,187 million. Operating income declined ¥1,383 million (down 23.5%), to ¥4,507 million.

ELECTRONIC PRODUCTS

In LCD-related products, sales volumes were higher as the market for electronic products recovered, leading to increased sales and income. For ultra heat-resistant polyimide film, although there were signs of recovery in demand, sales and income decreased due to a decline in selling prices. In Japan, the sales volume of solar cells increased compared with the preceding year, but sluggish demand in Europe and increasingly severe competition caused selling prices to fall, resulting in lower sales and income. As a result of the abovementioned factors, segment sales increased ¥2,315 million (up 6.9%) compared with the preceding fiscal year, resulting in net sales of ¥35,882 million. The segment posted an operating loss of ¥6,894 million, worsening ¥5,960 million from a year earlier.

SYNTHETIC FIBERS AND OTHERS

Markets for synthetic fibers were affected by the worldwide economic recession, the yen's appreciation and rising feedstock costs. We sought to counter this situation by increasing sales volumes of high-value-added products and lowering overhead costs. These efforts were successful, resulting in higher sales and income. In other businesses, the liquidation of an engineering subsidiary caused sales to fall, but income increased. As a result of the abovementioned factors, segment sales increased ¥108 million (up 0.5%) compared with the preceding fiscal year, resulting in net sales of ¥22,588 million. The segment posted operating income of ¥1,537 million, improving ¥345 million (up 28.9%) year on year.

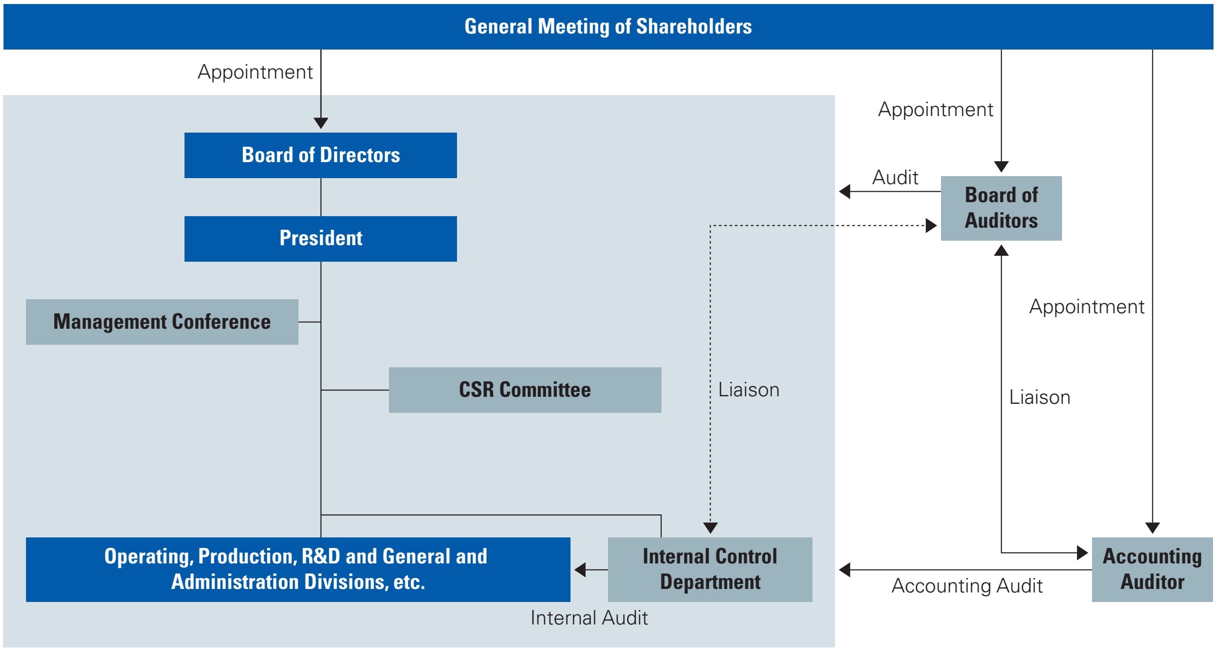
BASIC APPROACH TO CORPORATE GOVERNANCE

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, with terms of office 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, ensuring the transparency and rationality of management decision-making, and maintaining the objectivity and neutrality of management monitoring functions, all while striving for more efficient 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.

4. STATUS OF INTERNAL AUDIT AND AUDITORS' AUDIT

The Company 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 auditing to verify the appropriateness of operational processes at the Company and its subsidiaries, as well as the suitability and effectiveness of business operations. As of March 31, 2010, the department had an 11-member staff to conduct internal audits. Of the four corporate auditors, two are outside auditors. The standing corporate auditors are elected based on their years of experience with the Company's accounting and auditing divisions, as well as their formidable insight with respect to financial and accounting matters. A secretariat is established within the Board of Auditors and staffed by assistants who exclusively aid the corporate auditors in the performance of their duties. One replacement auditor is also appointed to assume audit duties in cases in which the number of corporate auditors falls below the minimum number required by law. The Board of Auditors periodically requests meetings to receive reports from the Internal Control Department regarding the status of internal audits. Similarly, the Board of Auditors holds meetings to receive regular audit reports from and exchange opinions with the accounting auditors, in an effort to perform audits in mutual cooperation with all audit-related entities.

5. RELATIONSHIP WITH OUTSIDE AUDITORS

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. Their independence is ensured by their lack of any noteworthy special interest relationship with the Company. 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. In light of the above system, Kaneka does not employ any outside directors, and believes that the current system has sufficient management monitoring functions to check the proper functioning of the Company's governance framework from an external perspective.

6. 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	509	368	46	94	14
Corporate auditors	42	42			2
Outside directors and corporate auditors	30	30			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 85th Ordinary General Meeting of Shareholders on June 26, 2009.
3. Maximum compensation to directors is ¥46 million per month (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.

7. 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.

8. STATUS OF STOCKHOLDING

Investment Stocks Held for Other Than Purely Investment Purposes

153 different stocks

Total reported balance sheet value: ¥40,288 million

Of Investment Stocks Held for Other Than Purely Investment Purposes, Stocks With Reported Balance Sheet Value Exceeding 1/100th of the Company's Capital

Stock Name	No. of Shares	Reported Balance Sheet Value (Millions of yen)	Holding Purpose
Ibiden Co., Ltd.	1,000,000	3,220	Stock held to maintain and enhance business relationships.
Sumitomo Mitsui Financial Group	1,003,112	3,099	Same as above
Nippon Shokubai Co., Ltd.	2,400,000	2,028	Same as above
Mitsubishi UFJ Financial Group, Inc.	3,885,700	1,903	Same as above
JMS Co., Ltd.	4,385,000	1,670	Stock held for business and capital alliance purposes.
Kubota Corporation	1,952,966	1,663	Stock held to maintain and enhance business relationships.
Mitsui & Co., Ltd.	1,031,093	1,619	Same as above
Mitsubishi Corporation	519,251	1,272	Stock held to maintain and enhance business relationships.
MS&AD Insurance Group Holdings, Inc.	471,990	1,224	Same as above
Shionogi & Co., Ltd.	672,000	1,194	Same as above
Nitto Denko Corporation	300,000	1,089	Same as above
Terumo Corporation	210,875	1,050	Same as above
Duskin Co., Ltd.	500,000	831	Same as above
Daiwa House Industry Co., Ltd.	767,000	809	Same as above
NOK Corporation	532,000	735	Same as above
Nissin Foods Holdings Co., Ltd.	227,074	714	Same as above
Mitsui Chemicals, Inc.	2,053,000	580	Same as above
Onamba Co., Ltd.	829,212	439	Same as above
Meiwa Industry Co., Ltd.	2,854,833	433	Stock held for business and capital alliance purposes.
Morinaga & Co., Ltd.	2,082,528	433	Stock held to maintain and enhance business relationships.
Ezaki Glico Co., Ltd.	386,763	421	Same as above
The Sumitomo Trust & Banking Co., Ltd.	700,244	383	Same as above
Osaka Organic Chemical Industry Ltd.	700,000	381	Same as above
Takiron Co., Ltd.	1,318,201	365	Same as above
Asahi Intec Co., Ltd.	240,000	354	Same as above
Yamazaki Baking Co., Ltd.	296,432	342	Same as above

9. 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 three certified public accountants and 13 junior certified public accountants.

