KANEKA

ANNUAL REPORT 2013

Year Ended March 31, 2013

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 fats and electrical wires. The Company later diversified into polymers, fermentation, biotechnology and electronics, as well as other fields. Business activities now span a broad spectrum of markets ranging from chemicals, functional plastics, expandable plastics and products, foodstuffs products, life science products, electronic products, synthetic fibers and others. 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, Germany, the United States, Singapore, Malaysia, Vietnam, China, India, South Korea, Taiwan and Australia.

CONTENTS

CONSOLIDATED FINANCIAL HIGHLIGHTS

KANEKA CORPORATION and Consolidated Subsidiaries

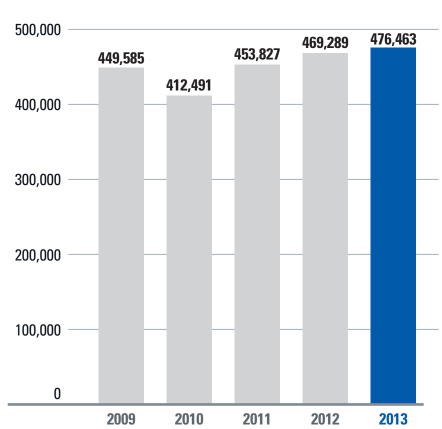
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2013	2012	2011	2010	2009	**2013**
Net sales	**¥476,463**	¥469,289	¥453,827	¥412,491	¥449,585	**$5,066,061**
Net income (loss)	**9,326**	5,402	11,625	8,406	(1,851)	**99,160**
Capital expenditures	**29,924**	33,108	29,250	24,322	33,979	**318,171**
Depreciation	**28,996**	29,409	28,717	26,210	27,163	**308,304**
Total assets	**484,457**	467,083	455,141	432,880	418,490	**5,151,058**
Net assets	**270,450**	257,461	261,829	257,175	249,529	**2,875,598**
Per Share of Common Stock:	Yen					U.S. dollars
Net income (basic)	**¥ 27.68**	¥ 15.96	¥ 34.28	¥ 24.78	¥ (5.45)	**$0.29**
Net income (diluted)	**27.65**	15.95	34.26	24.77	–	**0.29**
Cash dividends	**16.00**	16.00	16.00	16.00	16.00	**0.17**
Net assets	**773.39**	734.61	743.88	735.17	717.15	**8.2**
	%					%
Shareholders' equity ratio	**53.8%**	53.0%	55.4%	57.6%	58.1%	**53.8%**
Return on equity (ROE)	**3.7**	2.2	4.6	3.4	(0.7)	**3.7**
Return on assets (ROA)	**2.0**	1.2	2.6	1.9	(0.4)	**2.0**

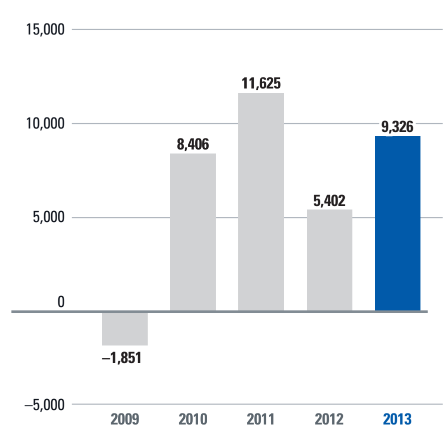
Note 1) The conversion of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of the reader, using the prevailing exchange rate on March 31, 2013, which was ¥94.05 to US$1.00.

Note 2) Return on equity is calculated on the basis of the average shareholders' equity at the current and previous fiscal year-ends.

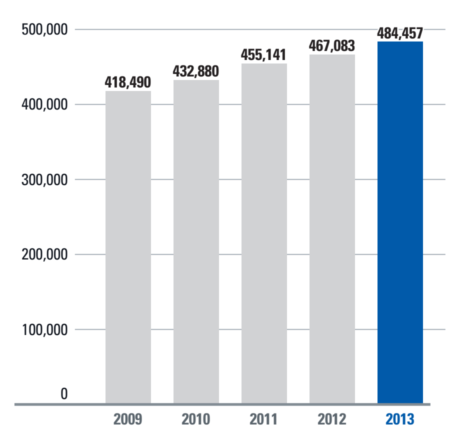
Net Sales
(Millions of yen)



Net Income
(Millions of yen)



Total Assets
(Millions of yen)



BUSINESS PERFORMANCE IN FY2013

In the fiscal year ended March 31, 2013, the global economy saw broader signs of a slowdown, mainly due to protracted European economic weakness, along with slower growth in China, India and other emerging markets.

The Japanese economy continued to face difficult conditions on the whole, as hopes for an economic recovery led by post-quake reconstruction demand have been slow to produce results. Moreover, the global economic slowdown, a deflationary environment and other factors have also taken a toll on Japan's economy.

In this economic environment, the Kaneka Group focused on strengthening its earnings structure mainly by bolstering R&D and driving faster globalization of its business operations.

As a result, the Kaneka Group delivered higher earnings on top-line growth for the fiscal year ended March 31, 2013. Net sales rose 1.5% year on year to ¥476,463 million. Operating income was ¥15,810 million, up 20.2%. Net income rose 72.6% to ¥9,326 million. In FY2013, we paid a dividend for the year of ¥16 per share.

MANAGEMENT POLICY

In September 2009, the Kaneka Group introduced the Declaration of Kaneka United as part of its long-term management vision. The declaration defines Kaneka's corporate philosophy as "With people and technology growing together into creative fusion, we will break fresh ground for the future and tie in to explore New Values. We are also committed to meeting the environmental challenges of our planet and helping 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, as we pursue new product development. In the process, we will strive to protect the global environment and contribute to people's quality of life, while fostering an even greater presence as a global company, including in the markets of emerging countries.

The Kaneka Group has defined the environment and energy, health care, information and communications and food production support as important strategic domains. The Kaneka Group is executing the following key management strategies: (1) Moving toward becoming an "R&D-type" company, (2) Growing in a global market, (3) Developing Group strategy, (4) Pursuing alliances, and (5) Prioritizing CSR. At the same time, the Kaneka Group is concentrating on transforming the Group's business portfolio and shifting into growth domains. The Group's aim is to achieve new growth and momentum, as set out in its long-term management vision. Under NEW ACT2014, a 3-year medium-term management plan running from April 1, 2012 to March 31, 2015, the Kaneka Group will transform business structures, R&D and production, and step up initiatives such as promoting global development in order to quickly move onto a growth trajectory.

In order to achieve the measures and Group performance targets set out in the long-term management vision, the Kaneka Group has positioned the following as key themes in the interim: raise earnings power by further strengthening existing businesses and making new businesses commercially viable quickly; develop market- and customer-centric business models; raise overall cost performance across value chains, including production, research, technology and sales; and accelerate globalization from a local perspective. By addressing these themes and implementing measures to create competitive business structures and a more attractive company, the Kaneka Group will meet the expectations of all stakeholders and transform itself into an even more highly regarded company.

PERFORMANCE FORECASTS

The global economic outlook remains highly uncertain, mainly based on concerns about protracted European economic weakness and slowing growth in China, India and other Asian countries, despite some signs of a U.S. economic recovery.

The Japanese economy is expected to see an improving business environment, reflecting economic policies implemented by Japan's new administration, as well as a correction in the yen's appreciation at this time. That said, the prospects for a full-fledged recovery still remain uncertain.

In this business environment, the Kaneka Group will invest management resources in key strategic fields, seeking to establish operations in the new areas of business that we expect to drive growth, and further strengthening global development. We will also focus on restructuring our businesses. Similarly, in existing businesses we will work to boost sales volumes mainly by launching new products, while striving to enhance competitiveness by lowering manufacturing and overhead costs in a bid to recover profitability. Our performance forecasts for the fiscal year ending March 31, 2014 are as follows:

CONSOLIDATED FORECASTS

Net sales: ¥530 billion (11.2% increase from the fiscal year ended March 31, 2013). Operating income: ¥30 billion (89.8% increase from the fiscal year ended March 31, 2013). Net income: ¥15 billion (60.9% increase from the fiscal year ended March 31, 2013).

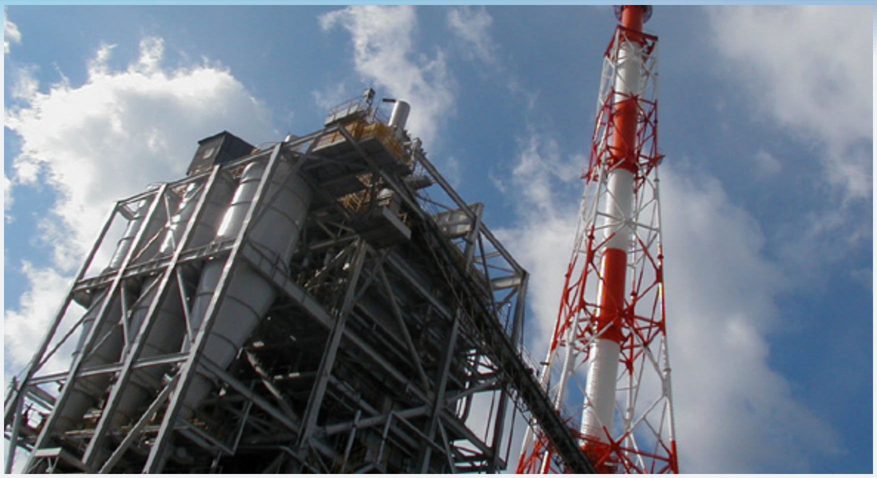
In closing, we would like to thank you in advance for your continued understanding and confidence in the Kaneka Group.

August 2013

K. Sugawara

Kimikazu Sugawara,
President

RENEWAL OF ON-SITE POWER GENERATION FACILITY AT TAKASAGO COMPLEX



This on-site power generation facility is being renewed

The Takasago Complex is the manufacturing facility that accounts for the majority of Kaneka's product lines and production value. It also consumes significantly more energy than our other domestic plants. Electric power used for the plant's production equipment and steam used for heating and sterilization in manufacturing processes are produced onsite with coal or city gas (natural gas) and supplemented with power purchased from power utilities. We have not relied predominantly on any specific energy source but have selected optimal supply sources depending on their various characteristics, the fuel situation at the time and other factors. In this way, we have then supplied energy to our operating divisions*1.

Fuel prices have been rising recently after having fallen in the wake of the financial crisis of 2008. Moreover, the majority of Japan's nuclear power plants were shut down in the aftermath of the nuclear disaster at Tokyo Electric's Fukushima Daiichi Nuclear Power plant in 2011, and the situation regarding their reactivation is still unclear. Thus, the energy situation has changed significantly. In order to continue to conduct stable production activities at the Takasago Complex and provide support for further business expansion amid such conditions, it is extremely important to be able to secure low-cost energy in a stable manner. The energy options remain the same, but in order to more efficiently conduct operations with an optimal balance, we have committed to further improving the capacity of cogeneration*2 facilities and upgrading steam turbine*3 power facilities that are over 40 years old and have deteriorated. New energy supply facilities that use city gas will have power generating capacity of 30,000 kilowatts (equivalent to the energy consumed by 70,000 regular households) and will generate 100 tons of steam per hour. In addition, the power output of the upgraded steam turbines will be 60,000 kilowatts and possess a higher generating efficiency than did the old turbines.

Putting these new facilities into operation will enable us to procure energy in a stable manner and keep us from being overly impacted by fluctuations in fuel prices while also improving our energy efficiency by 3.4%. They will also help us comply with the Act on the Rational Use of Energy (Energy Saving Act), which requires general progress on rationalization of energy use at factories and other facilities. The investment takes advantage of a subsidy program from the Ministry of Economy, Trade and Industry that provides support for business operators intending to rationalize energy use. The new facilities are slated to go into operation in December 2014.

(*1) Available energy sources are currently marked by the following characteristics.
Coal: Superior in terms of cost, but there are concerns over future global warming from CO_2 emissions
City gas: Prices have been increasing in recent years, but the emergence of shale gas is expected to lower prices in the future
Purchased power: Low unit cost for power during nighttime hours, but there is concern over rising prices for both day and night power in connection with the uncertainty regarding reactivation of nuclear power plants and the start of a renewable energy purchase program

(*2) Cogeneration: Producing multiple types of energy from a single primary energy source. Systems that use fuel to generate electricity and reuse the heat that is given off to generate steam, etc.

