



## Quarterly Financial Results for the First Quarter, Ended June 30, 2011 (Japanese GAAP, Consolidated)

July 28, 2011

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Osaka, Nagoya

Code Number: 4118

URL <http://www.kaneka.co.jp>

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Scheduled date for submitting financial statements : August 11, 2011

Scheduled date of dividend distribution : —

Supplementary materials available on quarterly financial results: Yes

Quarterly results briefing: Yes (For analysts)

Note: Figures have been rounded down to the nearest million yen.

### 1. Consolidated Business Performance for the First Quarter, Ended June 30, 2011

(from April 1, 2011 to June 30, 2011)

(1) Consolidated business performance (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
Apr. 2011 – Jun. 2011	118,977	5.4	3,637	(42.5)	3,490	(51.3)	2,212	(51.7)
Apr. 2010 – Jun. 2010	112,832	13.7	6,322	48.4	7,169	66.2	4,581	72.7

Note: Comprehensive income: ¥1,406 million (—%) as of June 30, 2011,  
¥195 million (—%) as of June 30, 2010

	Net income per share	Fully diluted net income per share
Apr. 2011 – Jun. 2011	¥ 6.53	¥ 6.52
Apr. 2010 – Jun. 2010	13.51	13.50

### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
Apr. 2011 – Jun. 2011	¥million 458,919	¥million 260,455	54.6%
Apr. 2010 – Mar. 2011	455,140	261,828	55.4

(Reference) Shareholders' equity: ¥250,683 million as of June 30, 2011,  
¥252,114 million as of March 31, 2011

### 2. Dividends

(Record date)	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2010 – Mar. 2011	¥ —	¥ 8.00	¥ —	¥ 8.00	¥ 16.00
Apr. 2011 – Mar. 2012	—				
Apr. 2011 – Mar. 2012 (Forecasts)		8.00	—	8.00	16.00

Note: Changes in dividend forecast during the quarter under review: No

### 3. Forecast for consolidated business performance in the term ending March 31, 2012

(from April 1, 2011 to March 31, 2012)

(Percentage figures represent changes from the corresponding periods of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
First half	230,000	2.5	9,000	(13.9)	8,500	(21.3)	4,500	(28.4)	13.28
Full year	500,000	10.2	25,000	17.7	23,500	12.0	13,000	11.8	38.36

Note: Revisions to consolidated business performance forecasts during the quarter under review: No

#### 4. Other

(1) Changes in principal subsidiaries during the term: No

(2) Application of simplified methods of accounting and specific accounting methods: No

(3) Changes in accounting principles, changes in estimates, or restatements

1. Changes owing to revisions in accounting standards: No

2. Changes other than 1. above: No

3. Changes in accounting estimates: No

4. Restatements: No

(4) Number of shares outstanding (common stock)

1. Number of shares issued at the end of the period (including treasury stock):

2. Shares of treasury stock at the end of the period:

3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year)

June 30, 2011	350,000,000 shares	March 31, 2011	350,000,000 shares
June 30, 2011	11,074,122 Shares	March 31, 2011	11,082,130 shares
June 30, 2011	338,929,053 shares	June 30, 2010	339,225,538 shares

#### (Disclosure of Implementation Status of Quarterly Review Procedures)

This report of quarterly financial results is outside the scope of the quarterly review procedures prescribed in the Financial Instruments and Exchange Act. As of the date of this report, the quarterly review procedures prescribed in the Financial Instruments and Exchange Act were not complete.

#### (Explanations or other items pertaining to appropriate use of operating result forecasts)

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. For cautionary items used in operating results forecasts, please refer to the section entitled "Forecast for Consolidated Business Performance" on page 4 of the Supplementary Materials to the quarterly financial results.

[Supplementary Materials]

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## 1. Quarterly Consolidated Business Performance

### (1) Consolidated Business Performance

During the first three months under review (April 1, 2011 to June 30, 2011), the Kaneka Group reported consolidated net sales of ¥118,977 million (up 5.4% year on year). Operating income, however, was ¥3,637 million (down 42.5% year on year), and ordinary income decreased 51.3% to ¥3,490 million. Net income declined to ¥2,212 million, down 51.7% year on year.