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, it was resolved at the 82nd Ordinary General Meeting of Shareholders on June 29, 2006, to stipulate in the Articles of Incorporation that any of the items provided in Article 459, Paragraph 1 (each item) of the Companies Act, including those concerning payment of dividends from retained earnings, may be determined by a resolution of the Board of Directors and that none of the items provided in Paragraph 1 of the same Article are to be determined by a resolution of the General Meeting of Shareholders.

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, 2009		Fiscal Year Ended March 31, 2010	
	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	67	—	74	2
Consolidated subsidiaries	7	—	3	—
Total	75	—	78	2

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 of payment for advisory services regarding the issuance of bonds.

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 April 28, 2010, the decision was made to retain the Basic Policy following 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

The Company strives to contribute to the health of the global environment and to social prosperity by creating businesses and developing new products that anticipate market needs. The Company's corporate value comes from three sources. The first is sophisticated technology development capabilities, which are vital to its ongoing ability to generate groundbreaking new products. Since its founding, the Company has pursued business expansion backed by expertise in polymer technologies, polymer processing technologies, molecular design technologies, inorganic materials technologies, and fermentation technologies. At present, the Company is involved in a broad array of business domains, ranging from chemicals products, functional plastics, expandable plastics and products, foodstuffs products, and life science products, to electronic products and synthetic fibers and others.

The Company's second source of corporate value is its record of global business promotion and expansion based on advanced technological capabilities. In 1970, Kaneka became a pioneer among chemical companies in Japan by being first to establish an overseas functional plastics manufacturing and sales company in Belgium. This was soon followed by advancement into other countries such as the United States, Malaysia, China, and Vietnam. Today, the Company's overseas operations have evolved into one of its major earnings supports. Similarly with R&D, the Company is promoting the establishment of overseas research bases to establish a dominant position in the photovoltaics market, where substantial global growth is projected. As one prominent action in this area, in 2009 Kaneka concluded a research consignment agreement with Belgium-based IMEC, a world-class research institution known for its expertise in semiconductor processes.

Kaneka's third source of corporate value lies in its imaginative employees, who possess the ample desire and will to take on new challenges, and serve as the crucial support for business expansion. Going forward, the Company aims to achieve greater levels of development by encouraging the growth of its employees and its organization.

To commemorate its 60th anniversary last year, the Company formulated a long-term management vision for the next decade, and moved in the direction of new growth strategies. Recognizing "Environment and Energy," "Health Care," "Information and Communications," and "Food Production Support" as important strategic domains, the Company is taking the following initiatives to achieve a leap forward in growth.

a) Encourage all employees to take on innovation, leveraging the development of new technologies and enhancement of others to create new products and markets.
b) Accelerate overseas development both in developed markets and in the newly emerging markets of Asia and other regions.
c) Take advantage of Group company strengths and characteristics to form competitive value chains.
d) Continue to cultivate and develop a corporate culture that emphasizes free thought and a determined spirit to take on challenges.

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

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

BOARD OF DIRECTORS

Chairman of the Board:

Masatoshi Takeda*

President:

Kimikazu Sugawara*

Executive Vice President:

Masatoshi Hatori*

Member of the Board and Senior Managing Executive Officers:

Toshihiro Suzuki
Tetsuro Hara
Masao Nakagawa

Member of the Board and Managing Executive Officers:

Nobuyuki Koyama
Tetsuo Ikuno
Hirosaku Nagano
Shigeru Kamemoto
Masami Kishine
Toshio Nakamura
Minoru Tanaka

CORPORATE AUDITORS

Standing Corporate Auditors:

Sataro Inui
Yasuo Inoguchi

Outside Corporate Auditors:

Hiroaki Tsukamoto
Kouji Hirokawa

EXECUTIVE OFFICERS

Senior Managing Executive Officer:

Mikio Hatta

Managing Executive Officers:

Masakazu Kajiwara
Hideyuki Matsui
Tohru Yoshinari
Haruo Tomita
Akira Iwazawa

Executive Officers:

Atsushi Ikenaga
Kouji Sanpei
Koichi Nakamura
Akihiko Iguchi
Yoshimi Uchida
Shinji Mizusawa
Yasuyoshi Ueda
Atsushi Kawakatsu
Mamoru Kadokura
Shigeo Furuyoshi
Shinobu Ishihara

*Representative Directors (as of June 25, 2010)

SALES

The Kaneka Group's net sales for FY 2010 (April 1, 2009 to March 31, 2010) decreased 8.3% from the previous fiscal year to ¥412,491 million. Overseas sales suffered from the global economic decline and yen appreciation. As a result, total exports fell and overseas subsidiaries posted lower sales. Overseas sales fell 7.4% to ¥136,374 million. The ratio of overseas sales to total sales increased from 32.7% to 33.1%.

By geographical area, sales in Japan decreased 6.7% to ¥347,293 million, and sales outside Japan decreased 15.8% to ¥65,198 million. Sales grew in the Electronic Products and the Synthetic Fibers and Others segments, but fell in the other 5 segments.

COST OF SALES AND SG&A EXPENSES

During FY 2010, cost of sales decreased by 12.2% to ¥310,251 million. Net sales fell by a lesser percentage, 8.3%, and the cost of sales ratio fell from 78.6% to 75.2%. SG&A expenses edged down 4.6% to ¥84,735 million, but the ratio of SG&A expenses to sales increased 0.7 percentage points to 20.5%.

OPERATING INCOME

Operating income during FY 2010 increased 130.2% to ¥17,505 million. By region, operating income increased 43.6% in Japan to ¥18,941 million and 666.0% in other areas to ¥4,397 million. Operating income decreased in the Life Science Products and the Electronic Products segments but increased in the other 5 segments.

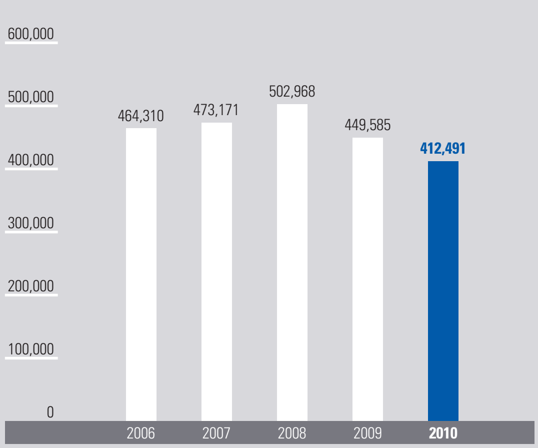
NET INCOME

During the year, the Group recorded a net income of ¥8,406 million, compared with net loss of ¥1,851 million in the preceding fiscal year, after posting an extraordinary loss of ¥1,276 million.

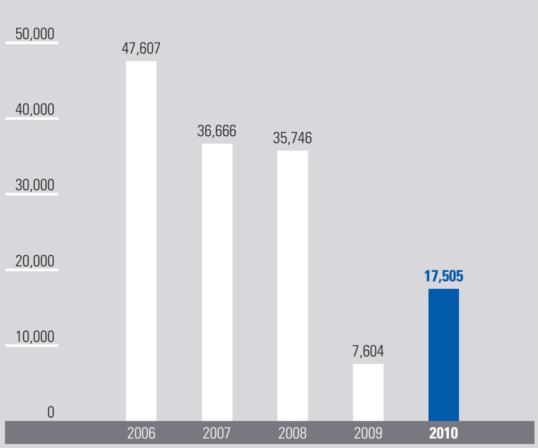
FINANCIAL CONDITION

As of March 31, 2010, total assets came to ¥432,880 million, up ¥14,390 million from March 31, 2009, mainly because of higher cash and deposits, and an increase in investment securities stemming from rises in stock prices. The ratio of net income to total assets (ROA) was 1.9%, up from –0.4% in the previous fiscal year. Interest-bearing debt decreased to ¥63,574 million as of March 31, 2010, down ¥8,584 million from one year earlier. Net assets increased ¥7,646 million from the end of the preceding year to ¥257,175 million, mainly because retained earnings and the

Net Sales
(¥ Million)



Operating Income
(¥ Million)



valuation difference on available-for-sale securities increased. As a result, the equity ratio came to 57.6%, and the D/E ratio (rate of interest-bearing debt to equity capital) was 0.25.