(*3) Steam turbine: Energy from high-temperature, high-pressure steam produced in a boiler is converted to rotational energy with impellers and is in turn used to generate electricity

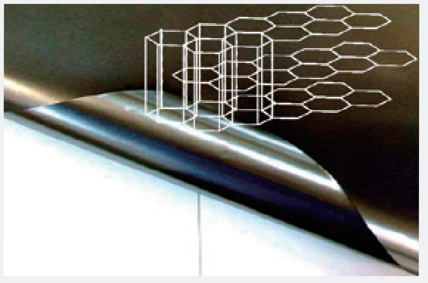
FULL-FLEDGED DEVELOPMENT IN ASIA OF ELECTRONIC PRODUCTS

Many of our electronic products are used in electronic devices, particularly smartphones and tablet computers.

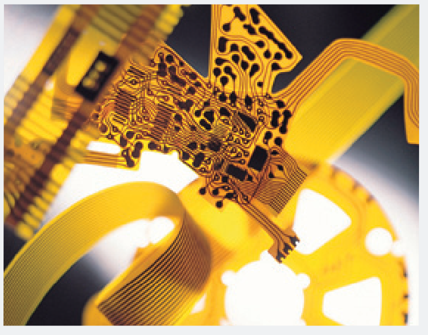
Polyimide film is used in flexible printed circuit boards, which are pliable circuit board materials that can be largely deformed. In addition, with smartphones evolving in recent years (becoming thinner, accommodating higher communication speeds, providing increased information processing capacity), graphite sheets, which are made by sintering polyimide films at high temperatures, have been garnering attention as an effective solution to the problem of heat generated by the IC chips used inside the devices. Consequently, demand for the sheets has been increasing. Materials for optical applications include optical film materials such as retardation films, which are used for example to widen the viewing angle for LCD panels. We have also assembled a lineup of Transparent Conductive Film (ITO film) for touch panel applications and launched sales in April 2013.

Smartphones and tablet computers are now a global market, and especially in recent years our customers have been expanding their production sites in Asia. For this reason, and in order to meet further global demand for information devices, we established Kaneka Apical Malaysia Sdn. Bhd. in our Malaysian site, which is the key production site in Asia for the Kaneka Group. Production lines are currently under construction and are slated to go into operation in October 2013, which will enable us to have a more stable supply in the future.

On the sales front, employees from Japan have been sent to Kaneka Trading (Shanghai) Co., Ltd. and Kaneka Taiwan Corporation in Taipei, Taiwan, where they are working with local staff to provide customers with highly tailored services that have been cultivated in Japan. Going forward, we intend to further deepen collaborations between sites in Asia, including Japan, to meet the various requirements of customers expanding in Asia, from both production and sales standpoints, and to enable us to respond to them in a timely manner.

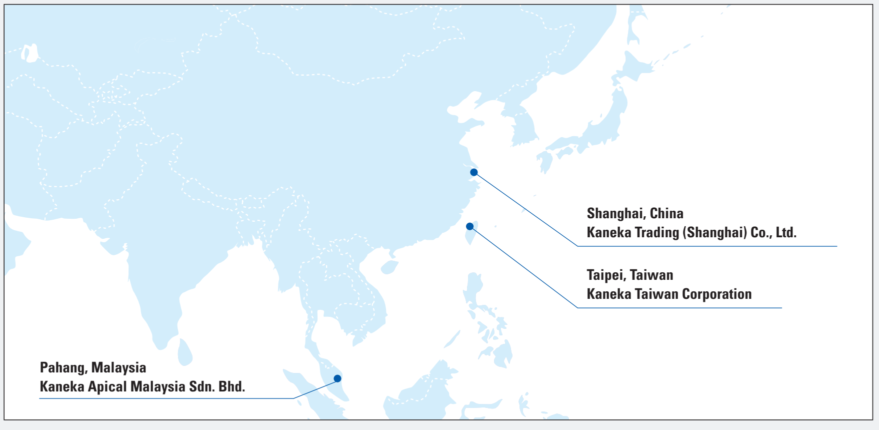


Graphinity™: A high thermal conductive graphite sheet



Apical™: An ultra-heat-resistant polyimide film

Asian sites of electronic materials business



DEVELOPING BUSINESS IN THE FIELD OF REGENERATIVE MEDICINE BY STEM CELLS

Kaneka is currently working to apply medical device technologies developed in the blood purification business to the fields of regenerative medicine and cell therapies. We are focused particularly on mesenchymal stem cells, which many believe will be put into practical application in the clinical field before iPS cells. We are developing devices such as separation devices that efficiently extract stem cells from bone marrow and other sources as well as automated programmable culture systems for stem cells. Stem cells are the foundational cells of tissues and organs. Consequently, expectations are soaring for regenerative medicine, which uses stem cells to recover lost functions, and for the application of stem cells to diseases for which there is no effective medical treatment. Kaneka's cell separation device uses a special nonwoven filter that allows processing in approximately one-fifth of the time required by standard centrifugal separation. We have already begun selling the separation device in Japan and the U.S. as a device to be used for research purposes, and in Europe it has been approved as a medical device. Our automated programmable cell culture systems have also been sold to universities in Japan as a research-purpose device.

Cellport Clinic YOKOHAMA, which is managed by Biomaster, Inc., a Kaneka subsidiary, uses adipose-derived stem cells for breast reconstruction for patients who have lost their breasts due to cancer. With conventional simple fat grafting, which has been the normal procedure up to now, the survival rate of the transplanted cells (how much of the graft remains) is low, which has been an issue. Reconstruction with stem cells uses the power of stem cells to overcome this problem, and this type of reconstruction is characterized by enabling the patient to maintain a more natural feeling.

Going forward, we will collaborate with medical and research institutes attempting to utilize stem cells in disease treatment, and work to verify safety and effectiveness in clinical settings at an early date so that new forms of treatments may be provided to patients. In addition to mesenchymal stem cells, we are also carrying out research and development on devices related to iPS cells that are expected to be applied in the next generation of regenerative medicine.

CellEffic BM: A mesenchymal stem cell separation device (European medical device).

P4CS: Programmable Closed Circuit Cell Culture System (Domestic research-purposes device)

SUPPORTING THE UNITED NATIONS WORLD FOOD PROGRAMME (WFP) AS THE COMPANY'S CSR ACTIVITIES

Supporting WFP's school feeding for African children ©Mayumi.R

Kaneka supports WFP and its mission to eradicate hunger and poverty. As a concrete expression of this support Kaneka has joined the Japan Association for the World Food Programme's corporate program; we will be conducting support activities for three years, from 2013 to 2015.

Kaneka's Kanekalon synthetic fiber, which has a large share of the market for hair extensions and other decorative hair products, is being rolled out in global markets. In Africa in particular, we are developing the market around the business concept of "enhancing the beauty of women." Specifically, we have provided a continual supply of safe products that help African women pursue beauty and have conducted R&D on new materials. Moreover, we have developed hair styles in line with the tastes of African women, and created employment by expanding sales activities. Recently, we have further developed this concept and begun providing support for mothers and future mothers based on the idea that "the quest for the beauty of African women is not only a quest to be pursued individually, rather their beauty emerges from the happiness of the family." A portion of the sales of Kanekalon purchased in Africa is used to provide assistance for African women and children through WFP's school meals program. Providing school meals supports the growth of children, and encourage their families to keep their children in school and so help them build better futures.

In addition, Kurara Chibana, who is the corporate image character of Kaneka, is serving as WFP's celebrity partner and conducting a variety of activities in order to further increase awareness in Japan. Kaneka supports Kurara Chibana's efforts and by doing so we hope that it will broadly promote WFP and further increase awareness of our CSR activities.

A Certificate of Appreciation was bestowed upon Kaneka in December 2012 by WFP.

The United Nations World Food Programme (WFP): WFP is the world's largest humanitarian agency fighting hunger worldwide.
In emergencies, we get food to where it is needed, saving the lives of victims of war, civil conflict and natural disasters. After the cause of an emergency has passed, we use food to help communities rebuild their shattered lives. WFP is part of the United Nations system and is voluntarily funded.
Born in 1961, WFP pursues a vision of the world in which every man, woman and child has access at all times to the food needed for an active and healthy life. We work towards that vision with our sister UN agencies in Rome -- the Food and Agriculture Organization (FAO) and the International Fund for Agricultural Development (IFAD) -- as well as other government, UN and NGO partners. On average, WFP aim to reach more than 90 million people with food assistance in more than 70 countries. About 12,000 people work for the organization, most of them in remote areas, directly serving the hungry poor.
(Extracted from WFP's website http://www.wfp.org/about)

	CHEMICALS	FUNCTIONAL PLASTICS	EXPANDABLE PLASTICS AND PRODUCTS



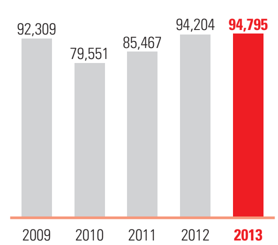
MAJOR PRODUCTS

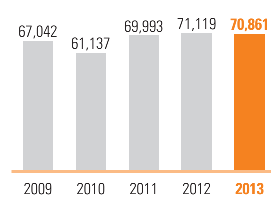
CHEMICALS
- Polyvinyl chloride (PVC)
- Caustic soda
- Hydrochloric acid
- Flexible PVC compounds
- Rigid PVC compounds
- Paste PVC
- Chlorinated PVC

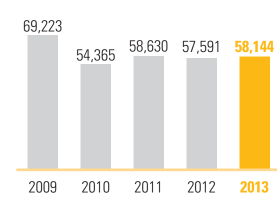
FUNCTIONAL PLASTICS
- Modifiers
- Liquid polymers (MS Polymer)
- Weather-resistant acrylic film
- Engineering plastic compounds

EXPANDABLE PLASTICS AND PRODUCTS
- Extruded polystyrene foam boards
- Polyolefin foam (beads and moldings)
- Expandable polystyrene

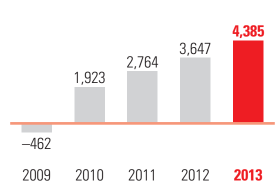
NET SALES
(Millions of yen)

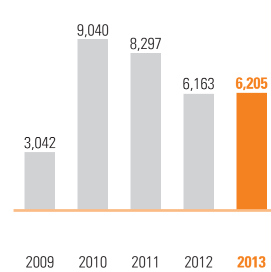


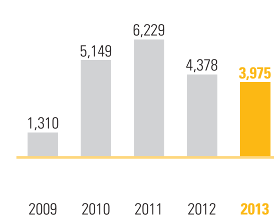




OPERATING INCOME
(Millions of yen)







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

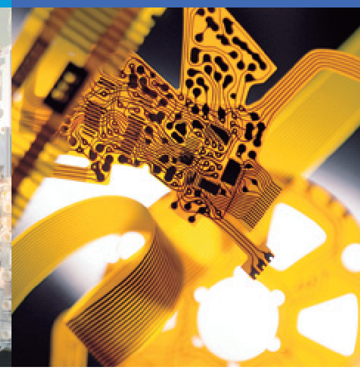
FOODSTUFFS PRODUCTS

- Margarine and shortening
- Confectionery fats
- Bakery yeast
- Spices

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)

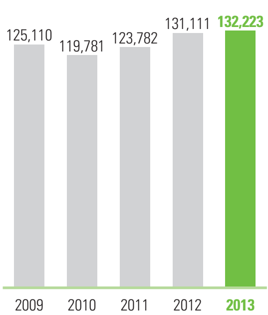
ELECTRONIC PRODUCTS

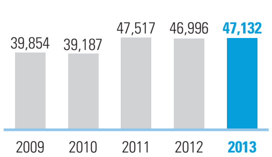


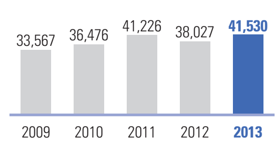
- Ultra heat-resistant polyimide film
- Bonded magnets
- PVC pipes for underground cables
- Solar modules
- Optical materials
- Super thermal-conductive graphite sheets