By segment, sales declined in the Expandable Plastics and Products and Life Science Products segments, both of which were heavily impacted by falling demand triggered by the Great East Japan Earthquake. Sales increased, however, in the Chemicals, Functional Plastics, Foodstuffs Products, Electronic Products, Synthetic Fibers and Others segments. Similarly, while operating income rose in the Chemicals, Functional Plastics, Synthetic Fibers and Others segments, earnings in the Expandable Plastics and Products, Foodstuffs Products, Life Science Products and Electronic Products segments were lower year on year.

Operating performance by business segment was as follows.

#### 1) Chemicals

PVC resins experienced top- and bottom-line growth year on year, reflecting sales volume expansion in the Japanese market and a focus on selling price adjustments in line with rising raw material costs. Specialty PVC resins, meanwhile, reported earnings growth despite a drop in sales volumes for Asian markets. This came as performance was boosted by increased sales volume in the Japanese market, coupled with contributions to performance mainly from cost reductions. In caustic soda, shipment volume was lower compared to the same period a year earlier.

As a result of the abovementioned factors, segment sales increased ¥934 million, or 4.3%, year on year to ¥22,727 million. The segment posted operating income of ¥1,020 million, increasing ¥490 million, or 92.4%, year on year.

#### 2) Functional Plastics

In modifiers, in tandem with firm demand in the U.S. and European markets and robust demand in Japan and other Asian markets as well, the Kaneka Group took extensive steps to differentiate its products and bolster the earnings structure in this business, including through cost reductions. Business was strongly impacted, however, by higher raw material costs and the strong yen, which led to lower earnings despite higher sales. In spite of weak construction-related demand in the U.S., Europe and Japan, modified silicone polymers recorded higher sales and earnings, as sales volume expansion in each market covered the effects of higher raw material costs and the yen's appreciation.

As a result, segment sales increased ¥2,508 million, or 14.3%, to ¥20,032 million. The segment posted operating income of ¥2,088 million, increasing ¥39 million, or 1.9%, year on year.

#### 3) Expandable Plastics and Products

Sales of expandable polystyrene were strongly impacted by lackluster demand for fishing industry applications in Japan's Tohoku and Kanto regions due to the March 2011 disaster. In extruded polystyrene foam boards, along with increased sales volume for housing market applications in Japan, the Group worked extensively to cut manufacturing costs and expenses in response to rising raw material costs. Polyolefin foam by beads method, meanwhile was impacted by lower demand linked to supply chain stoppages in the automobile sector, culminating in lackluster demand in the Japanese, Asian and European markets.

As a result of the abovementioned factors, segment sales decreased ¥12 million, or 0.1%, year on year to ¥13,873 million. The segment posted operating income of ¥670 million, declining ¥499 million, or 42.7%, compared to a year earlier.

#### 4) Foodstuffs Products

Demand for foodstuffs continued to struggle, reflecting consumer belt-tightening and an increased preference for lower-priced items. In this climate, the Group recorded increased sales volume on expanded sales of new products and strove to reduce costs. This business was severely impacted, however, by rising prices for oils, fats and other raw materials.

As a result, segment sales increased ¥2,491 million, or 8.1%, year on year to ¥33,070 million. The segment posted operating income of ¥1,623 million, decreasing ¥666 million, or 29.1%, year on year.

#### 5) Life Science Products

In medical devices, sales in the intervention business increased steadily. In bulk and intermediate pharmaceuticals, sales volumes overseas were lower compared to a year ago. In functional foodstuffs, sales volume rose for high-performance products primarily for the U.S. market.

As a result of the abovementioned factors, segment sales fell ¥464 million, or 3.9%, year on year to ¥11,532 million. The segment posted operating income of ¥1,685 million, representing a year-on-year decrease of ¥950 million, or 36.1%.

#### 6) Electronic Products

Although sales volume for optical films increased largely atop growth in new applications, ultra heat-resistant polyimide film sales volume declined year on year on stagnant demand in Japan's electronic products market caused by the March 2011 disaster. In solar cells, while sales volumes to European and Asian markets declined due to downward pressure on prices triggered by intensified competition, sales volume in the Japanese market steadily increased.