CASH FLOWS

Net cash provided by operating activities was ¥57,413 million, or ¥30,948 million more than in the preceding fiscal year. Major sources of cash were income before income taxes and minority interests of ¥15,255 million, depreciation and amortization of ¥26,393 million, and a ¥9,281 million increase in notes and accounts payable—trade and income.

Major uses of cash were a ¥6,355 million increase in notes and accounts receivable—trade and income taxes paid of ¥1,478 million.

Net cash used in investing activities amounted to ¥25,622 million, or ¥10,727 million less than in the preceding fiscal year. The principal factor was the purchase of property, plant and equipment, which used ¥23,910 million.

Net cash used in financing activities was ¥16,826 million, or ¥29,134 million more than in the preceding fiscal year. Major factors included the repayment of long-term loan payables, which required ¥23,647 million. Cash in the amount of ¥15,000 million was generated through proceeds from the issuance of corporate bonds. Payment for the redemption of corporate bonds used ¥5,000 million and cash dividends paid used ¥5,429 million.

Overall, cash and cash equivalents on March 31, 2010 came to ¥40,514 million, ¥16,273 million more than at the end of the preceding year, an amount which includes increases resulting from changes in the scope of consolidation.

Financial Index Trends

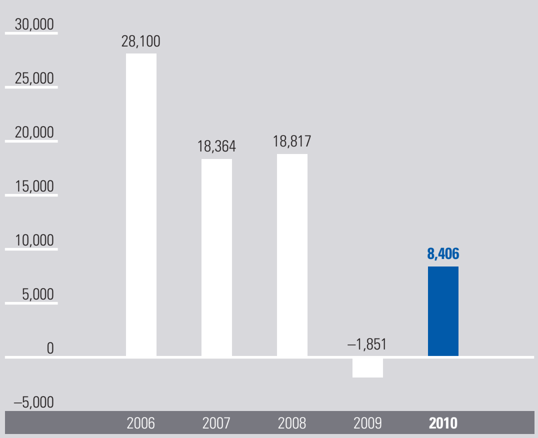
	Term ended March 31, 2006	Term ended March 31, 2007	Term ended March 31, 2008	Term ended March 31, 2009	Term ended March 31, 2010
Shareholders' equity ratio	57.5%	56.8%	57.7%	58.1%	57.6%
Shareholders' equity ratio based on market value	107.2%	82.4%	46.8%	39.2%	47.5%
Interest-bearing debt coverage ratio	1.0	1.6	1.4	2.7	1.1
Interest coverage ratio	44.6	19.9	24.9	19.7	61.6

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 figures calculated according to financial figures on a consolidated basis
2. The calculation of the total market value of stock is based on the total number of shares outstanding, excluding treasury stock.
3. "Cash flows" refers to cash flows from operations.
4. Interest-bearing debt includes 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.

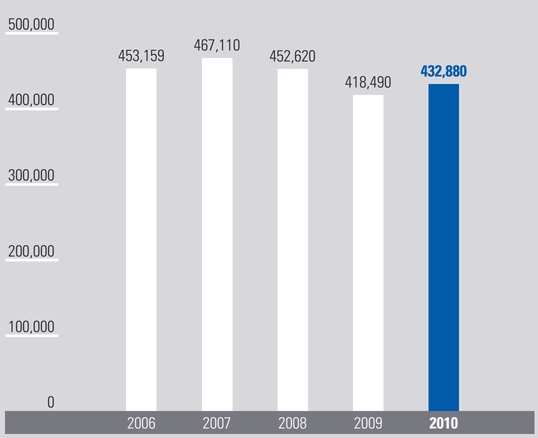
Net Income

(¥ 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, 2010; 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 result in increasingly severe 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 33.1% of total sales in the fiscal year ended March 31, 2010. However, overseas business operations face various risks, including unexpected changes in laws, regulations and tax systems, transfer price taxation, and social and political disturbances resulting from terrorism and warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. Meanwhile, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions, as appropriate, to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments may seriously affect the performance and financial position of the Group.

(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, as there may be sharp fluctuations in prices beyond expectations which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect production of PVC/caustic soda, modifier, expandable plastics and products, and foodstuffs, which may in turn significantly impact the Group's financial position and performance.

(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 in order to be prepared should a product related accident occur. However, the possibility remains that unexpected problems with product quality may cause a large-scale product related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. Major disasters, such as an industrial accident or an earthquake, could destroy manufacturing facilities and losses could be incurred beyond the coverage of property insurance. In such circumstances, it is possible that the Group's financial position and performance could be significantly affected.

(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 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 and 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 would 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 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, 2010 and 2009

Assets	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Current assets:			
Cash and cash equivalents (Note 2)	¥ 40,514	¥ 24,241	$ 435,447
Notes and accounts receivable—trade			
Unconsolidated subsidiaries and affiliates	1,092	936	11,737
Other	92,902	85,871	998,517
Inventories (Note 7)	61,994	67,534	666,316
Short-term loans receivable from unconsolidated subsidiaries and affiliates	383	409	4,117
Deferred tax assets (Note 11)	5,117	4,738	54,998
Other current assets	6,503	8,883	69,894
Allowance for doubtful accounts	(369)	(391)	(3,966)
Total current assets	208,136	192,221	2,237,060
Property, plant and equipment (Notes 9 and 12)**:**			
Land	28,727	27,302	308,760
Buildings and structures	142,837	139,238	1,535,221
Machinery, equipment and vehicles	437,072	425,712	4,697,678
Construction in progress	12,731	13,923	136,834
Other	3,126	1,409	33,598
	624,493	607,584	6,712,091
Less accumulated depreciation	463,060	445,248	4,976,999
Property, plant and equipment, net	161,433	162,336	1,735,092
Intangible assets	1,859	2,186	19,981
Investments and other assets:			
Investment securities (Note 5):			
Unconsolidated subsidiaries and affiliates	4,335	4,409	46,593
Other	42,952	35,972	461,651
Long-term loans receivable	1,418	1,302	15,241
Deferred tax assets (Note 11)	5,031	9,389	54,073
Other	8,036	11,003	86,371
Allowance for doubtful accounts	(320)	(328)	(3,439)
Total investments and other assets	61,452	61,747	660,490
	¥ 432,880	¥ 418,490	$ 4,652,623

See accompanying notes.

Liabilities and net assets	Millions of yen 2010	2009	Thousands of U.S. dollars (Note 1) 2010
Current liabilities:			
Short-term loans payable (Note 12)	¥ 18,155	¥ 39,761	$ 195,131
Current portion of long-term loans payable (Note 12)	1,614	5,543	17,347
Notes and accounts payable:			
Trade	53,493	43,030	574,946
Construction	6,721	6,681	72,238
Other	11,998	11,321	128,956
Income taxes payable	3,614	1,984	38,844
Accrued expenses	8,549	7,841	91,885
Provision for the administrative fine	605	–	6,502
Other current liabilities	2,709	2,772	29,117
Total current liabilities	107,458	118,933	1,154,966
Noncurrent liabilities:			
Long-term debt due after one year (Note 12)	44,205	27,254	475,118
Provision for retirement benefits (Note 13)	19,233	18,116	206,718
Provision for directors' retirement benefits	283	265	3,042
Deferred tax liabilities (Note 11)	334	445	3,590
Other noncurrent liabilities	4,192	3,948	45,055
Total noncurrent liabilities	68,247	50,028	733,523
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	355,191
Capital surplus	34,837	34,837	374,431
Retained earnings	191,250	188,357	2,055,568
Less treasury stock, at cost — 10,771,253 shares in 2010 10,735,630 shares in 2009	(9,599)	(9,584)	(103,171)
Total shareholders' equity	249,535	246,657	2,682,019
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	8,148	4,644	87,575
Deferred gains or losses on hedges	–	1	–
Foreign currency translation adjustments	(8,290)	(7,997)	(89,101)
Total valuation and translation adjustments	(142)	(3,352)	(1,526)
Subscription rights to shares (Note 16)	110	76	1,182
Minority interests	7,672	6,148	82,459
Total net assets	257,175	249,529	2,764,134
	¥ 432,880	¥ 418,490	$ 4,652,623