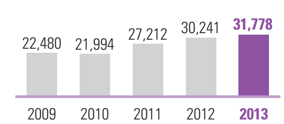
SYNTHETIC FIBERS AND OTHERS

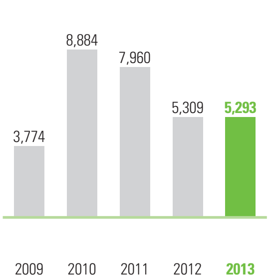
- Modacrylic fibers

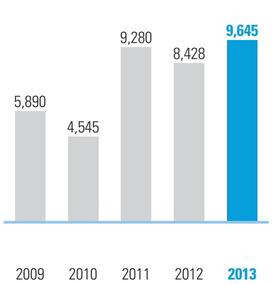


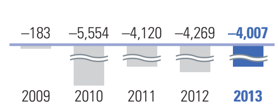


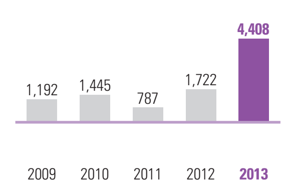






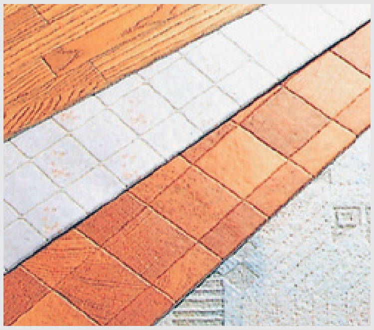






Effective from the fiscal year ended March 31, 2013, the Company has revised part of its R&D framework. Accordingly, the Company has reclassified a portion of R&D expenses, which were previously included in the Electronic Products segment, as expenses for basic R&D under Companywide expenses.
Segment information shown for the fiscal years ended March 31, 2009 , 2010, 2011 and 2012 has been prepared based on the revised classification method for reporting segments.

CHEMICALS



PVC resins saw sluggish conditions in the Japanese and overseas markets. Specialty PVC resins saw sales volume increase in both the Japanese and overseas markets. In the caustic soda business, sales volume decreased due to weak domestic demand.

As a result, segment sales increased ¥590 million, or 0.6%, to ¥94,795 million. The segment posted operating income of ¥4,385 million, up ¥738 million, or 20.2%, year on year.

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

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

FUNCTIONAL PLASTICS

In modifiers, the Kaneka Group focused on enhancing product differentiation and bolstering the earnings structure, including through cost reductions. Business was strongly impacted, however, by sluggish demand in overseas markets. Modified silicone polymers were highly commended for their unique quality features, leading to a higher sales volume in the Japanese and overseas markets.

As a result, segment sales declined ¥258 million, or 0.4%, to ¥70,861 million. However, operating income rose ¥42 million, or 0.7%, to ¥6,205 million.

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

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

EXPANDABLE PLASTICS AND PRODUCTS

Expandable polystyrene resins and products, and extruded polystyrene foam boards were affected by fast-increasing raw material prices, despite efforts to increase management efficiency, including the reorganization of certain Group companies and indirectly held firms. Polyolefin foam produced by the bead method saw higher sales volume following the restoration of supply chains that had been disrupted by the Great East Japan Earthquake and the flooding in Thailand, among other developments.

As a result, segment sales increased ¥553 million, or 1.0%, year on year to ¥58,144 million. Operating income dropped ¥403 million, or 9.2%, to ¥3,975 million.

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

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

FOODSTUFFS PRODUCTS

Foodstuffs products saw increasingly stronger consumer preferences for low-priced products. In this environment, although the Kaneka Group strove to expand sales of new products that anticipate consumer needs while reducing costs, sales volumes were sluggish.

Segment sales increased ¥1,112 million, or 0.8%, to ¥132,223 million. Operating income was roughly on par with the previous fiscal year at ¥5,293 million.

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

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

LIFE SCIENCE PRODUCTS

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

In medical devices, business results expanded steadily, although sales in the vascular intervention business were affected by a reduction in official prices. In bulk and intermediate pharmaceuticals, competition intensified further. In functional foodstuffs, sales volumes were higher year on year both in Japan and overseas, mainly reflecting growing market recognition of reduced form coenzyme Q10 as a supplement.

Segment sales increased ¥136 million, or 0.3%, to ¥47,132 million. Operating income rose ¥1,217 million, or 14.4%, to ¥9,645 million.

ELECTRONIC PRODUCTS

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

Sales volumes for ultra-heat-resistant polyimide film and optical materials increased year on year, mainly due to measures to bolster R&D activities, which led to the launch of new product lineups in the electronic products market and the adoption of these materials by customers in new products. In solar cells, sales expanded in step with growing recognition of the Kaneka Group's solar cells as a unique construction material product combining both aesthetic and functional value in the Japanese housing market. Efforts were also focused on rigorously cutting costs in the solar cell business. Sales volume of solar cell-related materials was lackluster.

Segment sales increased ¥3,503 million, or 9.2%, to ¥41,530 million. The segment recorded an operating loss of ¥4,007 million, which was smaller than the previous fiscal year.

SYNTHETIC FIBERS AND OTHERS

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

In synthetic fibers, the Group sought to ensure profits mainly by expanding sales of high value-added products, revising selling prices and cutting costs.

Segment sales increased ¥1,537 million, or 5.1%, to ¥31,778 million. Operating income rose ¥2,686 million, or 155.9%, to ¥4,408 million.

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 an Audit & Supervisory Board. 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.

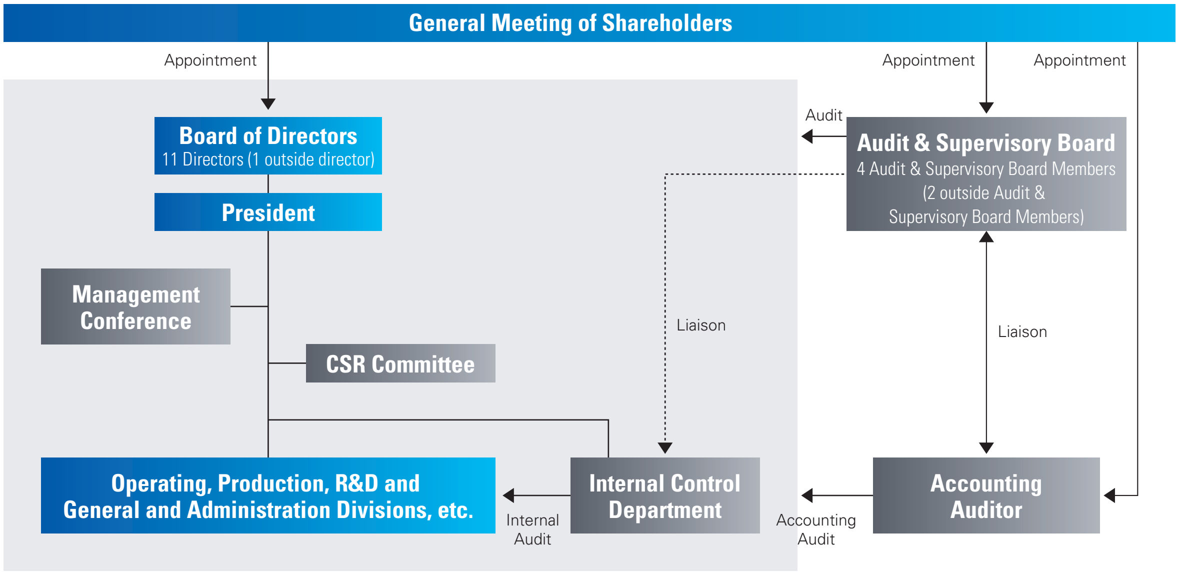
Meetings of the Board of Directors are convened, in principle, at least once a month. The Board of Directors discusses important matters regulated by laws and regulations, the Articles of Incorporation and Board of Directors regulations, and decides on the execution thereof. In tandem, directors report to the Board of Directors on the status of execution of their prescribed duties, with the Board of Directors monitoring the legality and appropriateness of their actions. The number of directors is capped at 13, of which 1 member has been appointed as an outside director, whose purpose is to bolster the oversight functions of the Board of Directors. The terms of office of directors are limited to one year in order to clarify management accountability.

The Audit & Supervisory Board consists of four Audit & Supervisory Board Members, two of which are outside Audit & Supervisory Board Members. Audits are conducted in coordination with the accounting auditors and the Internal Control Department. The Audit & Supervisory Board Members 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 Audit & Supervisory Board Members properly monitor the status of operational execution in 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 Audit & Supervisory Board Members. The Internal Control Department under the direct control of the President independently monitors the operations of each division.

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



2. STATUS OF INTERNAL CONTROL SYSTEM

By resolution of the Board of Directors, the Company has stipulated a basic policy concerning the system to ensure operational appropriateness (internal control system), 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 in-house structure for eliminating antisocial forces.

f. To ensure the reliability of our financial reporting, we have established and developed, and are operating, internal controls related to such financial reporting. These activities are supervised by the Internal Control Department.

g. We have strengthened the oversight function of the Board of Directors by appointing an outside director.

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. Through the introduction of an executive officer system, Kaneka has separated management decision-making as well as oversight and business execution functions, with the view to speeding up decision-making and clarifying roles and responsibilities.

b. Dynamic execution is ensured by giving division managers, including executive officers appointed by the Board of Directors, extensive authority over daily business operations, while directors are in charge of multiple divisions and supervise the execution of operations.

c. 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.

d. 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.

e. 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 1) through 4) 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 Audit & Supervisory Board Members and Other Systems to Report to the Audit & Supervisory Board Members

a. The Audit & Supervisory Board Members attend the meetings of the Board of Directors, division manager meetings, Management Conferences and other important meetings.

b. Directors and others report to the Audit & Supervisory Board Members on the execution of important operations, such as the results of CSR inspections, internal audit results, monthly operations and financial overviews.
c. Important decision-related documents are passed on to the Audit & Supervisory Board Members, such as proposal documents, resolution notices regarding matters decided by the President and matters decided by officers in charge.

7) Matters Concerning Employees Assisting Audit & Supervisory Board Members 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 Audit & Supervisory Board to allocate assistants to aid Audit & Supervisory Board Members in performing their duties.
b. The appointment, transfer and evaluation of such assistants are decided with the approval of the Audit & Supervisory Board Members to ensure the independence of such assistants from the directors.

8) Other Systems to Ensure That Audits Are Conducted Effectively by the Audit & Supervisory Board Members

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

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

The Group has established a Basic Policy on Corporate Activities and Ethical Behavior Standards that provide the basic standards the Company's officers and employees are to adhere to in conducting business activities. These policies require absolutely no relationships with antisocial forces, that demands from antisocial forces are dealt with resolutely, and that unlawful or unjust demands are opposed on an individual level as well. The executive directors and others in top management discipline themselves to set an example in upholding these standards of behavior, working to develop internal structures and increase awareness within the Company.

To address this issue, the Company has established a division to collect and manage information on a daily basis and coordinate with law enforcement and other outside entities and related organizations. The Company remains committed to developing and reinforcing its internal structure for eliminating antisocial forces.

Overview of Contracts for Limitation of Liability

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

4. INTERNAL AUDITS AND AUDIT & SUPERVISORY BOARD MEMBERS' AUDITS

The Kaneka Group has established the Internal Control Department, under the direct authority of the President, as an internal auditing division. Along with ensuring the installation, as well as evaluation and audit of the Company's internal control system, the department is responsible for developing and monitoring the operation of the Group's internal control systems. The department has a 13-member staff to conduct internal audits.

Of the four Audit & Supervisory Board Members, two are outside Audit & Supervisory Board Members. The standing Audit & Supervisory Board Members 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 Audit & Supervisory Board and staffed by assistants who exclusively aid the Audit & Supervisory Board Members in the performance of their duties. One replacement Audit & Supervisory Board Member is also appointed to assume audit duties in cases in which the number of Audit & Supervisory Board Members falls below the minimum number required by law.

The Audit & Supervisory Board periodically requests meetings to receive reports from the Internal Control Department regarding the status of internal audits. Similarly, the Audit & Supervisory Board holds meetings to receive regular audit reports from and exchange opinions with the accounting auditors, in an effort to perform audits in mutual cooperation with all audit-related entities.