As a result of the abovementioned factors, segment sales increased ¥30 million, or 0.3%, to ¥9,939 million. The segment posted an operating loss of ¥1,421 million.

#### 7) Synthetic Fibers and Others

Sales volume for synthetic fibers increased year on year, buoyed by firm demand in overseas markets despite being significantly impacted by a strong yen and rising raw material costs. In parallel, the Group sought to secure profits by revising selling prices and cutting costs, leading ultimately to higher sales and earnings. The Others segment also remained profitable.

As a result, segment sales increased ¥656 million, or 9.2%, year on year to ¥7,803 million. The segment posted operating income of ¥399 million, a year-on-year increase of ¥60 million, or 17.9%.

## (2) Consolidated Financial Position

### 1) Status of Assets, Liabilities and Equity

Total assets were ¥458,919 million as of June 30, 2011, up ¥3,778 million compared with March 31, 2011. Interest-bearing debt totaled ¥67,479 million, up ¥884 million. Net assets decreased ¥1,373 million, to ¥260,455 million, mainly from decreases in the valuation difference on available-for-sale securities and foreign currency translation adjustment.

### 2) Consolidated Cash Flows

Net cash provided by operating activities during the first three months of the year was ¥5,230 million, due to an increase in income before income taxes and minority interests and depreciation and amortization, while net cash used in investing activities amounted to ¥5,458 million, owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥1,788 million, used mainly for cash dividends paid. As a result, cash and cash equivalents as of June 30, 2011, totaled ¥35,428 million.

### (3) Forecast for Consolidated Business Performance

The operating environment during the first three months of the year saw economic activity in Japan languish, the result mainly of supply chain stoppages, a nuclear accident, and subsequent uncertainty surrounding electric power supplies, triggered by the Great East Japan Earthquake. Europe and the U.S., meanwhile, posted modest economic gains, even as China and other Asian markets continued to move toward robust economic expansion. In terms of forthcoming economic conditions, while demand from post-disaster recovery efforts in Japan is expected to enter a full-scale phase, concerns persist regarding financial instability in Europe and possible economic slowdowns in the U.S. and Asia. Together with trends in exchange rates and resource prices, the outlook remains an extremely uncertain one going forward.

Under these circumstances, the Kaneka Group will continue to focus efforts on minimizing the business impact of the Great East Japan Earthquake. At the same time, the Group is taking intensive action to secure earnings in each business segment. These efforts include promoting measures to boost sales volumes, as well as reducing manufacturing costs and operating expenses.

The Group has made no changes at this time to first-half or full-year forecasts regarding consolidated business performance.

Note: The above performance forecasts are regarded as reasonable on the basis of information available at the time of announcement. Readers should therefore be aware that actual results may vary from these forecasts due to various uncertainties.

## 2. Other Information

### Overview of Changes in Principal Subsidiaries

There were no changes in the scope of consolidation of specific subsidiaries during the first quarter under review.

### (Additional Information)

In anticipation of accounting changes and error corrections for past years that may occur after the first quarter under review, the Company has applied the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24, December 4, 2009) and the "Guidance on the Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24, December 4, 2009).

## 3. Quarterly Consolidated Financial Statements

## (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2010	FY2011 1st Quarter
	Term ended March 31, 2011	Term ended June 30, 2011
<b>Assets</b>		
Current assets		
Cash and deposits	37,685	35,634
Notes and accounts receivable—trade	103,891	105,105
Short-term investment securities	322	322
Merchandise and finished goods	38,023	42,915
Work in process	8,017	8,297
Raw materials and supplies	22,112	21,827
Other	12,772	14,507
Allowance for doubtful accounts	(400)	(336)
<b>Total current assets</b>	<b>222,425</b>	<b>228,275</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	53,856	53,271
Machinery, equipment and vehicles, net	64,264	62,303
Other, net	44,945	46,600
<b>Total property, plant and equipment</b>	<b>163,065</b>	<b>162,175</b>
Intangible assets		
Goodwill	4,436	4,331
Other	2,763	2,761
<b>Total intangible assets</b>	<b>7,199</b>	<b>7,093</b>
Investments and other assets		
Investment securities	46,438	45,051
Other	16,581	16,888
Allowance for doubtful accounts	(568)	(564)
<b>Total investments and other assets</b>	<b>62,450</b>	<b>61,375</b>
<b>Total noncurrent assets</b>	<b>232,715</b>	<b>230,644</b>
<b>Total assets</b>	<b>455,140</b>	<b>458,919</b>