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Net sales	¥ 412,491	¥ 449,585	¥ 502,968	$ 4,433,480
Cost of sales	310,251	353,179	376,031	3,334,598
Gross profit	102,240	96,406	126,937	1,098,882
Selling, general and administrative expenses	84,735	88,802	91,191	910,737
Operating income	17,505	7,604	35,746	188,145
Other income (expenses):				
Interest and dividends income	1,181	1,455	1,601	12,693
Interest expenses	(929)	(1,258)	(1,488)	(9,985)
Gain on sales of investment securities	240	850	940	2,580
Loss on disposals of noncurrent assets	(1,175)	(909)	(1,292)	(12,629)
Foreign exchange gains (losses), net	205	31	(413)	2,203
Equity in earnings (losses) of affiliates	169	(489)	60	1,816
Gain on sales of noncurrent assets (Note 8)	190	–	–	2,042
Non-recurring depreciation on noncurrent assets	(671)	–	–	(7,212)
Provision for the administrative fine	(605)	–	–	(6,502)
Loss on valuation of investment securities	–	(4,207)	–	–
Impairment loss on noncurrent assets (Note 9)	–	(1,467)	(1,171)	–
Loss on liquidation of business (Note 10)	–	(925)	(1,458)	–
Others	(855)	(1,439)	(1,288)	(9,189)
Income (loss) before income taxes and minority interests	15,255	(754)	31,237	163,962
Income taxes (Note 11)				
Current	4,542	3,069	11,316	48,818
Deferred	1,408	(2,181)	628	15,133
Minority interests in income	899	209	476	9,663
Net income (loss)	¥ 8,406	¥ (1,851)	¥ 18,817	$ 90,348

	Yen			U.S. dollars (Note 1)
Net income (loss) per share — basic	¥ 24.78	¥ (5.45)	¥ 55.10	$ 0.27
Net income per share — diluted	24.77	–	55.09	0.27
Cash dividends applicable to the year	16.00	16.00	16.00	0.17

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Shareholders' equity				
Capital stock				
Balance at the end of previous period	¥ 33,047	¥ 33,047	¥ 33,047	$ 355,191
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	355,191
Capital surplus				
Balance at the end of previous period	34,837	34,837	34,857	374,431
Changes of items during the period				
Cancellation of treasury stock	–	–	(20)	–
Total changes of items during the period	–	–	(20)	–
Balance at the end of current period	34,837	34,837	34,837	374,431
Retained earnings				
Balance at the end of previous period	188,357	194,741	188,417	2,024,473
Increase by union of accounting policies applied to foreign subsidiaries	–	808	–	–
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,429)	(5,442)	(5,467)	(58,351)
Net income (loss)	8,406	(1,851)	18,817	90,348
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	(80)	115	52	(859)
Cancellation of treasury stock	–	–	(7,078)	–
Disposal of treasury stock	(4)	(14)	–	(43)
Total changes of items during the period	2,893	(7,192)	6,324	31,095
Balance at the end of current period	191,250	188,357	194,741	2,055,568
Treasury stock				
Balance at the end of previous period	(9,584)	(9,018)	(14,479)	(103,010)
Changes of items during the period				
Purchase of treasury stock	(34)	(616)	(1,647)	(365)
Cancellation of treasury stock	–	–	7,098	–
Disposal of treasury stock	19	50	10	204
Total changes of items during the period	(15)	(566)	5,461	(161)
Balance at the end of current period	(9,599)	(9,584)	(9,018)	(103,171)
Valuation and translation adjustments				
Valuation difference on available-for-sale securities				
Balance at the end of previous period	4,644	10,626	24,116	49,914
Changes of items during the period				
Net changes of items other than shareholders' equity	3,504	(5,982)	(13,490)	37,661
Total changes of items during the period	3,504	(5,982)	(13,490)	37,661
Balance at the end of current period	8,148	4,644	10,626	87,575
Deferred gains or losses on hedges				
Balance at the end of previous period	1	3	–	11
Changes of items during the period				
Net changes of items other than shareholders' equity	(1)	(2)	3	(11)
Total changes of items during the period	(1)	(2)	3	(11)
Balance at the end of current period	–	1	3	–

	Millions of yen 2010	2009	2008	Thousands of U.S. dollars (Note 1) 2010
Foreign currency translation adjustment				
Balance at the end of previous period	¥ (7,997)	¥ (2,974)	¥ (827)	$ (85,952)
Changes of items during the period				
Net changes of items other than shareholders' equity	(293)	(5,023)	(2,147)	(3,149)
Total changes of items during the period	(293)	(5,023)	(2,147)	(3,149)
Balance at the end of current period	(8,290)	(7,997)	(2,974)	(89,101)
Subscription rights to shares				
Balance at the end of previous period	76	50	–	817
Changes of items during the period				
Net changes of items other than shareholders' equity	34	26	50	365
Total changes of items during the period	34	26	50	365
Balance at the end of current period	110	76	50	1,182
Minority interests				
Balance at the end of previous period	6,148	6,286	6,149	66,079
Changes of items during the period				
Net changes of items other than shareholders' equity	1,524	(138)	137	16,380
Total changes of items during the period	1,524	(138)	137	16,380
Balance at the end of current period	7,672	6,148	6,286	82,459
Total net assets				
Balance at the end of previous period	249,529	267,598	271,280	2,681,954
Increase by union of accounting policies applied to foreign subsidiaries	–	808	–	–
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,429)	(5,442)	(5,467)	(58,351)
Net income (loss)	8,406	(1,851)	18,817	90,348
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	(80)	115	52	(859)
Purchase of treasury stock	(34)	(616)	(1,647)	(365)
Disposal of treasury stock	15	36	10	161
Net changes of items other than shareholders' equity	4,768	(11,119)	(15,447)	51,246
Total changes of items during the period	7,646	(18,877)	(3,682)	82,180
Balance at the end of current period	¥ 257,175	¥ 249,529	¥ 267,598	$ 2,764,134

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2010, 2009 and 2008

		Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2010
Net cash provided by (used in) operating activities				
Income (loss) before income taxes and minority interests	¥ 15,255	¥ (754)	¥ 31,237	$ 163,962
Adjustments to reconcile net income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	26,393	27,353	24,911	283,674
Impairment loss	–	1,467	1,171	–
Increase (decrease) in provision for retirement benefits	3,283	6	(1,635)	35,286
Increase (decrease) in allowance for doubtful accounts	(30)	(25)	95	(323)
Interest and dividends income	(1,181)	(1,455)	(1,601)	(12,693)
Interest expenses	929	1,258	1,488	9,985
Loss (gain) on disposal of noncurrent assets	1,229	2,999	770	13,209
Loss on valuation of investment securities	–	4,207	–	–
Loss on liquidation of business	–	925	1,458	–
Non-recurring depreciation on noncurrent assets	671	–	–	7,212
Provision for the administrative fine	605	–	–	6,502
Gain on sales of investment securities	0	0	0	0
Equity in (earnings) losses of affiliates	(169)	489	(60)	(1,816)
Decrease (increase) in notes and accounts receivable—trade	(6,355)	24,595	4,110	(68,304)
Decrease (increase) in inventories	5,860	1,688	(7,236)	62,984
Increase (decrease) in notes and accounts payable—trade	9,281	(23,814)	(322)	99,753
Others	2,822	(4,759)	(1,479)	30,330
Subtotal	58,593	34,180	52,907	629,761
Interest and dividends income received	1,230	1,465	1,605	13,220
Interest expenses paid	(932)	(1,342)	(1,584)	(10,017)
Income taxes paid	(1,478)	(7,838)	(13,510)	(15,885)
Net cash provided by (used in) operating activities	57,413	26,465	39,418	617,079
Net cash provided by (used in) investing activities				
Purchase of property, plant and equipment	(23,910)	(35,328)	(32,991)	(256,986)
Proceeds from sales of property, plant and equipment	189	–	–	2,031
Purchase of intangible assets	(380)	(969)	(684)	(4,084)
Purchase of investment securities	(1,645)	(4,489)	(2,867)	(17,681)
Proceeds from sales and distributions of investment securities	947	4,675	1,853	10,178
Purchase of stocks of subsidiaries and affiliates	(463)	(761)	–	(4,976)
Proceeds from sales of stocks of subsidiaries and affiliates	479	550	–	5,148
Payments of loans receivable	(265)	(199)	(67)	(2,848)
Collection of loans receivable	206	96	300	2,214
Others	(780)	76	(532)	(8,383)
Net cash provided by (used in) investing activities	(25,622)	(36,349)	(34,988)	(275,387)
Net cash provided by (used in) financing activities				
Net increase (decrease) in short-term loans payable	(21,459)	18,947	3,166	(230,643)
Proceeds from long-term debt	2,943	5,842	867	31,631
Repayment of long-term debt	(2,188)	(836)	(1,152)	(23,517)
Proceeds from issuance of bonds	15,000	–	–	161,221
Redemption of bonds	(5,000)	(5,000)	–	(53,740)
Repayments of lease obligations	(429)	(543)	–	(4,611)
Cash dividends paid	(5,429)	(5,442)	(5,467)	(58,351)
Cash dividends paid to minority shareholders	(241)	(119)	(211)	(2,590)
Purchase of treasury stock	(26)	(605)	(1,647)	(279)
Proceeds from sales of treasury stock	3	29	10	32
Others	–	35	–	–
Net cash provided by (used in) financing activities	(16,826)	12,308	(4,434)	(180,847)
Effect of exchange rate change on cash and cash equivalents	201	(171)	(644)	2,160
Net increase (decrease) in cash and cash equivalents	15,166	2,253	(648)	163,005
Cash and cash equivalents at beginning of period	24,241	21,988	22,636	260,544
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	1,107	–	–	11,898
Cash and cash equivalents at end of period	¥ 40,514	¥ 24,241	¥ 21,988	$ 435,447

