



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

October 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 : November 11, 2011 Scheduled date of dividend distribution : December 5, 2011

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 Second Quarter, Ended September 30, 2011

(from April 1, 2011 to September 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 – Sep. 2011	234,848	4.7	6,438	(38.4)	5,776	(46.5)	2,842	(54.8)
Apr. 2010 – Sep. 2010	224,307	11.1	10,448	30.3	10,802	49.5	6,288	57.7

Note: Comprehensive income: (¥2,823) million (—%) as of September 30, 2011,  
¥1,040 million (—%) as of September 30, 2010

	Net income per share	Fully diluted net income per share
Apr. 2011 – Sep. 2011	¥ 8.39	¥ 8.38
Apr. 2010 – Sep. 2010	18.54	18.53

### (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
Apr. 2011 – Sep. 2011	¥million 447,097	¥million 256,216	55.1%
Apr. 2010 – Mar. 2011	455,140	261,828	55.4%

(Reference) Shareholders' equity: ¥246,543 million as of September 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	—	8.00			
Apr. 2011 – Mar. 2012 (Forecasts)			—	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	%	¥
Full year	485,000	6.9	17,500	(17.6)	15,500	(26.1)	7,500	(35.5)	22.13

Note: Revisions to consolidated business performance forecasts during the quarter under review: Yes

#### 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)

September 30, 2011	350,000,000 shares	March 31, 2011	350,000,000 shares
September 30, 2011	11,043,777 Shares	March 31, 2011	11,082,130 shares
September 30, 2011	338,938,626 shares	September 30, 2010	339,177,595 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 business performance forecasts)

The business performance 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 business performance 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 six months under review (April 1, 2011 to September 30, 2011), the Kaneka Group reported consolidated net sales of ¥234,848 million (up 4.7% year on year). Operating income, however, was ¥6,438 million (down 38.4% year on year), and ordinary income decreased 46.5% to ¥5,776 million. Net income declined to ¥2,842 million, down 54.8% year on year, reflecting the posting of a loss on the sales of noncurrent assets as an extraordinary loss, among other factors.

By segment, sales declined in Electronic Products; however, sales increased in the Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products segments, Synthetic Fibers and Others segments. While operating income rose in the Chemicals, Synthetic Fibers and Others segments, earnings in the Functional Plastics, 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 and fuel costs. Specialty PVC resins reported sales and earnings growth. This came as performance was boosted by increased sales volume in the Japanese market, coupled with contributions to performance from cost reductions among other factors. In caustic soda, demand in the Japanese market increased compared to the same period a year earlier.

As a result of the abovementioned factors, segment sales increased ¥3,092 million, or 7.2%, year on year to ¥45,895 million. The segment posted operating income of ¥1,274 million, increasing ¥577 million, or 82.8%, year on year.

#### 2) Functional Plastics

In modifiers, in response to weak demand in Japanese and overseas markets, 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 ¥2,322 million, or 6.6%, to ¥37,572 million. The segment posted operating income of ¥3,802 million, declining ¥430 million, or 10.2%, year on year.

#### 3) Expandable Plastics and Products

Sales of expandable polystyrene resins and products were strongly impacted by lackluster demand for fishing industry applications in Japan's Tohoku and Kanto regions due to the March 2011 earthquake. In extruded polystyrene foam boards, amid struggling demand from Japan's housing market, the Group worked extensively to expand sales volume, as well as 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 and other disruptions from the earthquake in the automobile sector, culminating in lackluster demand in the Japanese, Asian and European markets.

As a result of the abovementioned factors, segment sales increased ¥7 million, or 0.0%, year on year to ¥28,734 million. The segment posted operating income of ¥1,897 million, declining ¥998 million, or 34.5%, compared to a year earlier.

#### 4) Foodstuffs Products

This business was severely impacted by persistently high prices of oils, fats and other raw materials, as well as the growing presence of low-priced products in the product mix. The latter reflected increased preference among consumers for lower-priced items. This was despite extensive effort by the Group to increase sales volume on expanded sales of new products, revise product pricing and reduce costs.

As a result, segment sales increased ¥4,397 million, or 7.3%, year on year to ¥64,495 million. The segment posted operating income of ¥2,508 million, decreasing ¥1,464 million, or 36.9%, year on year.

#### 5) Life Science Products

In medical devices, sales in the vascular intervention business increased steadily. In bulk and intermediate pharmaceuticals, sales volumes were lackluster. In functional foodstuffs, sales volume rose for high-performance products primarily for the U.S. market, but also in Europe and Japan, even as the Group focused on reducing costs.