(Millions of yen)

	FY2010 Term ended March 31, 2011	FY2011 1st Quarter Term ended June 30, 2011
<b>Liabilities</b>		
<b>Current liabilities</b>		
Notes and accounts payable-trade	60,771	62,582
Short-term loans payable	21,176	21,991
Income taxes payable	4,145	2,197
Provision	1,104	909
Other	39,369	44,430
<b>Total current liabilities</b>	<b>126,566</b>	<b>132,111</b>
<b>Noncurrent liabilities</b>		
Bonds payable	15,143	15,060
Long-term loans payable	26,095	26,254
Provision for retirement benefits	19,228	19,032
Provision	320	315
Negative goodwill	639	587
Other	5,318	5,103
<b>Total noncurrent liabilities</b>	<b>66,745</b>	<b>66,353</b>
<b>Total liabilities</b>	<b>193,311</b>	<b>198,464</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	33,046	33,046
Capital surplus	34,836	34,836
Retained earnings	197,462	196,962
Treasury stock	(9,760)	(9,755)
<b>Total shareholders' equity</b>	<b>255,585</b>	<b>255,090</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	6,677	6,005
Foreign currency translation adjustment	(10,148)	(10,413)
<b>Total accumulated other comprehensive income</b>	<b>(3,471)</b>	<b>(4,407)</b>
Subscription rights to shares	127	127
Minority interests	9,587	9,644
<b>Total net assets</b>	<b>261,828</b>	<b>260,455</b>
<b>Total liabilities and net assets</b>	<b>455,140</b>	<b>458,919</b>



## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income	(Millions of yen)	
	FY2010 1st Quarter	FY2011 1st Quarter
	From April 1, 2010 to June 30, 2010	From April 1, 2011 to June 30, 2011
Net sales	112,832	118,977
Cost of sales	84,094	90,802
Gross profit	28,737	28,174
Selling, general and administrative expenses	22,415	24,537
Operating income	6,322	3,637
Non-operating income		
Dividend income	421	498
Foreign exchange gains	—	2
Equity in earnings of affiliates	883	87
Other	527	234
Total non-operating income	1,833	823
Non-operating expenses		
Interest expenses	212	239
Loss on retirement of noncurrent assets	294	242
Foreign exchange losses	193	—
Other	285	487
Total non-operating expenses	986	969
Ordinary income	7,169	3,490
Extraordinary loss		
Loss on valuation of investment securities	515	—
Total extraordinary losses	515	—
Income before income taxes and minority interests	6,654	3,490
Income taxes—current	2,784	1,464
Income taxes—deferred	(984)	(331)
Total income taxes	1,800	1,132
Income before minority interests	4,853	2,357
Minority interests in income	271	145
Net income	4,581	2,212

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2010 1st Quarter From April 1, 2010 to June 30, 2010	FY2011 1st Quarter From April 1, 2011 to June 30, 2011
Income before minority interests	4,853	2,357
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,483)	(674)
Foreign currency translation adjustment	(2,552)	(275)
Share of other comprehensive income of associates accounted for using equity method	(12)	(1)
Total other comprehensive income	(5,049)	(951)
Comprehensive income	(195)	1,406
Comprehensive income attributable to:		
Comprehensive income attributable to owners of the parent	(280)	1,275
Comprehensive income attributable to minority interests	84	130