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity 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 (2), 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 at March 31, 2010 which was ¥93.04 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

The Company has 52 consolidated subsidiaries (51 in 2009 and 52 in 2008) and 3 affiliates accounted for by the equity method (3 in 2009 and 2 in 2008). Four of the Company's subsidiaries are consolidated using a fiscal period ending December 31, which differs from that of the Company. Any material transactions occurring during the January 1 to March 31 period are adjusted for in these consolidated financial statements.

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 gains and losses 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(3), 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.

Effective from the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries changed the useful lives of their assets based on the reassessment of useful lives in the Corporation Tax Law of Japan. As a result, operating income was ¥349 million ($3,553 thousand) less and loss before income taxes and minority interests was ¥349 million ($3,553 thousand) more in the year ended March 31, 2009 than the amounts that would have been reported under the previous method. See note 17 for the effect of this change on segment information.

As for property, plant and equipment acquired on or before March 31, 2007, the difference between 5% of the acquisition cost, which was the depreciable limit under the former Corporation Tax Law of Japan, and the memorandum value is depreciated equally over 5 years from the year following the year the asset is depreciated to the depreciable limit. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 was ¥526 million less than the amount that would have been reported under the previous method. See Note 17 for the effect of this change on segment information.

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 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.

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

Research and development expenses

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2010, 2009, and 2008 were ¥16,322 million ($175,430 thousand), ¥17,203 million and ¥16,611 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.

As discussed in Note 3, the Company and its consolidated domestic subsidiaries have adopted a new accounting standard and now capitalize finance leases which commenced after March 31, 2008, except for certain immaterial or short-term finance leases which are accounted for as operating leases.

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 2010 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. CHANGES IN ACCOUNTING POLICIES

(1) Provision for retirement benefits

Effective from the fiscal year ended March 31, 2010, the Company and its consolidated domestic subsidiaries 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.

(2) 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 ($641 thousand), and loss before income taxes and minority interests increased by ¥37 million ($377 thousand) for the year ended March 31, 2009, compared to what would have been reported under the previous method. See note 17 for the effect of this change on segment information.

(3) 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 ($2,993 thousand) and loss before income taxes and minority interests increased by ¥294 million ($2,993 thousand) for the year ended March 31, 2009, compared to what would have been reported under the previous method. See Note 17 for the effect of this change on segment information.

(4) Property, plant and equipment and depreciation

Effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed the accounting method for the depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in Corporation Tax Law of Japan. As a result of this change, operating income and income before income taxes and minority interests for the year ended March 31, 2008 decreased by ¥924 million compared to what would have been reported under the previous method. See Note 17 for the effect of this charge on segment information.

(5) 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 capitalize assets used under such leases, except for certain immaterial or short-term finance leases which are 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 ($9,284 thousand) and ¥99 million ($1,008 thousand), respectively. 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 as 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 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, 2010.

(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 domestic 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 underling assets and liabilities, to the President and the CFO on a monthly basis and periodically to the Board of Directors.

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

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

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

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

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

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, 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 amounts	Fair value	Difference
(1) Cash and cash equivalents	$ 435,447	$ 435,447	$ –
(2) Notes and accounts receivable—trade	1,010,243	1,010,243	–
(3) Marketable and investment securities Available-for-sale securities	397,259	396,292	(967)
(4) Long-term loans receivable	15,241	13,080	
Allowance for doubtful receivables (*1)	(0)		
	15,241	13,080	(2,161)
Total assets	1,858,190	1,855,062	(3,128)
(1) Notes and accounts payable	574,946	574,946	–
(2) Short-term loans payable	212,490	212,490	–
(3) Bonds	214,961	217,476	2,515
(4) Long-term debt	260,157	265,133	4,976
Total liabilities	1,262,554	1,270,045	7,491
Derivative transactions (*2)			
– Hedge accounting is applied	8,061	8,061	–
– 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 investments in securities
The fair value of equity securities is measured by market prices 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)
Unlisted equity securities	10,418

The financial instruments shown above are not included in the tables "(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

	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

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

Millions of yen

	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

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, 2010:

Securities with book values exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2010			**2010**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 11,727**	**¥ 26,738**	**¥ 15,011**	**$ 126,043**	**$ 287,382**	**$ 161,339**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
	¥ 11,727	**¥ 26,738**	**¥ 15,011**	**$ 126,043**	**$ 287,382**	**$ 161,339**

Securities with book values not exceeding acquisition costs:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2010			**2010**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 9,718**	**¥ 8,693**	**¥ (1,025)**	**$ 104,450**	**$ 93,433**	**$ (11,017)**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
	¥ 9,718	**¥ 8,693**	**¥ (1,025)**	**$ 104,450**	**$ 93,433**	**$ (11,017)**

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

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2010			**2010**		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	**¥ 911**	**¥ 309**	**¥ (71)**	**$ 9,791**	**$ 3,321**	**$ (763)**
Bonds	**–**	**–**	**–**	**–**	**–**	**–**
	¥ 911	**¥ 309**	**¥ (71)**	**$ 9,791**	**$ 3,321**	**$ (763)**

The following tables summarize acquisition costs and book values (fair values) of available–for–sale securities with available fair values as of March 31, 2009:

Securities with book values exceeding acquisition costs:

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 8,128	¥ 17,668	¥ 9,540
Bonds	–	–	–
	¥ 8,128	¥ 17,668	¥ 9,540

Securities with book values not exceeding acquisition costs:

	Millions of yen		
	2009		
	Acquisition cost	Book value	Difference
Equity securities	¥ 11,441	¥ 9,927	¥ (1,514)
Bonds	–	–	–
	¥ 11,441	¥ 9,927	¥ (1,514)

The following table summarizes book values of securities with no available fair values as of March 31, 2009:

(1) Investments in unconsolidated subsidiaries and affiliated companies

	Millions of yen
	2009
	¥ 4,009

(2) Available-for-sale securities:

	Millions of yen
	2009
Non-listed equity securities	¥ 7,386
Bonds	250
Investment trusts	422
Other	742
	¥ 8,800

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

	Millions of yen		
	2008		
	Within one year	Within five years	Total
Bonds	¥ –	¥ 250	¥ 250

Total sales of available-for-sale securities for the year ended March 31, 2009 amounted to ¥799 million, and the related gains amounted to ¥508 million.