5. RELATIONSHIP WITH OUTSIDE DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

Kaneka has one outside director, Takeo Inokuchi, and two outside Audit & Supervisory Board Members, Hiroaki Tsukamoto and Kouji Hirokawa. The outside director and outside Audit & Supervisory Board Members have no noteworthy special interest relationships with the Company in terms of personnel, capital, business or other relationships.

Outside director Takeo Inokuchi has many years of experience in the post of representative director of Mitsui Sumitomo Insurance Co., Ltd., which is a shareholder of Kaneka and has business relationships with the Company. Currently, Mr. Inokuchi is a senior advisor for Mitsui Sumitomo Insurance Co., Ltd. However, given the size and nature of the business transactions between Kaneka and Mitsui Sumitomo Insurance Co., Ltd., there are no material factors that would give rise to any special interest relationship between the two companies. Furthermore, outside Audit & Supervisory Board Member Hiroaki Tsukamoto was originally a member of Oh-Ebashi LPC & Partners and is currently attached to the Tsukamoto Law Office, while outside Audit & Supervisory Board Member Kouji Hirokawa is currently attached to the Law Office of Amida & Hirokawa. Neither of these law offices have material business transactions with Kaneka. Mr. Inokuchi and Mr. Tsukamoto are sitting members of the special committee for determining basic policies to prevent any attempted large-scale acquisitions of Kaneka shares.

At Kaneka, the outside director monitors the Board of Directors from an external viewpoint, by applying his tremendous insight as a manager and wealth of practical experience to the Company's own management. The outside Audit & Supervisory Board Members conduct audits of the Company from an external perspective based on their high degree of insight and their abundant experience as attorneys.

The Company shall not appoint as an independent officer any person who meets any of following conditions:

a. Business executives of the Company and its Group companies (hereinafter, "the Group") and their close relatives, etc.
b. Any entity that considers the Group to be a principal business partner or any business executives thereof, etc.
c. Any principal business partner of the Group or any business executive thereof, etc.
d. Major shareholders of the Company (entities that directly or indirectly hold a voting interest of 10% or more) or business executives thereof, etc.
e. Directors and other business executives of organizations that have received a certain amount or more of donations or subsidies from the Group.
f. Business executives of companies with which there is a mutual secondment of directors and Audit & Supervisory Board Members between the Group, etc.
g. Persons belonging or who have belonged in the past to auditing firms conducting a statutory audit of the Company.
h. Consultants, certified public accountants and other accounting professionals, and lawyers and other legal professionals who have received a substantial amount of monetary compensation or other consideration other than corporate officer compensation from the Group (In case the entity receiving such consideration is a corporation, association or other group, persons belonging to the said group or persons who have belonged to the said group in the past).

The outside director attends meetings of the Board of Directors, and offers input as necessary based on his abundant experience as a manager. The outside director also receives business reports from the directors every month, and exchanges opinions with them as necessary. The outside Audit & Supervisory Board Members attend meetings of the Board of Directors and Audit & Supervisory Board, 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 Audit & Supervisory Board Members receive monthly reports from the standing Audit & Supervisory Board Members on audit operations performed after the close of meetings of the Board of Directors, and exchange opinions regarding the content of these reports.

6. STATUS OF ACCOUNTING AUDITS

The certified public accountants who provided the Company with accounting audit services during the year are Takashi Yoshida, Teruo Watanuma, and Motoko Shoji, all belonging to KPMG AZSA LLC. Other personnel who assisted in accounting audit tasks include 10 certified public accountants and 15 junior certified public accountants.

7. BREAKDOWN OF CORPORATE OFFICER COMPENSATION

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

Position	Total Compensation (Millions of yen)	Breakdown of Compensation by Type (Millions of yen)			Persons Compensated
		Monthly (fixed) Compensation	Stock option equity Compensation	Bonuses	
Directors (excluding outside directors)	607	485	27	94	13
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	48	48			3
Outside directors	51	51			3

Notes:
1. Amounts less than the specified unit have been rounded off.
2. Persons compensated and monthly (fixed) compensation for directors include compensation paid to one director who retired from his position at the close of the 88th Ordinary General Meeting of Shareholders on June 28, 2012.
3. Persons compensated and monthly (fixed) compensation for Audit & Supervisory Board Members include compensation paid to one Audit & Supervisory Board Member who retired from his position at the close of the 88th Ordinary General Meeting of Shareholders on June 28, 2012.
4. Maximum compensation to directors is ¥46 million per month (fixed salary) (resolved at the 76th Ordinary General Meeting of Shareholders on June 29, 2000), and annual stock option equity compensation is ¥75 million (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).
5. Maximum compensation to Audit & Supervisory Board Members is ¥7.8 million per month (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).

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

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

8. POLICY FOR DETERMINING CORPORATE OFFICER COMPENSATION

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

Compensation for Audit & Supervisory Board Members consists of fixed compensation maintained within a cap approved by the General Meeting of Shareholders. Compensation for individual Audit & Supervisory Board Members is decided after conferring with the Audit & Supervisory Board Members based on the duties and responsibilities of each individual Audit & Supervisory Board Member.

The Company abolished its system of retirement bonuses for directors and Audit & Supervisory Board Members at the conclusion of its 83rd Ordinary General Meeting of Shareholders.

9. STATUS OF STOCKHOLDING

Investment Stocks Held for Other Than Purely Investment Purposes

142 different stocks
Total reported balance sheet value: ¥38,986 million

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

(Fiscal year under review)

(Specific investment securities)

Stock Name	No. of Shares	Reported Balance Sheet Value (Millions of yen)	Holding Purpose
Sumitomo Mitsui Financial Group	1,003,112	3,786	Stock held to maintain and enhance business relationships.
Kubota Corporation	1,952,966	2,613	Same as above
Mitsubishi UFJ Financial Group, Inc.	3,885,700	2,168	Same as above
Nippon Shokubai Co., Ltd.	2,400,000	1,980	Same as above
JMS Co., Ltd.	4,947,000	1,775	Stock held for business and capital alliance purposes.
Nitto Denko Corporation	300,000	1,671	Stock held to maintain and enhance business relationships.
Daiwa House Industry Co., Ltd.	767,000	1,395	Same as above
Mitsui & Co., Ltd.	1,031,093	1,353	Same as above
Shionogi & Co., Ltd.	672,000	1,305	Same as above
NOK Corporation	760,000	1,026	Same as above
Nissin Foods Holdings Co., Ltd.	227,074	995	Same as above
MS&AD Insurance Group Holdings, Inc.	471,990	975	Same as above
Duskin Co., Ltd.	500,000	939	Same as above
Ibiden Co., Ltd.	500,000	733	Same as above
Mitsubishi Chemical Holdings Corporation	1,384,171	602	Same as above
Konishi Co., Ltd.	342,000	577	Same as above
Takiron Co., Ltd.	1,318,201	456	Same as above
Mitsubishi Corporation	259,251	451	Same as above
Morinaga & Co., Ltd.	2,082,528	429	Same as above
Mitsui Chemicals, Inc.	2,053,000	420	Same as above
Ezaki Glico Co., Ltd.	404,185	393	Same as above
Yamazaki Baking Co., Ltd.	296,432	379	Same as above
Dainichiseika Color & Chemicals Mfg. Co., Ltd.	809,000	354	Same as above
Onamba Co., Ltd.	829,212	304	Same as above
Okaya & Co., Ltd.	263,000	298	Same as above
Osaka Organic Chemical Industry Ltd.	700,000	290	Same as above
Nice Holdings, Inc.	1,133,000	277	Same as above
Sumitomo Mitsui Trust Holdings, Inc.	478,676	212	Same as above
Maezawakasei Industries Co., Ltd	213,600	210	Same as above
Terumo Corporation	49,875	201	Same as above

10. NUMBER OF DIRECTORS

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

11. REQUIREMENTS FOR DETERMINATION OF DIRECTOR APPOINTMENTS

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

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

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

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

To ensure a smooth General Meeting of Shareholders, the Company's Articles of Incorporation stipulate 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, 2012		Fiscal Year Ended March 31, 2013	
	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)
Kaneka	74	5	74	5
Consolidated Subsidiaries	4	–	4	0
Total	78	5	78	5

2. Other Significant Compensation

Previous fiscal year

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.

Fiscal year under review

Kaneka Americas Holding, Inc. 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

Previous fiscal year

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

Fiscal year under review

Compensation for non-audit services paid to the certified public accountants consisted mainly of payment for services related to confirmation procedures required when applying for certification under the Act on Special Measures concerning the Procurement of Renewable Electric Energy by Operators of Electric Utilities.

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 introduced the Policy Regarding Countermeasures to Large-Scale Acquisitions of Kaneka Shares (hereinafter the "Policy"), and the Policy was approved by the shareholders at the 83rd Ordinary General Meeting of Shareholders held on June 28, 2007. With the aim of protecting and enhancing the corporate value of the Company and the collective interests of its shareholders over the medium- to long-term, the retention of the Policy was approved by the shareholders at the 86th Ordinary General Meeting of Shareholders held on June 25, 2010 and then at the 89th Ordinary General Meeting of Shareholders held on June 27, 2013.

An overview is provided below.

1. BASIC APPROACH OF THE POLICY (THE BASIC POLICY REGARDING PERSONS WHO CONTROL THE COMPANY'S DECISIONS ON FINANCIAL MATTERS AND BUSINESS POLICIES)

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 that necessary and proper measures must be taken to protect the corporate value of the Company and the collective interests of its shareholders in the event that the Company is subject to a hostile and abusive takeover bid that threatens to harm corporate value and collective shareholder interests, such as any takeover bid that is intended solely to advance the personal gain of the bidder.

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

To commemorate its 60th anniversary in 2009, the Company formulated a long-term management vision for the next decade called "Declaration of Kaneka United for the future." Sweeping reform of the Kaneka Group and its continuous growth are key objectives. To this end, the Company is now giving priority to the important strategic domains of "Environment and Energy," "Health Care," "Information and Communications," and "Food Production Support." As key management initiatives, the Company is (1) Moving toward an "R&D-type" company, (2) Growing in a global market, (3) Developing Group strategy, (4) Pursuing alliances, and (5) Prioritizing CSR. At the same time, under NEW ACT2014, the Kaneka Group will transform business structures, R&D and production, and step up initiatives such as promoting global development in order to quickly move onto a growth trajectory.

3. 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 large-scale 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 large-scale 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.

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

The Board of Directors of the Company judges that the measures in the preceding item comply with the following three requirements: they are in line with this Basic Policy, they do not harm the common interests of the Company's shareholders and they do not 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 thirdparty experts.
g. The measures are not "dead-hand" or "slow-hand" takeover defense measures.

BOARD OF DIRECTORS, AUDIT & SUPERVISORY BOARD MEMBERS AND EXECUTIVE OFFICERS

BOARD OF DIRECTORS

President

Kimikazu Sugawara*

Executive Vice President

Masatoshi Hatori*

Member of the Board Senior Managing Executive Officers

Tetsuro Hara
Hirosaku Nagano

Member of the Board Managing Executive Officers

Shigeru Kamemoto
Masami Kishine
Toshio Nakamura
Minoru Tanaka
Akira Iwazawa
Mamoru Kadokura

Independent Member of the Board

Takeo Inokuchi

AUDIT & SUPERVISORY BOARD MEMBERS

Standing Audit & Supervisory Board Members

Yasuo Inoguchi
Hideyuki Matsui

Outside Audit & Supervisory Board Members

Hiroaki Tsukamoto
Kouji Hirokawa

EXECUTIVE OFFICERS

Managing Executive Officers

Akihiko Iguchi
Shinji Mizusawa
Atsushi Kawakatsu
Yoshimi Uchida
Hidesuke Amachi

Executive Officers

Yasuyoshi Ueda
Shigeo Furuyoshi
Shinobu Ishihara
Shinichirou Kametaka
Yoshiki Takeoka
Mamoru Ishida
Kazuo Ochiai
Minetoshi Marufuji
Kazuhiko Yamada
Kazuhiko Fujii
Yasuhiro Sumi
Haruhiko Maki
Fuminori Hoya
Jun Enoki

*Representative Directors (as of June 27, 2013)

SALES

The Kaneka Group's net sales for FY2013 (April 1, 2012 to March 31, 2013) increased 1.5% from the previous fiscal year to ¥476,463 million. By segment, sales increased in the Chemicals, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, Synthetic Fibers and Others segments while decreasing in the Functional Plastics segment. Overseas sales rose 3.0% year on year to ¥153,928 million due to the focus on strengthening the global business structure, and the ratio of overseas sales to total sales increased from 31.9% to 32.3%.