## (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	FY2010 1st Quarter From April 1, 2010 to June 30, 2010	FY2011 1st Quarter From April 1, 2011 to June 30, 2011
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes and minority interests	6,654	3,490
Depreciation and amortization	6,315	6,859
Increase (decrease) in provision for retirement benefits	(526)	(190)
Increase (decrease) in allowance for doubtful accounts	(194)	(66)
Interest and dividend income	(446)	(526)
Interest expenses	212	239
Equity in (earnings) losses of affiliates	(883)	(87)
Loss (gain) on disposal of noncurrent assets	211	382
Loss (gain) on valuation of investment securities	515	—
Decrease (increase) in notes and accounts receivable-trade	(982)	(1,400)
Decrease (increase) in inventories	1,606	(5,007)
Increase (decrease) in notes and accounts payable-trade	(552)	1,899
Other, net	3,851	3,356
<b>Subtotal</b>	<b>15,779</b>	<b>8,949</b>
Interest and dividends income received	472	554
Interest expenses paid	(118)	(132)
Income taxes paid	(3,181)	(4,141)
<b>Net cash provided by (used in) operating activities</b>	<b>12,952</b>	<b>5,230</b>
<b>Net cash provided by (used in) investing activities</b>		
Purchase of property, plant and equipment	(5,558)	(5,849)
Purchase of intangible assets	(133)	(169)
Purchase of investment securities	(855)	(11)
Proceeds from sales of investment securities	—	410
Purchase of stocks of subsidiaries and affiliates	(457)	(328)
Proceeds from sales of stocks of subsidiaries and affiliates	—	98
Payments of loans receivable	(112)	(27)
Collection of loans receivable	28	193
Other, net	(46)	225
<b>Net cash provided by (used in) investing activities</b>	<b>(7,134)</b>	<b>(5,458)</b>

	(Millions of yen)	
	FY2010 1st Quarter	FY2011 1st Quarter
	From April 1, 2010 to June 30, 2010	From April 1, 2011 to June 30, 2011
<b>Net cash provided by (used in) financing activities</b>		
Net increase (decrease) in short-term loans payable	(248)	871
Proceeds from long-term loans payable	—	771
Repayment of long-term loans payable	(189)	(469)
Redemption of bonds	—	(89)
Repayments of lease obligations	(111)	(116)
Cash dividends paid	(2,714)	(2,711)
Cash dividends paid to minority shareholders	(27)	(41)
Purchase of treasury stock	(10)	(4)
Proceeds from sales of treasury stock	0	0
<b>Net cash provided by (used in) financing activities</b>	<b>(3,300)</b>	<b>(1,788)</b>
Effect of exchange rate change on cash and cash equivalents	(474)	467
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>2,042</b>	<b>(1,549)</b>
Cash and cash equivalents at beginning of period	40,513	36,978
<b>Cash and cash equivalents at end of period</b>	<b>42,555</b>	<b>35,428</b>

(4) Notes on the Premise of a Going Concern  
No corresponding transactions

(5) Segment Information  
Term from April 1, 2010 to June 30, 2010  
1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales						a				
Customers	21,792	17,524	13,885	30,578	11,996	9,908	7,147	112,832	—	112,832
Intersegment	726	112	33	0	88	141	350	1,453	(1,453)	—
Total	22,519	17,636	13,919	30,578	12,084	10,049	7,497	114,285	(1,453)	112,832
Segment income (loss)	530	2,048	1,169	2,289	2,635	(861)	339	8,150	(1,828)	6,322

(Note) Segment profit or loss is reconciled with operating income on the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)  
(Millions of yen)

Income	Amount
Segment total	8,150
Elimination of intersegment transactions	(17)
Companywide expenses (Note)	(1,756)
Other adjustments	(53)
Operating income in the quarterly consolidated statements of income	6,322

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

Term from April 1, 2011 to June 30, 2011

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	22,727	20,032	13,873	33,070	11,532	9,939	7,803	118,977	—	118,977
Intersegment	633	160	56	0	8	362	387	1,609	(1,609)	—
Total	23,360	20,193	13,929	33,070	11,540	10,301	8,190	120,587	(1,609)	118,977
Segment income (loss)	1,020	2,088	670	1,623	1,685	(1,421)	399	6,065	(2,428)	3,637

(Note) Segment profit or loss is reconciled with operating income on the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	6,065
Elimination of intersegment transactions	(2)
Companywide expenses (Note)	(2,421)
Other adjustments	(4)
Operating income in the quarterly consolidated statements of income	3,637

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

(6) Notes in the Event of Significant Changes in the Amount of Shareholders' Equity

Nothing to report