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting was not applied as of March 31, 2010 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	**¥ 1,914**	**¥ 1,954**	**$ 20,572**	**$ 21,002**
Writing Euro	**583**	**587**	**6,266**	**6,309**
Currency swaps	**8,161**	**795**	**87,715**	**8,545**

Derivatives transaction to which hedging accounting is applied as of March 31, 2010, 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	**¥3,400**	(*)	**$36,543**	(*)
Pay fixed and receive floating	**412**	(*)	**4,428**	(*)

(*) 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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Merchandise and finished goods	**¥ 34,399**	¥ 39,202	**$ 369,723**
Work-in-process	**8,404**	10,109	**90,327**
Raw materials and supplies	**19,191**	18,223	**206,266**
	¥ 61,994	¥ 67,534	**$ 666,316**

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

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

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

As a result of lower profitability from increasingly fierce competition, the book value of the functional foodstuffs production equipment and facilities of Kaneka Nutrients L.P. was reduced to its recoverable value, and a write-down of ¥423 million was accounted for as impairment loss. The primary components of this amount were machinery and equipment of ¥291 million and buildings of ¥107 million. As the recoverable value is estimated at value in use, future cash flows have been discounted at a rate of 10%.

As the profitability of the polystyrene foam sheet production facilities at the Kaneka Corporation's Osaka plant and Sunpolymer Corporation worsened as a result of sharply higher raw material prices, the book value of these facilities were reduced to their recoverable value, and ¥554 million was recorded as impairment loss. The primary component of this amount was machinery and equipment of ¥539 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.

The primary components of the loss on liquidation of business in 2008 were a loss of ¥552 million upon a sale of a part of the expandable plastics and products molding business of a North American consolidated subsidiary, a ¥589 million loss on the disposal of noncurrent assets and ¥273 million in early retirement costs involving the withdrawal from business of a consolidated subsidiary in the Electronic Products segment.

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, 2010, 2009 and 2008.

The following table summarizes the significant differences between the statutory tax rates and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2010, 2009 and 2008.

	2010	2009	2008
Statutory tax rate	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.	40.64%
Valuation allowance			0.90%
Foreign tax credit			(5.86%)
Nondeductible expenses			0.71%
Nontaxable dividends received			(1.77%)
Elimination of dividends on consolidation			3.34%
Other			0.27%
Effective tax rate			38.23%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Deferred tax assets:			
Retirement benefits	¥ 7,560	¥ 6,113	$ 81,255
Loss carryforwards	6,882	7,459	73,969
Loss on valuation of investment securities	1,336	3,180	14,359
Excess bonuses accrued	1,852	1,762	19,905
Impairment losses on noncurrent assets	3,620	3,430	38,908
Valuation difference on available-for-sale securities	441	625	4,740
Other	6,924	7,733	74,420
Subtotal	28,615	30,302	307,556
Valuation allowance	(8,356)	(8,967)	(89,811)
Total deferred tax assets	20,259	21,335	217,745
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	6,085	3,867	65,402
Other	4,482	3,911	48,173
Total deferred tax liabilities	10,567	7,778	113,575
Net deferred tax assets (liabilities)	¥ 9,692	¥ 13,557	$ 104,170

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

Short–term loans payable are generally represented by unsecured notes, generally for three months, with average interest rates of 0.78% and 1.09% at March 31, 2010 and 2009, respectively. Such borrowings are generally renewable at maturity.

Long–term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Secured:			
Loans principally from banks and insurance companies, interest rates from 0.01% to 2.35% (1.28% to 2.35% in 2009), maturing serially through 2015	¥ 836	¥ 457	$ 8,985
Unsecured:			
Loans from banks and insurance companies, interest rates from 0.00% to 4.79% (0.00% to 4.82% in 2009) maturing serially through 2019	24,983	22,340	268,519
Bonds, interest rate of 2.09%, due July 27, 2009	–	5,000	–
Bonds, interest rate of 2.45%, due July 27, 2011	5,000	5,000	53,740
Bonds, interest rate of 0.86%, due September 16, 2014	5,000	–	53,740
Bonds, interest rate of 1.67%, due September 13, 2019	10,000	–	107,481
	45,819	32,797	492,465
Less amounts due within one year	1,614	5,543	17,347
	¥ 44,205	¥ 27,254	$ 475,118

At March 31, 2010, assets pledged as collateral for secured long-term debt, short-term borrowings and trade payables totaling ¥2,452 million ($26,354 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	¥ 2,475	$ 26,601
Land	1,356	14,574
Deposits and investment securities	89	957
	¥ 3,920	$ 42,132

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)
2011	¥ 1,614	$ 17,347
2012	6,784	72,915
2013	6,757	72,625
2014	9,270	99,635
2015	5,140	55,244
2016 and thereafter	16,254	174,699
	¥ 45,819	$ 492,465

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, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Projected benefit obligation	**¥ 74,932**	¥ 73,376	**$ 805,375**
Less fair value of pension assets	**(47,644)**	(42,800)	**(512,081)**
Less unrecognized actuarial differences	**(8,055)**	(15,005)	**(86,576)**
Less unrecognized prior service cost (credit)	**–**	–	**–**
Prepaid pension cost	**–**	2,545	**–**
Retirement benefits	**¥ 19,233**	¥ 18,116	**$ 206,718**

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, 2010, 2009 and 2008 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Service costs—benefits earned during the year	**¥ 3,071**	¥ 3,217	¥ 3,158	**$ 33,008**
Interest costs on projected benefit obligation	**1,734**	1,750	1,714	**18,637**
Expected return on plan assets	**(1,040)**	(1,197)	(1,264)	**(11,178)**
Amortization of actuarial differences	**2,480**	1,757	1,106	**26,655**
Amortization of prior service cost (credit)	**–**	(55)	(423)	**–**
Retirement benefit expenses	**¥ 6,245**	¥ 5,472	¥ 4,291	**$ 67,122**

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

	2010	2009	2008
Allocation method for projected benefits:	**straight-line**	straight-line	straight-line
Discount rate	**2.5%**	2.5%	2.5%
Expected rate of return	**2.5%**	2.5%	2.5%
Period of amortizing prior service cost	**5 years**	5 years	5 years
Period of amortizing actuarial differences	**10 years**	10 years	10 years

14. CONTINGENT LIABILITIES

At March 31, 2010 and 2009, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	**2010**
Notes endorsed	**¥ 35**	¥ 123	**$ 376**
Notes discounted	**522**	959	**5,610**
Guarantees	**228**	446	**2,451**
Letters of awareness	**417**	390	**4,482**
	¥ 1,202	¥ 1,918	**$ 12,919**

15. NET ASSETS

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

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

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

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

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

On May 13, 2010, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2010, on the shares of stock then outstanding, at the rate of ¥8.0 ($0.09) per share or a total of ¥2,714 million ($29,170 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2010. Such appropriations are recognized in the period in which they are approved by the 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 in FY 2009	Stock options granted in FY 2008	Stock options granted in FY 2007
Category and number of people granted stock options	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	57,000 shares of common stock
Date granted	August 11, 2009	August 11, 2008	September 10, 2007
Vesting conditions	No provision	No provision	No provision
Exercise period	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 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Beginning of term	–	75,000	35,000
Vested	75,000	–	–
Exercised	–	11,000	7,000
Expired or forfeited	–	–	–
Unexercised balance	75,000	64,000	28,000
Exercise price (yen)	1	1	1
Weighted average market value per stock at the dates exercised (yen)	–	674	674
Fair value per stock at the date granted (yen)	622	600	883
Exercise price (US$)	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (US$)		7.24	7.24
Fair value per stock at the date granted (US$)	6.69	6.45	9.49

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥47 million ($505 thousand), ¥45 million and ¥50 million for the years ended March 31, 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 11, 2009
Expected volatility	31.52%
Expected holding period	5 years
Expected dividend	16 yen
Risk free interest rate	0.758%

17. SEGMENT INFORMATION

The Companies' businesses are divided into the following segments:

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

The "Functional Plastics" segment consists principally of modifier and modified silicone polymers.