As a result of the abovementioned factors, segment sales increased ¥266 million, or 1.2%, year on year to ¥23,289 million. The segment posted operating income of ¥3,869 million, representing a year-on-year decrease of ¥318 million, or 7.6%.

#### 6) Electronic Products

Although sales volume for optical films increased atop growth in new applications, ultra heat-resistant polyimide film sales volume declined year on year on stagnant demand in the electronic products market caused by the March 2011 disaster and the spread of global economic uncertainty in Europe, the U.S. and other markets. In solar cells, amid weak demand in overseas markets, downward pressure on prices triggered by intensified competition, and the yen strengthening, sales volumes to European and Asian markets declined, while sales volume in the Japanese market steadily increased. Shipments of solar cell-related material were also lackluster.

As a result of the abovementioned factors, segment sales decreased ¥1,054 million, or 5.2%, to ¥19,387 million. The segment posted an operating loss of ¥2,557 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. Earnings were higher for the Others segment, as well.

As a result, segment sales increased ¥1,509 million, or 10.8%, year on year to ¥15,474 million. The segment posted operating income of ¥656 million, a year-on-year increase of ¥69 million, or 11.8%.

## (2) Consolidated Financial Position

## 1) Status of Assets, Liabilities and Equity

Total assets were ¥447,097 million as of September 30, 2011, down ¥8,043 million compared with March 31, 2011. Interest-bearing debt totaled ¥63,967million, down ¥2,626 million. Net assets decreased ¥5,612 million, to ¥256,216 million, from decreases including 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 six months of the year was ¥2,833 million, due to income before income taxes and minority interests, and depreciation and amortization, among other factors, while net cash used in investing activities amounted to ¥14,428 million, owing to the acquisition of property, plant and equipment, among other outlays. Net cash used in financing activities came to ¥4,547 million, used for the redemption of corporate bonds, among other outlays. As a result, cash and cash equivalents as of September 30, 2011, totaled ¥21,350 million.

## (3) Forecast for Consolidated Business Performance

The Kaneka Group's operating environment since April 1, 2011 has been strongly affected by weakened demand and other adverse impacts in the wake of the Great East Japan Earthquake, rising material costs and the yen continuing to strengthen. In terms of forthcoming economic conditions, while demand from post-disaster recovery efforts in Japan is expected to enter a full-scale phase, concerns in the global economy persist regarding financial instability in Europe, economic conditions worsening in the U.S. and possible economic slowdowns in China and the emerging markets in Asia and other parts of the world. Together with trends in exchange rates, the international stock and financial markets and others, the outlook remains an extremely uncertain one going forward.

The Kaneka Group has done all that it can in taking intensive action to secure earnings in each business segment. These efforts include measures to boost sales volumes, reduce manufacturing costs and operating expenses, and counter the yen's appreciation. But under the circumstances, despite these efforts, the Company now sees a need to revise its full-year forecast for consolidated business performance lower than previously forecast.

With regard to exchange rates and raw material prices, forecast figures assume an exchange rate of ¥75 to the U.S. dollar, ¥105 to the euro and a domestic naphtha price of ¥51,000 per kiloliter from October 1, 2011 onward.

## Revisions to forecast for consolidated business performance in the term ending March 31, 2012

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

	Net sales	Operating income	Ordinary income	Net income	Net income per share
	¥ million	¥ million	¥ million	¥ million	¥
Previous forecast (A)	500,000	25,000	23,500	13,000	38.36
Current forecast (B)	485,000	17,500	15,500	7,500	22.13
Change (B-A)	(15,000)	(7,500)	(8,000)	(5,500)	—
Percentage change (%)	(3.0%)	(30.0%)	(34.0%)	(42.3%)	—
(Reference: Year ended March 31, 2009)	453,826	21,235	20,983	11,625	34.28

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

(1) Changes in principal subsidiaries during the term

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

(2) Application of simplified methods of accounting and specific accounting methods