OPERATING EXPENSES AND OPERATING INCOME

During FY2013, the cost of sales leveled off at ¥359,734 million, and the cost of sales ratio fell from 76.6% to 75.5%. SG&A expenses increased 4.5% to ¥100,919 million, and the ratio of SG&A expenses to sales rose from 20.6% to 21.2%.

Operating income during FY2013 increased 20.2% to ¥15,810 million. By segment, operating income increased in the Chemicals, Functional Plastics, Life Science Products, Synthetic Fibers and Others segments, but decreased in the Expandable Plastics and Products and the Foodstuffs Products segments. The Electronic Products segment recorded the operating loss smaller than in FY2012.

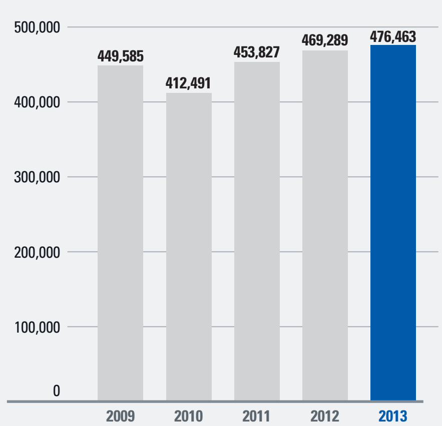
NET INCOME

For the year, the Group recorded net income of ¥9,326 million (up 72.6% from the previous fiscal year).

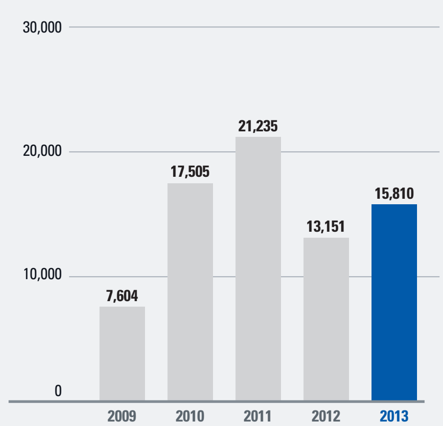
FINANCIAL CONDITION

As of March 31, 2013, total assets were ¥484,457 million, up ¥17,374 million from March 31, 2012 due to increases in property, plant and equipment and investment securities as stock prices rose. The ratio of net income to total assets (ROA) was 2.0%, up 0.8% from the previous fiscal year. Interest-bearing debt stood at ¥86,433 million, up ¥11,755 million from March 31, 2012. Net assets increased ¥12,989 million to ¥270,450 million, reflecting increases in valuation differences on available-for-sale securities and foreign currency translation adjustments. As a result, the equity ratio came to 53.8%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.33.

Net Sales
(¥ Million)



Operating Income
(¥ Million)



CASH FLOWS

Cash and cash equivalents on March 31, 2013 were ¥31,748 million, ¥4,590 million more than at March 31, 2012.

Net cash provided by operating activities was ¥32,776 million, up ¥16,934 million year on year. The main contributors were income before income taxes and minority interests of ¥14,930 million and depreciation and amortization of ¥29,170 million. Major uses of cash were a ¥3,547 million increase in inventories and income taxes paid of ¥5,148 million.

Net cash used in investing activities amounted to ¥32,938 million, ¥4,880 million more than in the preceding fiscal year. The principal use of cash was ¥31,783 million for the purchase of property, plant and equipment.

Financing activities provided net cash of ¥3,771 million, ¥1,744 million more than in the previous fiscal year. Cash was provided mainly by a net increase in loans payable. The principal use of cash was cash dividends paid of ¥5,391 million.

Financial Index Trends

	Year ended March 31, 2009	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2012	Year ended March 31, 2013
Shareholders' equity ratio	58.1%	57.6%	55.4%	53.0%	53.8%
Shareholders' equity ratio based on market value	39.2%	47.5%	43.1%	36.0%	37.9%
Interest-bearing debt coverage ratio	2.7	1.1	1.9	4.7	2.6
Interest coverage ratio	19.7	61.6	39.5	17.9	36.4

Shareholders' equity ratio: equity capital/total assets

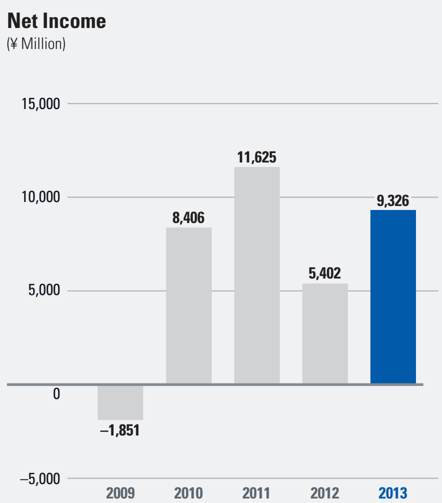
Shareholders' equity ratio based on market value: total market value of stock/total assets

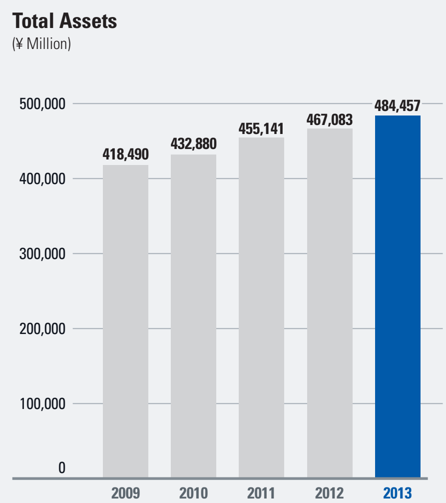
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows

Interest coverage ratio: operating cash flows/interest expenses paid

Notes:

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





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, 2013 and that this is not an exhaustive list of risks borne by the Group.

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

The Kaneka Group maintains its operational advantages by developing and commercializing high value-added products in a host of fields and consistently cultivating new markets and leveraging its ability to integrate and combine its expertise in core polymer and fermentation technologies. The Kaneka Group is working to ensure a corporate structure that is not affected by the entry of competitors into these markets, which could otherwise result in increased price competition and reduced profitability. Moreover, because 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, 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 unexpected 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. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems, including transfer price taxation, and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. In addition, 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 could seriously affect the performance and financial position of the Group.

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

Through the combination of medium- to long-term forward contracts and spot market purchases, the Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels. However, since most of these commodities are subject to price fluctuations in the international market, there are still some risks involved. For example, there may be sharp fluctuations in prices which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect the production of PVC/caustic soda, modifier, expandable plastics and products and foodstuffs, which could 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. We maintain liability insurance covering the whole Group in the event of a product related accident. However, the possibility remains that unexpected problems with product quality could cause a large-scale product related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. A major disaster such as an industrial accident or an earthquake could destroy manufacturing facilities and result in losses 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 right to others or 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 its environmental footprint and to save resources and energy throughout the life cycle of its products. Nevertheless, environmental regulations are tightened every year, and depending on the nature of the regulations, expenses may be incurred in connection with the manufacture, storage and disposal of products that could significantly impact the Group's financial position and performance.

(7) Risks associated with legal action

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

(8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and certain financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could be required to report impairment loss pursuant 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 be required to report impairment loss pursuant 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. Moreover, deferred tax assets are posted against future temporary differences with the assumption that they can be recovered by offsetting future taxable income. However, if future 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 could also be significantly affected by factors such 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, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2013	2012	2013
Current assets:			
Cash and cash equivalents (Note 4)	¥ 31,748	¥ 27,158	$ 337,565
Notes and accounts receivable—trade (Note 4)			
Unconsolidated subsidiaries and affiliates	806	823	8,570
Other	115,900	117,544	1,232,323
Inventories (Note 7)	80,280	76,802	853,589
Short-term loans receivable from unconsolidated subsidiaries and affiliates	398	863	4,232
Deferred tax assets (Note 8)	5,076	6,842	53,971
Other current assets	8,773	6,160	93,280
Allowance for doubtful accounts (Note 4)	(111)	(164)	(1,180)
Total current assets	242,870	236,028	2,582,350
Property, plant and equipment (Note 9):			
Land	28,987	29,324	308,208
Buildings and structures	156,134	151,127	1,660,117
Machinery, equipment and vehicles	480,878	457,804	5,113,004
Construction in progress	17,902	15,893	190,346
Other	4,661	4,568	49,559
	688,562	658,716	7,321,234
Less accumulated depreciation	519,015	494,278	5,518,501
Property, plant and equipment, net	169,547	164,438	1,802,733
Intangible assets	8,604	6,971	91,483
Investments and other assets:			
Investment securities (Notes 4 and 5):			
Unconsolidated subsidiaries and affiliates	6,204	6,562	65,965
Other	41,445	35,972	440,670
Long-term loans receivable (Note 4)	1,441	1,720	15,322
Deferred tax assets (Note 8)	3,356	6,219	35,683
Other	11,216	9,700	119,255
Allowance for doubtful accounts (Note 4)	(226)	(527)	(2,403)
Total investments and other assets	63,436	59,646	674,492
	¥ 484,457	¥ 467,083	$ 5,151,058

See accompanying notes.

Liabilities and net assets	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
Current liabilities:			
Short-term loans payable (Notes 4 and 9)	¥ 39,451	¥ 29,673	$ 419,468
Current portion of long-term loans payable (Notes 4 and 9)	8,776	7,389	93,312
Notes and accounts payable (Note 4):			
Trade	64,239	64,445	683,030
Construction	5,737	9,665	60,999
Other	16,344	19,241	173,780
Income taxes payable	1,622	2,834	17,246
Accrued expenses	9,238	9,203	98,224
Provision for the administrative fine	—	605	—
Other current liabilities	3,721	2,817	39,566
Total current liabilities	149,128	145,872	1,585,625
Noncurrent liabilities:			
Bonds payable (Notes 4 and 9)	15,000	15,000	159,490
Long-term loans payable (Notes 4 and 9)	25,443	24,152	270,526
Provision for retirement benefits (Note 10)	19,497	19,008	207,305
Provision for directors' retirement benefits	323	336	3,434
Deferred tax liabilities (Note 8)	874	1,221	9,293
Other noncurrent liabilities	3,742	4,033	39,787
Total noncurrent liabilities	64,879	63,750	689,835
Contingent liabilities (Note 11)			
Net assets (Note 12)**:**			
Shareholders' equity:			
Capital stock			
Authorized—750,000,000 shares Issued —350,000,000 shares	33,047	33,047	351,377
Capital surplus	34,837	34,837	370,409
Retained earnings	200,987	197,373	2,137,023
Less treasury stock, at cost—13,049,280 shares in 2013 13,049,811 shares in 2012	(10,548)	(10,553)	(112,153)
Total shareholders' equity	258,323	254,704	2,746,656
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	8,262	4,664	87,847
Foreign currency translation adjustments	(5,990)	(11,841)	(63,690)
Total accumulated other comprehensive income	2,272	(7,177)	24,157
Subscription rights to shares (Note 13)	159	137	1,691
Minority interests	9,696	9,797	103,094
Total net assets	270,450	257,461	2,875,598
	¥ 484,457	¥ 467,083	$ 5,151,058