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

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

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

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

The "Synthetic Fibers and Others" segment consists primarily of modacrylic fibers.

By business category:

Millions of yen

2010	Chemicals	Functional Plastics	Expandable Plastics and products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Corporate and Eliminations	Consolidated
Net sales:									
Customers	¥ 79,551	¥ 61,137	¥ 54,365	¥ 119,781	¥ 39,187	¥ 35,882	¥ 22,588	¥ –	¥ 412,491
Intersegment	3,151	285	2	11	–	703	1,561	(5,713)	–
	82,702	61,422	54,367	119,792	39,187	36,585	24,149	(5,713)	412,491
Costs and expenses	80,833	52,623	49,395	110,926	34,680	43,479	22,612	438 (1)	394,986
Operating (loss) income	¥ 1,869	¥ 8,799	¥ 4,972	¥ 8,866	¥ 4,507	¥ (6,894)	¥ 1,537	¥ (6,151)	¥ 17,505
Identifiable assets	¥ 68,446	¥ 54,089	¥ 44,026	¥ 62,195	¥ 54,733	¥ 56,160	¥ 27,528	¥ 65,703 (2)	¥ 432,880
Depreciation	5,134	3,931	2,590	2,642	3,004	5,546	2,558	805	26,210
Capital expenditures	3,611	1,420	1,651	1,368	1,843	11,255	2,172	1,001	24,321

Millions of yen

2009	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Corporate and Eliminations	Consolidated
Net sales:									
Customers	¥ 92,309	¥ 67,042	¥ 69,223	¥ 125,110	¥ 39,854	¥ 33,567	¥ 22,480	¥ –	¥ 449,585
Intersegment	2,265	278	159	13	–	–	6,985	(9,700)	–
	94,574	67,320	69,382	125,123	39,854	33,567	29,465	(9,700)	449,585
Costs and expenses	95,036	64,278	68,072	121,349	33,964	34,501	28,273	(3,492) (1)	441,981
Operating (loss) income	¥ (462)	¥ 3,042	¥ 1,310	¥ 3,774	¥ 5,890	¥ (934)	¥ 1,192	¥ (6,208)	¥ 7,604
Identifiable assets	¥ 67,714	¥ 54,593	¥ 45,277	¥ 62,971	¥ 57,696	¥ 46,583	¥ 28,116	¥ 55,540 (2)	¥ 418,490
Depreciation	5,081	3,997	3,303	2,802	3,380	5,540	2,100	960	27,163
Impairment loss on noncurrent assets	–	–	1,917	–	–	–	–	–	1,917
Capital expenditures	4,202	6,006	2,516	2,372	2,747	5,341	9,421	1,374	33,979
2008									
Net sales:									
Customers	¥102,468	¥ 83,169	¥ 73,800	¥ 119,638	¥ 36,162	¥ 57,044	¥ 30,687	¥ –	¥ 502,968
Intersegment	2,803	415	799	13	–	–	5,626	(9,656)	–
	105,271	83,584	74,599	119,651	36,162	57,044	36,313	(9,656)	502,968
Costs and expenses	100,094	71,557	74,655	116,807	30,886	47,978	29,696	(4,451) (1)	467,222
Operating (loss) income	¥ 5,177	¥ 12,027	¥ (56)	¥ 2,844	¥ 5,276	¥ 9,066	¥ 6,617	¥ (5,205)	¥ 35,746
Identifiable assets	¥ 78,919	¥ 58,118	¥ 57,760	¥ 65,495	¥ 61,164	¥ 52,159	¥ 19,656	¥ 59,350 (2)	¥ 452,621
Depreciation	3,888	3,866	3,202	2,420	3,775	5,213	1,424	943	24,731
Impairment loss on noncurrent assets	–	–	553	–	424	–	–	194	1,171
Capital expenditures	7,649	5,244	3,280	1,888	2,568	7,261	2,595	1,084	31,569

Thousands of U.S. dollars (Note 1)

2010	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Corporate and Eliminations	Consolidated
Net sales:									
Customers	**$855,019**	**$657,105**	**$ 584,319**	**$ 1,287,414**	**$ 421,184**	**$385,662**	**$242,777**	**$ –**	**$ 4,433,480**
Intersegment	**33,867**	**3,063**	**21**	**118**	**–**	**7,556**	**16,778**	**(61,403)**	**–**
	888,886	**660,168**	**584,340**	**1,287,532**	**421,184**	**393,218**	**259,555**	**(61,403)**	**4,433,480**
Costs and expenses	**868,798**	**565,595**	**530,901**	**1,192,240**	**372,743**	**467,315**	**243,035**	**4,708** (1)	**4,245,335**
Operating (loss) income	**$ 20,088**	**$ 94,573**	**$ 53,439**	**$ 95,292**	**$ 48,441**	**$ (74,097)**	**$ 16,520**	**$ (66,111)**	**$ 188,145**
Identifiable assets	**$735,662**	**$581,352**	**$ 473,194**	**$ 668,476**	**$ 588,274**	**$603,611**	**$295,873**	**$ 706,180** (2)	**$ 4,652,623**
Depreciation	**55,181**	**42,251**	**27,838**	**28,396**	**32,287**	**59,609**	**27,494**	**8,652**	**281,708**
Capital expenditures	**38,811**	**15,262**	**17,745**	**14,703**	**19,809**	**120,970**	**23,345**	**10,759**	**261,404**

(1) Operating expenses included in the 'Corporate and Eliminations' column of ¥6,221 million ($66,864 thousand), ¥6,208 million and ¥5,328 million for the terms ended March 31, 2010, 2009 and 2008, respectively, consist of fundamental research and development expenses of the Company.

(2) 'Corporate and Eliminations' includes corporate assets of ¥65,703 million ($706,180 thousand), ¥55,540 million and ¥59,350 million for the terms ended March 31, 2010, 2009 and 2008, respectively, consisting principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

(3) As discussed in Note 3(2), the Company and its consolidated subsidiaries adopted a new accounting standard for "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" in the year ended March 31, 2009. As a result of this change, costs and expenses in the Electronic Products and Synthetic Fibers and Others segments were ¥0 million and ¥5 million less, respectively, and costs and expenses in the Functional Plastics and Expandable Plastics and Products segments were ¥44 million and ¥24 million more, respectively, for the year ended March 31, 2009, than the amounts that would have been reported under the previous method. Operating income in each segment was more or less by corresponding amounts.

As discussed in Note 3(3), the Company and its consolidated domestic subsidiaries adopted the new accounting standard for inventories in the year ended March 31, 2009. As a result of this change, costs and expenses in the Chemicals, Functional Plastics, Expandable Plastics and Products, Life Science Products and Electronic Products segments were ¥149 million, ¥124 million, ¥1 million, ¥15 million and ¥5 million more, respectively, for the year ended March 31, 2009, than the amounts that would have been reported under the previous method. Operating income in each segment was less by the corresponding amounts.

As discussed in Note 3(4), effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed the accounting method for depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in the Corporation Tax Law of Japan. As a result of this change, costs and expenses in the Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products and Synthetic Fibers and Others segments were ¥112 million, ¥118 million, ¥139 million, ¥50 million, ¥80 million, ¥316 million and ¥109 million more, respectively, for the year ended March 31, 2008, than the amounts that would have been reported under the previous method. Operating income in each segment was less by the corresponding amounts.

As discussed in Note 2, the Company and its consolidated domestic subsidiaries changed useful lives for the year ended March 31, 2009, based on the reassessment of useful lives in the Corporation Tax Law of Japan. As a result of this change, costs and expenses in the Chemicals segment were ¥11 million less, and costs and expenses in the Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products and Synthetic Fibers and Others segments were ¥16 million, ¥2 million, ¥116 million, ¥5 million, ¥211 million and ¥10 million more, respectively, for the year ended March 31, 2009, than the amounts that would have been reported under the previous method. Operating income in each segment was more or less by corresponding amounts.