Nothing to report

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

Nothing to report

(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 2nd Quarter
	Term ended March 31, 2011	Term ended September 30, 2011
<b>Assets</b>		
Current assets		
Cash and deposits	37,685	21,690
Notes and accounts receivable-trade	103,891	106,441
Short-term investment securities	322	322
Merchandise and finished goods	38,023	44,376
Work in process	8,017	8,077
Raw materials and supplies	22,112	22,411
Other	12,772	14,705
Allowance for doubtful accounts	(400)	(211)
<b>Total current assets</b>	<b>222,425</b>	<b>217,813</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	53,856	52,842
Machinery, equipment and vehicles, net	64,264	62,816
Other, net	44,945	46,280
<b>Total property, plant and equipment</b>	<b>163,065</b>	<b>161,940</b>
Intangible assets		
Goodwill	4,436	4,067
Other	2,763	3,080
<b>Total intangible assets</b>	<b>7,199</b>	<b>7,148</b>
Investments and other assets		
Investment securities	46,438	42,306
Other	16,581	18,473
Allowance for doubtful accounts	(568)	(584)
<b>Total investments and other assets</b>	<b>62,450</b>	<b>60,195</b>
<b>Total noncurrent assets</b>	<b>232,715</b>	<b>229,283</b>
<b>Total assets</b>	<b>455,140</b>	<b>447,097</b>



(Millions of yen)

	FY2010	FY2011 2nd Quarter
	Term ended March 31, 2011	Term ended September 30, 2011
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	60,771	59,650
Short-term loans payable	21,176	28,074
Income taxes payable	4,145	2,874
Provision	1,104	766
Other	39,369	37,553
Total current liabilities	126,566	128,918
Noncurrent liabilities		
Bonds payable	15,143	15,000
Long-term loans payable	26,095	21,886
Provision for retirement benefits	19,228	19,306
Provision	320	314
Negative goodwill	639	535
Other	5,318	4,919
Total noncurrent liabilities	66,745	61,962
Total liabilities	193,311	190,880
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,836	34,836
Retained earnings	197,462	197,580
Treasury stock	(9,760)	(9,726)
Total shareholders' equity	255,585	255,738
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	6,677	4,226
Foreign currency translation adjustment	(10,148)	(13,430)
Total accumulated other comprehensive income	(3,471)	(9,204)
Subscription rights to shares	127	137
Minority interests	9,587	9,545
Total net assets	261,828	256,216
Total liabilities and net assets	455,140	447,097

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

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2010 2nd Quarter	FY2011 2nd Quarter	
	From April 1, 2010 to September 30, 2010	From April 1, 2011 to September 30, 2011	
Net sales	224,307	234,848	
Cost of sales	168,383	179,795	
Gross profit	55,923	55,053	
Selling, general and administrative expenses	45,475	48,614	
Operating income	10,448	6,438	
Non-operating income			
Dividends income	556	651	
Equity in earnings of affiliates	1,080	183	
Other	747	574	
Total non-operating income	2,384	1,410	
Non-operating expenses			
Interest expenses	440	449	
Loss on retirement of noncurrent assets	567	512	
Foreign exchange losses	234	91	
Other	787	1,019	
Total non-operating expenses	2,030	2,072	
Ordinary income	10,802	5,776	
Extraordinary loss			
Loss on sales of noncurrent assets	—	243	
Loss on valuation of investment securities	628	—	
Total extraordinary losses	628	243	
Income before income taxes and minority interests	10,173	5,533	
Income taxes-current	3,292	2,412	
Income taxes-deferred	98	3	
Total income taxes	3,390	2,415	
Income before minority interests	6,783	3,117	
Minority interests in income	494	275	
Net income	6,288	2,842	

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2010 2nd Quarter From April 1, 2010 to September 30, 2010	FY2011 2nd Quarter From April 1, 2011 to September 30, 2011
Income before minority interests	6,783	3,117
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,166)	(2,477)
Foreign currency translation adjustment	(2,560)	(3,460)
Share of other comprehensive income of associates accounted for using equity method	(15)	(2)
Total other comprehensive income	(5,743)	(5,941)
Comprehensive income	1,040	(2,823)
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	678	(2,890)
Comprehensive income attributable to minority interests	361	66