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Net sales	¥ 476,463	¥ 469,289	¥ 453,827	$ 5,066,061
Cost of sales	359,734	359,545	339,382	3,824,923
Gross profit	116,729	109,744	114,445	1,241,138
Selling, general and administrative expenses	100,919	96,593	93,210	1,073,036
Operating income	15,810	13,151	21,235	168,102
Other income (expenses):				
Interest and dividends income	1,145	1,639	1,117	12,174
Interest expenses	(891)	(886)	(893)	(9,474)
Gain on sales of investment securities	356	2,991	4	3,785
Loss on sales of property, plant and equipment, net	—	(71)	—	—
Loss on disposals of property, plant and equipment	(1,401)	(1,157)	(1,081)	(14,896)
Foreign exchange gains, net	2,072	888	114	22,031
Equity in earnings of affiliates, net	56	384	1,118	595
Gain on negative goodwill	126	28	192	1,340
Compensation expenses	(1,012)	(637)	(86)	(10,760)
Litigation expenses	(680)	(1,830)	—	(7,230)
Business structure improvement expenses	—	(2,345)	—	—
Loss on valuation of investment securities	—	—	(518)	—
Loss on disaster	—	—	(1,220)	—
Other, net	(651)	(802)	(546)	(6,922)
Income before income taxes and minority interests	14,930	11,353	19,437	158,745
Income taxes (Note 8)				
Current	3,076	5,094	6,818	32,706
Deferred	2,377	381	(36)	25,274
Minority interests	151	476	1,030	1,605
Net income	¥ 9,326	¥ 5,402	¥ 11,625	$ 99,160

	Yen			U.S. dollars (Note 1)
Net income per share—basic	¥ 27.68	¥ 15.96	¥ 34.28	$ 0.29
Net income per share—diluted	27.65	15.95	34.26	0.29
Cash dividends applicable to the year	16.00	16.00	16.00	0.17

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Income before minority interests	¥ 9,477	¥ 5,878	¥ 12,655	$ 100,765
Other comprehensive income				
Valuation difference on available-for-sale securities	3,614	(2,033)	(1,451)	38,426
Foreign currency translation adjustment	6,008	(1,781)	(1,948)	63,881
Share of other comprehensive income of associates accounted for using equity method	21	(3)	(9)	224
Total other comprehensive income (Note 3)	9,643	(3,817)	(3,408)	102,531
Comprehensive income	¥ 19,120	¥ 2,061	¥ 9,247	$ 203,296
Comprehensive income attributable to:				
Comprehensive income attributable to owners of the parent	¥ 18,774	¥ 1,697	¥ 8,296	$ 199,617
Comprehensive income attributable to minority interests	346	364	951	3,679

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Shareholders' equity				
Capital stock				
Balance at beginning of year	¥ 33,047	¥ 33,047	¥ 33,047	$ 351,377
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	351,377
Capital surplus				
Balance at beginning of year	34,837	34,837	34,837	370,409
Changes of items during the period				
Total changes of items during the period	—	—	—	—
Balance at the end of current period	34,837	34,837	34,837	370,409
Retained earnings				
Balance at beginning of year	197,373	197,463	191,250	2,098,596
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,392)	(5,423)	(5,427)	(57,331)
Change of scope of consolidation	(271)	—	—	(2,881)
Net income	9,326	5,402	11,625	99,160
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	(44)	(56)	21	(468)
Disposal of treasury stock	(5)	(13)	(6)	(53)
Total changes of items during the period	3,614	(90)	6,213	38,427
Balance at the end of current period	200,987	197,373	197,463	2,137,023
Treasury stock				
Balance at beginning of year	(10,553)	(9,760)	(9,599)	(112,206)
Changes of items during the period				
Purchase of treasury stock	(6)	(836)	(187)	(64)
Disposal of treasury stock	11	43	26	117
Total changes of items during the period	5	(793)	(161)	53
Balance at the end of current period	(10,548)	(10,553)	(9,760)	(112,153)
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	4,664	6,677	8,148	49,591
Changes of items during the period				
Net changes of items other than shareholders' equity	3,598	(2,013)	(1,471)	38,256
Total changes of items during the period	3,598	(2,013)	(1,471)	38,256
Balance at the end of current period	8,262	4,664	6,677	87,847
Foreign currency translation adjustment				
Balance at beginning of year	(11,841)	(10,149)	(8,290)	(125,901)
Changes of items during the period				
Net changes of items other than shareholders' equity	5,851	(1,692)	(1,859)	62,211
Total changes of items during the period	5,851	(1,692)	(1,859)	62,211
Balance at the end of current period	(5,990)	(11,841)	(10,149)	(63,690)
Subscription rights to shares				
Balance at beginning of year	137	127	110	1,457
Changes of items during the period				
Net changes of items other than shareholders' equity	22	10	17	234
Total changes of items during the period	22	10	17	234
Balance at the end of current period	159	137	127	1,691

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	**2013**
Minority interests				
Balance at beginning of year	**9,797**	9,587	7,672	**104,168**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(101)**	210	1,915	**(1,074)**
Total changes of items during the period	**(101)**	210	1,915	**(1,074)**
Balance at the end of current period	**9,696**	9,797	9,587	**103,094**
Total net assets				
Balance at beginning of year	**257,461**	261,829	257,175	**2,737,491**
Changes of items during the period				
Dividends from surplus—¥16.00 per share	**(5,392)**	(5,423)	(5,427)	**(57,331)**
Change of scope of consolidation	**(271)**	—	—	**(2,881)**
Net income	**9,326**	5,402	11,625	**99,160**
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	**(44)**	(56)	21	**(468)**
Purchase of treasury stock	**(6)**	(836)	(187)	**(64)**
Disposal of treasury stock	**6**	30	20	**64**
Net changes of items other than shareholders' equity	**9,370**	(3,485)	(1,398)	**99,627**
Total changes of items during the period	**12,989**	(4,368)	4,654	**138,107**
Balance at the end of current period	**¥ 270,450**	¥ 257,461	¥ 261,829	**$ 2,875,598**

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2013, 2012 and 2011

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Net cash provided by operating activities				
Income before income taxes and minority interests	¥ 14,930	¥ 11,353	¥ 19,437	$ 158,745
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	29,170	29,594	28,892	310,154
Increase (decrease) in provision for retirement benefits	259	(290)	(156)	2,754
Increase (decrease) in allowance for doubtful accounts	(356)	(272)	279	(3,785)
Interest and dividends income	(1,145)	(1,639)	(1,117)	(12,174)
Interest expenses	891	886	893	9,474
Loss on disposal of property, plant and equipment	768	1,006	856	8,166
Loss on valuation of investment securities	—	—	518	—
Gain on sales of investment securities	(278)	(2,940)	—	(2,956)
Equity in earnings of affiliates, net	(56)	(384)	(1,118)	(595)
Decrease (increase) in notes and accounts receivable—trade	3,495	(15,024)	(8,923)	37,161
Increase in inventories	(3,547)	(9,066)	(5,975)	(37,714)
Increase (decrease) in notes and accounts payable—trade	(1,152)	3,935	6,907	(12,249)
Others	(5,357)	4,602	65	(56,960)
Subtotal	37,622	21,761	40,558	400,021
Interest and dividends income received	1,202	1,715	1,180	12,780
Interest expenses paid	(900)	(883)	(883)	(9,569)
Income taxes paid	(5,148)	(6,751)	(5,922)	(54,737)
Net cash provided by operating activities	32,776	15,842	34,933	348,495
Net cash used in investing activities				
Purchase of property, plant and equipment	(31,783)	(30,643)	(26,386)	(337,937)
Proceeds from sales of property, plant and equipment	614	930	—	6,528
Purchase of intangible assets	(2,159)	(1,489)	(1,133)	(22,956)
Purchase of investment securities	(295)	(202)	(1,552)	(3,137)
Proceeds from sales and distributions of investment securities	624	4,032	15	6,635
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	—	(4,019)	—
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation	—	—	220	—
Purchase of stocks of subsidiaries and affiliates	(112)	(944)	(1,424)	(1,191)
Proceeds from sales of stocks of subsidiaries and affiliates	—	175	108	—
Payments of loans receivable	(793)	(496)	(637)	(8,432)
Collection of loans receivable	1,050	392	96	11,164
Others	(84)	187	(221)	(892)
Net cash used in investing activities	(32,938)	(28,058)	(34,933)	(350,218)
Net cash provided by (used in) financing activities				
Net increase (decrease) in short-term loans payable	8,007	10,440	825	85,136
Proceeds from long-term loans payable	9,325	5,647	4,067	99,149
Repayment of long-term loans payable	(7,449)	(2,108)	(3,009)	(79,202)
Redemption of bonds payable	—	(5,149)	—	—
Repayments of lease obligations	(414)	(421)	(536)	(4,402)
Cash dividends paid	(5,391)	(5,423)	(5,427)	(57,321)
Cash dividends paid to minority shareholders	(302)	(124)	(158)	(3,211)
Purchase of treasury stock	(6)	(836)	(107)	(64)
Proceeds from sales of treasury stock	1	1	3	11
Net cash provided by (used in) financing activities	3,771	2,027	(4,342)	40,096
Effect of exchange rate change on cash and cash equivalents	713	369	806	7,581
Net increase (decrease) in cash and cash equivalents	4,322	(9,820)	(3,536)	45,954
Cash and cash equivalents at beginning of period	27,158	36,978	40,514	288,761
Increase in cash and cash equivalents resulting from change of scope of consolidation	268	—	—	2,850
Cash and cash equivalents at end of period	¥ 31,748	¥ 27,158	¥ 36,978	$ 337,565

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

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of major consolidated overseas subsidiaries after the year ended March 31, 2009 were prepared for consolidation purposes in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements," May 17, 2006.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2013 which was ¥94.05 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 59 consolidated subsidiaries (65 in FY2012 and 66 in FY2011) and 3 affiliates accounted for by the equity method (3 in FY2012 and 3 in FY2011). For the year ended March 31, 2013, the accounts of 4 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between their fiscal year end and that of the Company, the transactions are included in consolidation. 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.

From the year ending March 31, 2013, Kaneka Singapore Co. (Pte) Ltd. and Taiyo Yushi Corporation have changed their settlement date from December 31 to March 31, and Shinka Shokuhin Co., Ltd. has changed its settlement date from February 28 to March 31. As a result, the year ending March 31, 2013, for Kaneka Singapore Co. (Pte) Ltd. and Taiyo Yushi Corporation comprises 15 months and that for Shinka Shokuhin Co., Ltd. 13 months. The accounting change due to this fiscal term change has been adjusted through the income statements. The change had a negligible impact on Kaneka's net sales, operating income, ordinary income and income before income taxes and minority interests.

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.

Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies 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

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss are 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, as measured by the lease term, of the respective asset.

Goodwill

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

Provision for retirement benefits

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

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic 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 expense using the straight-line method over 5 years, a term 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, a term also within the average of the estimated remaining service years of employees, commencing with the following period.

Provision for directors' retirement benefits

Directors and statutory auditors leaving certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

Research and development expenses

Expenses relating to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2013, 2012 and 2011 were ¥21,385 million ($227,379 thousand), ¥19,959 million and ¥18,262 million, respectively.

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-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 per share

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Application of consolidated taxation system

Effective from the current fiscal year, the Company and certain domestic consolidated subsidiaries apply a consolidated taxation system.

Changes in accounting policies

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)
From the year ending March 31, 2013, as a result of the revision to the Corporation Tax Law, the Company and its consolidated domestic subsidiaries have made the following change in their accounting policies. The method of calculating the depreciation and amortization of property, plant and equipment purchased after April 1, 2012 is based on the revised Corporation Tax Law. As a result of this change, in comparison with amounts calculated with the former method, Kaneka's operating income, ordinary income and income before income taxes and minority interests for the year ending March 31, 2013, each increased ¥706 million.

New accounting pronouncements

On May 17, 2012, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits."

Major changes brought by the new standard to improve financial reporting and create more uniform international standards include the accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service costs and the calculation methods for retirement benefit obligations and current service costs.

The revised Accounting Standard and Guidance are scheduled to take effect from the end of the year ended March 31, 2014. Amendments related to the calculation methods for retirement benefit obligations and current service costs are scheduled to take effect from the beginning of the year ended March 31, 2015.

The impact of the revision on consolidated financial statements is currently under evaluation.

3. COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Valuation difference on available-for-sale securities			
Decrease during the year	¥ 5,927	¥ (1,208)	$ 63,020
Reclassification adjustments	(321)	(2,844)	(3,413)
Subtotal, before tax	5,606	(4,052)	59,607
Tax expense	1,992	2,019	21,181
Subtotal, net of tax	3,614	(2,033)	38,426
Foreign currency translation adjustments			
Decrease during the year	6,008	(1,764)	63,881
Reclassification adjustments	—	(17)	—
Subtotal, before tax	6,008	(1,781)	63,881
Tax expense	—	—	—
Subtotal, net of tax	6,008	(1,781)	63,881
Share of other comprehensive income of associates accounted for using equity method			
Decrease during the year	21	(4)	224
Reclassification adjustments	—	1	—
Subtotal, net of tax	21	(3)	224
Total other comprehensive income	¥ 9,643	¥ (3,817)	$ 102,531

4. FINANCIAL INSTRUMENTS

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

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

(2) Description of financial instruments and inherent risks

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

Notes and accounts payable, which are operating payables, are basically settled in 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 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 related 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 about the collection of operating receivables resulting from the deterioration of a business partner's financial position 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 to the derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2013.

(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.

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

(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments by 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 in principle by centralizing the Companies' funds using CMS. Accordingly, the Companies consider that no significant liquidity risk exists.

(4) Supplementary explanation for matters regarding fair value 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 value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2013 (the consolidated accounts settlement date of the year ending March 31, 2013), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	**¥ 31,748**	**¥ 31,748**	**¥ —**
(2) Notes and accounts receivable—trade	**116,705**	**116,705**	**—**
(3) Marketable and investment securities			
Available-for-sale securities	**36,813**	**36,445**	**(368)**
(4) Long-term loans receivable	**1,441**		
Allowance for doubtful receivables (*1)	**(0)**		
	1,441	**1,369**	**(72)**
Total assets	**186,707**	**186,267**	**(440)**
(1) Notes and accounts payable	**64,239**	**64,239**	**—**
(2) Short-term loans payable	**48,227**	**48,227**	**—**
(3) Accounts payable—other	**21,948**	**21,948**	**—**
(4) Bonds payable	**15,000**	**15,835**	**835**
(5) Long-term loans payable	**25,443**	**25,399**	**(44)**
Total liabilities	**174,857**	**175,648**	**791**
Derivative transactions (*2)			
– Hedge accounting is applied	**—**	**—**	**—**
– Hedge accounting is not applied	**(34)**	**(34)**	**—**

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2012 (the consolidated accounts settlement date of the year ending March 31, 2013), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 27,158	¥ 27,158	¥ —
(2) Notes and accounts receivable—trade	118,367	118,367	—
(3) Marketable and investment securities			
Available-for-sale securities	30,785	30,471	(314)
(4) Long-term loans receivable	1,720		
Allowance for doubtful receivables (*1)	(244)		
	1,476	1,352	(124)
Total assets	177,786	177,348	(438)
(1) Notes and accounts payable	64,445	64,445	—
(2) Short-term loans payable	37,061	37,061	—
(3) Accounts payable—other	28,740	28,740	—
(4) Bonds payable	15,000	15,644	644
(5) Long-term loans payable	24,152	24,122	(30)
Total liabilities	169,398	170,012	614
Derivative transactions (*2)			
– Hedge accounting is applied	—	—	—
– Hedge accounting is not applied	(21)	(21)	—

(*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.

The table below shows the amounts as of March 31, 2013, calculated into U.S. dollars.

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	$ 337,565	$ 337,565	$ —
(2) Notes and accounts receivable—trade	1,240,883	1,240,883	—
(3) Marketable and investment securities			
Available-for-sale securities	391,419	387,506	(3,913)
(4) Long-term loans receivable	15,322		
Allowance for doubtful receivables (*1)	(0)		
	15,322	14,556	(766)
Total assets	1,985,189	1,980,510	(4,679)
(1) Notes and accounts payable	683,030	683,030	—
(2) Short-term loans payable	512,780	512,780	—
(3) Accounts payable—other	233,366	233,366	—
(4) Bonds payable	159,490	168,368	8,878
(5) Long-term loans payable	270,526	270,058	(468)
Total liabilities	1,859,192	1,867,602	8,410
Derivative transactions (*2)			
– Hedge accounting is applied	—	—	—
– Hedge accounting is not applied	(362)	(362)	—

Note 1.
Matters regarding the fair value measurement method for 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 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 and investment securities
The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is measured based on market prices on exchanges or by 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. 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 loans payable and (3) Accounts payable—other
The fair value of notes and accounts payable, short-term loans payable and accounts payable—other 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 a certain period at a rate that takes into account the time to maturity and credit risk.

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

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

Derivative transactions

Please refer to "Note 6. Derivative financial instruments and hedging transactions."

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

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Unlisted equity securities	¥ 10,049	¥ 10,874	$ 106,847

The financial instruments shown above are not included in the tables in "(3) Marketable securities and investment securities" because their market prices were not available and their fair values were 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

	2013			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 31,748	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	116,705	—	—	—
Marketable and investment securities				
Available-for-sale securities with maturity dates	—	—	—	—
Long-term loans receivable	52	431	390	568
Total	¥ 148,795	¥ 431	¥ 390	¥ 568

Millions of yen

	2012			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 27,158	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	118,367	—	—	—
Marketable and investment securities				
Available-for-sale securities with maturity dates	250	—	—	—
Long-term loans receivable	57	461	320	638
Total	¥ 145,832	¥ 461	¥ 320	¥ 638

Thousands of U.S. dollars (Note 1)

	2013			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	$ 337,565	$ —	$ —	$ —
Notes and accounts receivable—trade	1,240,883	—	—	—
Marketable and investment securities				
Available-for-sale securities with maturity dates	—	—	—	—
Long-term loans receivable	553	4,583	4,147	6,039
Total	$ 1,579,001	$ 4,583	$ 4,147	$ 6,039

Note 4.
Maturity schedules after the consolidated balance sheet date for bonds and long-term debt
Refer to Note 9. "Short-term loans payable and long-term debt."

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, 2013:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2013			2013		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 14,544	¥ 28,378	¥ 13,834	$ 154,641	$ 301,733	$ 147,092
Bonds	—	—	—	—	—	—
	¥ 14,544	¥ 28,378	¥ 13,834	$ 154,641	$ 301,733	$ 147,092

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2013			2013		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 7,053	¥ 6,334	¥ (719)	$ 74,992	$ 67,347	$ (7,645)
Bonds	—	—	—	—	—	—
	¥ 7,053	¥ 6,334	¥ (719)	$ 74,992	$ 67,347	$ (7,645)

The following table summarizes sales of available-for-sale securities as of March 31, 2013:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2013			2013		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	¥ 451	¥ 390	¥ (69)	$ 4,795	$ 4,147	$ (734)
Bonds	—	—	—	—	—	—
	¥ 451	¥ 390	¥ (69)	$ 4,795	$ 4,147	$ (734)

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2012:

Securities with book value exceeding acquisition cost:

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 13,371	¥ 22,398	¥ 9,027
Bonds	—	—	—
	¥ 13,371	¥ 22,398	¥ 9,027

Securities with book value not exceeding acquisition cost:

	Millions of yen		
	2012		
	Acquisition cost	Book value	Difference
Equity securities	¥ 7,960	¥ 6,437	¥ (1,523)
Bonds	—	—	—
	¥ 7,960	¥ 6,437	¥ (1,523)

The following table summarizes sales of available-for-sale securities as of March 31, 2012:

	Millions of yen		
	2012		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 4,051	¥ 2,991	¥ (157)
Bonds	—	—	—
	¥ 4,051	¥ 2,991	¥ (157)

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2013 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	**¥ 1,118**	**¥ 1,128**	**$ 11,887**	**$ 11,994**
Writing Pound Sterling	**259**	**254**	**2,754**	**2,701**
Currency swaps	**1,743**	**(18)**	**18,533**	**(191)**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay fixed and receive floating	**¥ 18**	**¥ (0)**	**$ 191**	**$ (0)**

Derivative transactions to which hedge accounting was applied as of March 31, 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay floating and receive fixed	**¥ 3,000**	**(*)**	**$ 31,898**	**(*)**
Pay fixed and receive floating	**176**	**(*)**	**1,871**	**(*)**

Derivative transactions to which hedge accounting was not applied as of March 31, 2012 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Writing U.S. dollar	¥ 1,139	¥ 1,149
Writing Pound Sterling	132	131
Currency swaps	1,325	(10)

	Millions of yen	
	Contract amount	Fair value
Interest rate swaps		
Pay fixed and receive floating	¥ 38	¥ (1)

Derivative transactions to which hedge accounting was applied as of March 31, 2012 were as follows:

	Millions of yen	
	Contract amount	Fair value
Interest rate swaps		
Pay floating and receive fixed	¥ 3,000	(*)
Pay fixed and receive floating	255	(*)

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

7. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Merchandise and finished goods	**¥ 47,410**	¥ 44,226	**$ 504,094**
Work-in-process	**8,452**	8,823	**89,867**
Raw materials and supplies	**24,418**	23,753	**259,628**
	¥ 80,280	¥ 76,802	**$ 853,589**

8. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 37.96% for the year ended March 31, 2013 and approximately 40.64% for the year ended March 31, 2012 and 2011.

The significant differences between the statutory and effective tax rate for the years ended March 31, 2013, 2012 and 2011 were as follows:

	2013	2012	2011
Statutory tax rate	This information is not required as the differences between the statutory tax rates and the Companies' effective tax rates are not more than 5% of the statutory tax rates.	40.64%	40.64%
Valuation allowance		(0.75%)	(1.13%)
Foreign tax credit		4.08%	—
Nontaxable dividends received		(17.67%)	(5.48%)
Elimination of dividends on consolidation		14.84%	4.90%
Amortization of negative goodwill		(0.85%)	(1.93%)
Equity in earnings of affiliates		(1.37%)	(2.36%)
Adjustment of deferred tax assets by the changes of tax rate		9.06%	—
Other		0.25%	0.25%
Effective tax rate		48.23%	34.89%

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred tax assets:			
Retirement benefits	¥ 5,714	¥ 6,015	$ 60,755
Loss carryforwards	7,372	7,729	78,384
Loss on valuation of investment securities	1,083	1,160	11,515
Excess bonuses accrued	1,787	1,783	19,001
Impairment loss on noncurrent assets	2,875	2,890	30,569
Valuation difference on available-for-sale securities	285	559	3,030
Other	6,346	7,161	67,474
Subtotal	25,462	27,297	270,728
Valuation allowance	(7,369)	(6,977)	(78,352)
Total deferred tax assets	18,093	20,320	192,376
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	4,907	3,191	52,174
Other	5,748	5,419	61,116
Total deferred tax liabilities	10,655	8,610	113,290
Net deferred tax assets (liabilities)	¥ 7,438	¥ 11,710	$ 79,086

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

Short-term loans payable are generally unsecured notes for three months with average interest rates of 0.88% and 0.74% at March 31, 2013 and 2012, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.10% to 5.42% in 2013 and 2012, maturing serially through 2018	**¥ 1,628**	¥ 2,239	**$ 17,310**
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 5.55% in 2013 and 2012, maturing serially through 2027	**32,591**	29,302	**346,529**
Bonds at interest rate of 0.86%, due September 16, 2014	**5,000**	5,000	**53,163**
Bonds at interest rate of 1.67%, due September 13, 2019	**10,000**	10,000	**106,326**
	49,219	46,541	**523,328**
Less amounts due within one year	**8,776**	7,389	**93,312**
	¥ 40,443	¥ 39,152	**$ 430,016**

At March 31, 2013, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥3,671 million ($39,032 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	**¥ 5,795**	**$ 61,616**
Land	**2,042**	**21,712**
Construction in progress, investment securities and intangible assets	**385**	**4,094**
	¥ 8,222	**$ 87,422**

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2014	¥ 8,776	$ 93,312
2015	9,713	103,275
2016	8,692	92,419
2017	4,348	46,231
2018	863	9,176
2019 and thereafter	16,827	178,915
	¥ 49,219	$ 523,328

10. 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, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Projected benefit obligation	**¥ 89,682**	¥ 82,878	**$ 953,557**
Less fair value of pension assets	**(62,331)**	(53,641)	**(662,743)**
Less unrecognized actuarial differences	**(11,201)**	(12,191)	**(119,096)**
Prepaid pension cost	**3,347**	1,962	**35,587**
Retirement benefits	**¥ 19,497**	¥ 19,008	**$ 207,305**