In addition, as discussed in Note 2, the difference between 5% of the acquisition cost for property, plant and equipment acquired on or before March 31, 2007, which was the depreciable limit under the former Corporation Tax Law of Japan, and the memorandum value is depreciated equally over 5 years from the year after such assets are depreciated to the depreciable limit. As a result of this change, costs and expenses in the Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products and Synthetic Fibers and Others segments were ¥94 million, ¥40 million, ¥171 million, ¥55 million, ¥45 million, ¥46 million and ¥75 million more, respectively, for the year ended March 31, 2008 than the amounts that would have been reported under the previous method. Operating income in each segment was less by the corresponding amounts.

By geographic area:

2010	Japan	Other areas	Corporate and eliminations	Consolidated
				Millions of yen
Net sales:				
Customers	¥ 347,293	¥ 65,198	¥ –	¥ 412,491
Intersegment	12,580	6,389	(18,969)	–
	359,873	71,587	(18,969)	412,491
Costs and expenses	340,932	67,190	(13,136) (1)	394,986
Operating income	¥ 18,941	¥ 4,397	¥ (5,833)	¥ 17,505
Identifiable assets	¥ 317,319	¥ 62,266	¥ 53,295 (2)	¥ 432,880
2009				
Net sales:				
Customers	¥ 372,171	¥ 77,414	¥ –	¥ 449,585
Intersegment	18,760	7,522	(26,282)	–
	390,931	84,936	(26,282)	449,585
Costs and expenses	377,741	84,362	(20,122) (1)	441,981
Operating income	¥ 13,190	¥ 574	¥ (6,160)	¥ 7,604
Identifiable assets	¥ 311,095	¥ 66,159	¥ 41,236 (2)	¥ 418,490
2008				
Net sales:				
Customers	¥ 406,642	¥ 96,326	¥ –	¥ 502,968
Intersegment	20,473	8,704	(29,177)	–
	427,115	105,030	(29,177)	502,968
Costs and expenses	392,219	99,333	(24,330) (1)	467,222
Operating income	¥ 34,896	¥ 5,697	¥ (4,847)	¥ 35,746
Identifiable assets	¥ 336,886	¥ 73,191	¥ 42,544 (2)	¥ 452,621

2010	Japan	Other areas	Corporate and eliminations	Consolidated
				Thousands of U.S. dollars (Note 1)
Net sales:				
Customers	$ 3,732,728	$ 700,752	$ –	$ 4,433,480
Intersegment	135,211	68,669	(203,880)	–
	3,867,939	769,421	(203,880)	4,433,480
Costs and expenses	3,664,359	722,163	(141,187) (1)	4,245,335
Operating income	$ 203,579	$ 47,258	$ (62,693)	$ 188,145
Identifiable assets	$ 3,410,566	$ 669,239	$ 572,818 (2)	$ 4,652,623

The main countries included in Other areas are as follows:

North America: United States of America
Europe: Belgium
Asia: Malaysia and Singapore

(1) Operating expenses included in the 'Corporate and Eliminations' column of ¥6,221 million ($66,864 thousand), ¥6,208 million and ¥5,328 million for the terms ended March 31, 2010, 2009 and 2008, respectively, consist of fundamental research and development expenses of the Company.

(2) 'Corporate and Eliminations' includes corporate assets of ¥65,703 million ($706,180 thousand), ¥55,540 million and ¥59,350 million for the terms ended March 31, 2010, 2009 and 2008, respectively, consisting principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

(3) As discussed in Note 3(2), the Company and its consolidated subsidiaries adopted a new accounting standard for "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" in the year ended March 31, 2009. As a result of this change, costs and expenses in other areas were ¥63 million more for the year ended March 31, 2009, than the amount that would have been reported under the previous method. Operating income in other areas was less by a corresponding amount.

As discussed in Note 3(3), the Company and its consolidated domestic subsidiaries adopted the new accounting standard for inventories in the year ended March 31, 2009. As a result of this change, costs and expenses in Japan were ¥294 million more for the year ended March 31, 2009, than the amount that would have been reported under the previous method. Operating income in Japan was less by a corresponding amount.

As discussed in Note 3(4), effective from April 1, 2007, the Company and its domestic consolidated subsidiaries have changed the accounting method for depreciation of property, plant and equipment acquired on and after April 1, 2007, in accordance with the amendment in Corporation Tax Law of Japan. As a result of this change, costs and expenses in Japan were ¥924 million more for the year ended March 31, 2008, than the amount that would have been reported under the previous method. Operating income in Japan was less by a corresponding amount.

As discussed in Note 2, the Company and its consolidated domestic subsidiaries changed useful lives for the year ended March 31, 2009 based on the reassessment of useful lives in the Corporation Tax Law of Japan. As a result of this change, costs and expenses in Japan were ¥349 million more for the year ended March 31, 2009, than the amount that would have been reported under the previous method. Operating income in Japan was less by a corresponding amount.

As discussed in Note 2, the difference between 5% equivalent of the acquisition cost for property, plant and equipment acquired on or before March 31, 2007, which is the depreciable limit under the former Corporation Tax Law of Japan, and the memorandum value is depreciated equally over 5 years from the year after such assets are depreciated to the depreciable limit. As a result of this change, costs and expenses in Japan were ¥526 million more for the year ended March 31, 2008, than the amount that would have been reported under the previous method. Operating income in Japan was less by a corresponding amount.

Overseas sales:

For the years ended March 31, 2010, 2009 and 2008 overseas sales by geographic area were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Asia	**¥ 59,947**	¥ 54,212	¥ 77,852	**$ 644,314**
North America	**24,504**	30,873	36,543	**263,371**
Europe	**36,897**	45,952	56,772	**396,571**
Others	**15,026**	16,167	15,986	**161,501**
	¥ 136,374	¥ 147,204	¥ 187,153	**$ 1,465,757**

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

The main countries included in Asia, North America, Europe, and Others were as follows:

Asia: China, Korea and Taiwan

North America: United States of America and Mexico

Europe: Belgium and United Kingdom

Others: Australia and Togo

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kaneka Corporation:

We have audited the accompanying consolidated balance sheets of Kaneka Corporation (the "Company") and its consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended March 31, 2010, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kaneka Corporation and its consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 & Co.

KPMG AZSA & Co.
Osaka, Japan
June, 25, 2010

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

U.S.A.

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

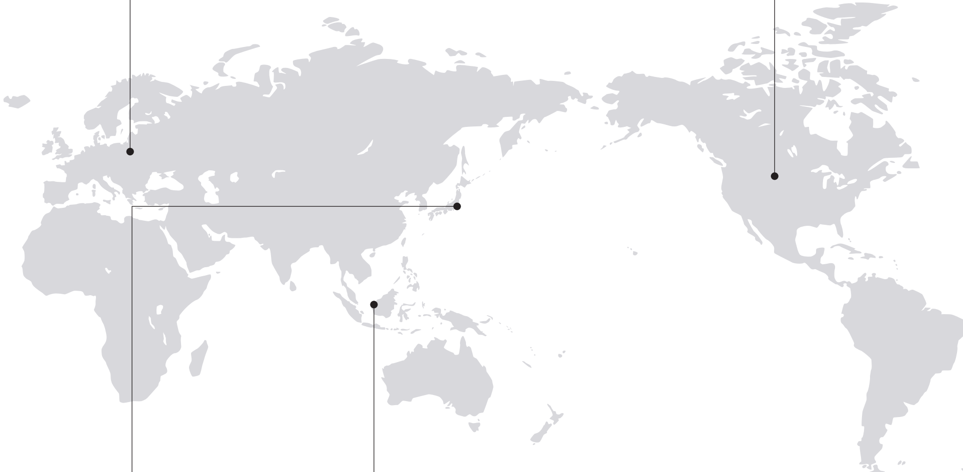
● **Kaneka New York Holding Company, Inc.**
Holding company for Kaneka Nutrients L.P., Kaneka America LLC and Kaneka Pharma America LLC

● **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>**
Sales and manufacture of synthetic fibers

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

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

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

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

● **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

■ **Kanepearl Service 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

■ **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.**
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

■ **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

KANEKA CORPORATION

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1-12-32, Akasaka, Minato-ku, Tokyo 107-6025, Japan
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DATE OF ESTABLISHMENT

September 1, 1949

NUMBER OF EMPLOYEES (as of March 31, 2010)

3,310 (Kaneka Corporation)
7,715 (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, 2010)

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 & Co.
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

22,660

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

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

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