## (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	FY2010 2nd Quarter From April 1, 2010 to September 30, 2010	FY2011 2nd Quarter From April 1, 2011 to September 30, 2011
<b>Net cash provided by (used in) operating activities</b>		
Income before income taxes and minority interests	10,173	5,533
Depreciation and amortization	13,450	14,047
Increase (decrease) in provision for retirement benefits	(230)	113
Increase (decrease) in allowance for doubtful accounts	(110)	(164)
Interest and dividend income	(615)	(709)
Interest expenses	440	449
Equity in (earnings) losses of affiliates	(1,080)	(183)
Loss (gain) on disposal of noncurrent assets	337	620
Loss (gain) on valuation of investment securities	628	—
Decrease (increase) in notes and accounts receivable—trade	(3,723)	(3,884)
Decrease (increase) in inventories	575	(7,905)
Increase (decrease) in notes and accounts payable—trade	1,476	(521)
Other, net	1,886	(687)
<b>Subtotal</b>	<b>23,208</b>	<b>6,707</b>
Interest and dividend income received	632	740
Interest expenses paid	(435)	(453)
Income taxes paid	(2,879)	(4,160)
<b>Net cash provided by (used in) operating activities</b>	<b>20,526</b>	<b>2,833</b>
<b>Net cash provided by (used in) investing activities</b>		
Purchase of property, plant and equipment	(12,483)	(13,635)
Proceeds from sales of property, plant and equipment	—	849
Purchase of intangible assets	(476)	(1,176)
Purchase of investment securities	(995)	(129)
Proceeds from sales of investment securities	6	528
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(3,878)	—
Purchase of stocks of subsidiaries and affiliates	(1,191)	(928)
Proceeds from sales of stocks of subsidiaries and affiliates	98	98
Payments of loans receivable	(624)	(50)
Collection of loans receivable	38	158
Other, net	454	(142)
<b>Net cash provided by (used in) investing activities</b>	<b>(19,053)</b>	<b>(14,428)</b>

(Millions of yen)

	FY2010 2nd Quarter From April 1, 2010 to September 30, 2010	FY2011 2nd Quarter From April 1, 2011 to September 30, 2011
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	2,103	2,325
Proceeds from long-term loans payable	1,170	2,066
Repayment of long-term loans payable	(1,409)	(782)
Redemption of bonds	—	(5,149)
Repayments of lease obligations	(257)	(210)
Cash dividends paid	(2,714)	(2,711)
Cash dividends paid to minority shareholders	(89)	(77)
Purchase of treasury stock	(11)	(8)
Proceeds from sales of treasury stock	1	
Net cash provided by (used in) financing activities	(1,207)	(4,547)
Effect of exchange rate change on cash and cash equivalents	120	514
Net increase (decrease) in cash and cash equivalents	385	(15,627)
Cash and cash equivalents at beginning of period	40,513	36,978
Cash and cash equivalents at end of period	40,899	21,350

(4) Notes on the Premise of a Going Concern  
No corresponding transactions(5) Segment Information  
Term from April 1, 2010 to September 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										
Customers	42,802	35,249	28,727	60,097	23,023	20,441	13,964	224,307	—	224,307
Intersegment	1,450	234	85	0	100	321	321	701	(2,895)	—
Total	44,252	35,484	28,813	60,098	23,123	20,763	14,666	227,202	(2,895)	224,307
Segment income (loss)	697	4,232	2,895	3,973	4,188	(2,390)	587	14,183	(3,734)	10,448

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

Income	Amount
Segment total	14,183
Elimination of intersegment transactions	(14)
Companywide expenses (Note)	(3,673)
Other adjustments	(46)
Operating income in the quarterly consolidated statements of income	10,448

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

3) Impairment Losses on Fixed Assets or Goodwill Pertaining to Individual Reporting Segments  
(Important change of Goodwill)

Relating to the Life Science Products segment, Kaneka Group acquired stocks of Eurogentec S.A.; Eurogentec S.A. has been included in the scope of consolidation and goodwill was incurred. The amount increased due to the change was ¥4,282 million.

Term from April 1, 2011 to September 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		
<b>Sales</b>										
Customers	45,895	37,572	28,734	64,495	23,289	19,387	15,474	234,848	—	234,848
Intersegment	1,185	295	100	0	8	692	778	3,062	(3,062)	—
<b>Total</b>	<b>47,081</b>	<b>37,867</b>	<b>28,834</b>	<b>64,496</b>	<b>23,298</b>	<b>20,079</b>	<b>16,253</b>	<b>237,910</b>	<b>(3,062)</b>	<b>234,848</b>
Segment income (loss)	1,274	3,802	1,897	2,508	3,869	(2,557)	656	11,452	(5,013)	6,438

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

(Millions of yen)

Income	Amount
Segment total	11,452
Elimination of intersegment transactions	(3)
Companywide expenses (Note)	(4,994)
Other adjustments	(14)
Operating income in the quarterly consolidated statements of income	6,438

(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