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

Included in the consolidated statements of income for the years ended March 31, 2013, 2012 and 2011 were severance and retirement benefit expenses that comprised the following:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2013	2012	2011	2013
Service costs—benefits earned during the year	¥ 3,501	¥ 3,136	¥ 3,116	$ 37,225
Interest costs on projected benefit obligation	1,556	1,786	1,762	16,544
Expected return on plan assets	(1,051)	(1,218)	(1,164)	(11,175)
Amortization of actuarial differences	1,874	1,865	2,033	19,926
Retirement benefit expenses	¥ 5,880	¥ 5,569	¥ 5,747	$ 62,520

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

	2013	2012	2011
Allocation method for projected benefits:	straight-line	straight-line	straight-line
Discount rate	1.5%	2.0%	2.5%
Expected rate of return	1.5%	2.0%	2.5%
Period for amortizing prior service cost	5 years	5 years	5 years
Period for amortizing actuarial differences	10 years	10 years	10 years

11. CONTINGENT LIABILITIES

At March 31, 2013 and 2012, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Notes endorsed	¥ 2	¥ —	$ 21
Notes discounted	288	398	3,062
Guarantees	217	55	2,308
Letters of awareness	324	301	3,445
	¥ 831	¥ 754	$ 8,836

12. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

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

On May 10, 2013, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2013 on the shares of stock then outstanding at the rate of ¥8.0 ($0.09) per share or a total of ¥2,696 million ($28,666 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2013. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

13. STOCK OPTIONS

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

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

	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Category and number of people granted stock options	Company directors, 12	Company directors, 12	Company directors, 13	Company directors, 12	Company directors, 13	Company directors, 13
Number of stock options granted by category of stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	57,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)	From August 11, 2010 through August 10, 2035 (*)	From August 12, 2009 through August 11, 2034 (*)	From August 12, 2008 through August 11, 2033 (*)	From September 11, 2007 through September 10, 2032 (*)

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

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

	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Beginning of term	—	75,000	61,000	53,000	48,000	19,000
Vested	75,000	—	—	—	—	—
Exercised	—	7,000	5,000	—	—	—
Expired or forfeited	—	—	—	—	—	—
Unexercised balance	75,000	68,000	56,000	53,000	48,000	19,000
Exercise price (yen)	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	438	438	—	—	—
Fair value per stock at the date granted (yen)	363	412	456	622	600	883
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	4.66	4.66	—	—	—
Fair value per stock at the date granted (USD)	3.86	4.38	4.85	6.61	6.38	9.39

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥27 million ($287 thousand), ¥31 million and ¥34 million for the years ended March 31, 2013, 2012 and 2011 respectively.

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

	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011
Expected volatility	24.19%	34.49%
Expected holding period	3 years	4 years
Expected dividend	16 yen	16 yen
Risk free interest rate	0.094%	0.276%

14. SEGMENT INFORMATION

1) Overview of Reporting Segments

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

Technology is the common foundation of all the Company's operations. These operations are divided into segments by product and service type, application and market similarity. Each segment develops its operations in accordance with a global group strategy for the Company's products and services that has unified subsidiaries in Japan and overseas.

Accordingly, the Company has categorized its operations by products and services, based on its business divisions. The corresponding seven reporting segments are Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others.

The Company establishes or abolishes business divisions as needed in order to facilitate a swift and flexible response to changes in the business environment. Accordingly, when determining reporting segments, the Company gives emphasis to continuity over a considerable period.

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

2) Basis for Calculating Net Sales, Profit or Loss, Assets, Liabilities and Other Items by Reporting Segment

Accounting treatment and procedures for reported business segments are the same as those shown in Note 2 of "Notes to Consolidated Financial Statements."

Effective from the year ending March 31, 2013, the Company has revised part of its R&D framework. Accordingly, the Company has reclassified a portion of R&D expenses, which were previously included in the Electronic Products segment as expenses for basic R&D under Companywide expenses.

Segment information shown for the fiscal year ended March 31, 2012 has been prepared based on the revised classification method for reporting segments.

As described in "(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)," from the year ending March 31, 2013, as a result of the revision to the Corporation Tax Law, the Company and its consolidated domestic subsidiaries have made the following change in their accounting principles. The method of calculating depreciation and amortization of property, plant and equipment purchased after April 1, 2012 is based on the revised corporation tax law.

As a result of this change, in comparison with amounts calculated with the former method, Kaneka's segment profit for the year ending March 31, 2013, increased ¥57 million in the Chemicals segment, ¥23 million in the Functional Plastics segment, ¥42 million in the Expandable Plastics and Products segment, ¥106 million in the Foodstuffs Products segment, ¥43 million in the Life Science Products segment and ¥29 million in the Synthetic Fibers and Others segment. Segment loss decreased ¥132 million in the Electronic Products segment. In addition, ¥274 million has been included in the adjustment amount for segment earnings not attributed to a reporting segment.

3) Segment Information by Business Category

Millions of yen

2013	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
	Segment Information									
Sales										
Customers	¥ 94,795	¥ 70,861	¥ 58,144	¥ 132,223	¥ 47,132	¥ 41,530	¥ 31,778	¥ 476,463	¥ —	¥ 476,463
Intersegment	1,154	645	148	1	203	648	1,538	4,337	(4,337)	—
Total	95,949	71,506	58,292	132,224	47,335	42,178	33,316	480,800	(4,337)	476,463
Segment profit/loss	4,385	6,205	3,975	5,293	9,645	(4,007)	4,408	29,904	(14,094)	15,810
Segment assets	85,096	58,402	46,616	71,076	62,851	69,642	21,105	414,788	69,669	484,457
Other Items										
Depreciation	5,429	3,469	2,424	3,009	2,840	6,659	2,778	26,608	2,388	28,996
Amortization of goodwill	—	29	—	—	270	—	—	299	—	299
Investment in equity method affiliates	—	2,102	1,420	—	—	—	—	3,522	—	3,522
Increase in assets	5,709	2,569	2,879	3,957	2,436	5,916	2,397	25,863	4,061	29,924

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

Millions of yen

2012	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
	Segment Information									
Sales										
Customers	¥ 94,204	¥ 71,119	¥ 57,591	¥ 131,111	¥ 46,996	¥ 38,027	¥ 30,241	¥ 469,289	¥ —	¥ 469,289
Intersegment	2,009	655	194	1	14	477	1,541	4,891	(4,891)	—
Total	96,213	71,774	57,785	131,112	47,010	38,504	31,782	474,180	(4,891)	469,289
Segment profit/loss	3,647	6,163	4,378	5,309	8,428	(4,269)	1,722	25,378	(12,227)	13,151
Segment assets	82,325	56,875	46,315	71,315	59,790	70,275	19,609	406,504	60,579	467,083
Other Items										
Depreciation	5,104	3,276	2,519	2,732	2,947	7,898	3,007	27,483	1,926	29,409
Amortization of goodwill	—	20	—	—	264	—	—	284	—	284
Investment in equity method affiliates	—	1,950	1,326	—	—	—	—	3,276	—	3,276
Increase in assets	7,630	4,270	2,746	3,993	2,257	7,108	3,646	31,650	1,458	33,108

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

Millions of yen

2011	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
	Segment Information									
Sales										
Customers	¥ 85,467	¥ 69,993	¥ 58,630	¥ 123,782	¥ 47,517	¥ 41,226	¥ 27,212	¥ 453,827	¥ —	¥ 453,827
Intersegment	3,000	512	194	0	108	595	1,433	5,842	(5,842)	—
Total	88,467	70,505	58,824	123,782	47,625	41,821	28,645	459,669	(5,842)	453,827
Segment profit/loss	2,764	8,297	6,229	7,960	9,280	(4,120)	787	31,197	(9,962)	21,235
Segment assets	73,364	54,818	45,996	69,250	63,208	67,511	20,380	394,527	60,614	455,141
Other Items										
Depreciation	4,983	3,525	2,406	2,588	2,967	7,194	3,651	27,314	1,403	28,717
Amortization of goodwill	—	—	47	—	225	—	—	272	—	272
Investment in equity method affiliates	—	1,787	1,142	—	—	—	—	2,929	—	2,929
Increase in assets	5,536	2,023	1,915	2,578	2,029	10,152	1,623	25,856	3,394	29,250

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

Thousands of U.S. dollars (Note 1)

2013	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
	Segment Information									
Sales										
Customers	$1,007,921	$ 753,440	$ 618,224	$1,405,880	$ 501,138	$ 441,574	$ 337,884	$5,066,061	$ —	$5,066,061
Intersegment	12,270	6,858	1,574	10	2,158	6,890	16,353	46,113	(46,113)	—
Total	1,020,191	760,298	619,798	1,405,890	503,296	448,465	354,237	5,112,174	(46,113)	5,066,061
Segment profit/loss	46,624	65,976	42,265	56,279	102,552	(42,605)	46,868	317,959	(149,857)	168,102
Segment assets	904,795	620,968	495,651	755,726	668,272	740,478	224,402	4,410,292	740,766	5,151,058
Other Items										
Depreciation	57,724	36,885	25,773	31,994	30,197	70,803	29,538	282,913	25,390	308,304
Amortization of goodwill	—	308	—	—	2,871	—	—	3,179	—	3,179
Investment in equity method affiliates	—	22,350	15,098	—	—	—	—	37,448	—	37,448
Increase in assets	60,702	27,315	30,611	42,073	25,901	62,903	25,487	274,992	43,179	318,171

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

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

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars (Note 1) 2013
Income				
Segment total	¥ 29,904	¥ 25,378	¥ 29,502	$ 317,959
Elimination of intersegment transactions	(22)	(2)	(4)	(234)
Companywide expenses (Note)	(14,023)	(12,132)	(8,217)	(149,102)
Other adjustments	(49)	(93)	(46)	(520)
Operating income in the quarterly consolidated statements of income	¥ 15,810	¥ 13,151	¥ 21,235	$ 168,102

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

	Millions of yen 2013	2012	2011	Thousands of U.S. dollars (Note 1) 2013
Income				
Segment total	¥ 414,788	¥ 406,504	¥ 394,527	$ 4,410,292
Elimination of intersegment transactions	(6,879)	(5,175)	(5,245)	(73,142)
Companywide assets (Note)	75,468	64,549	66,147	802,424
Other adjustments	1,080	1,205	(288)	11,483
Total assets in the quarterly consolidated statements of income	¥ 484,457	¥ 467,083	¥ 455,141	$ 5,151,058

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

Millions of yen

	Segment total 2013	2012	2011	Other 2013	2012	2011	Adjustments 2013	2012	2011	Consolidated 2013	2012	2011
Other Items												
Depreciation	¥ 26,608	¥ 27,314	¥ 25,405	¥ 2,388	¥ 1,403	¥ 805	¥ —	¥ —	¥ —	¥ 28,996	¥ 28,717	¥ 26,210
Increase in assets	25,863	25,856	23,321	4,061	3,394	1,001	—	—	—	29,924	29,250	24,322

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

Thousands of U.S. dollars (Note 1)

	Segment total 2013	Other 2013	Adjustments 2013	Consolidated 2013
Other Items				
Depreciation	$ 282,913	$ 25,390	$ —	$ 308,304
Increase in assets	274,992	43,179	—	318,171

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

(Related Information)

Related information at March 31, 2013 and 2012 consisted of the following:

1) Information by Product and Service

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

2) Geographic Area

(1) Sales

2013					Millions of yen
Japan	Asia	North America	Europe	Other areas	Total
¥ 322,535	**¥ 68,138**	**¥ 28,784**	**¥ 41,047**	**¥ 15,959**	**¥ 476,463**

2012					Millions of yen
Japan	Asia	North America	Europe	Other areas	Total
¥ 319,796	¥ 62,708	¥ 28,152	¥ 42,384	¥ 16,249	¥ 469,289

2013					Thousands of U.S. dollars (Note 1)
Japan	Asia	North America	Europe	Other areas	Total
$ 3,429,399	**$ 724,487**	**$ 306,050**	**$ 436,438**	**$ 169,686**	**$ 5,066,061**

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

(2) Property, plant and equipment

2013				Millions of yen
Japan	Asia	North America	Europe	Total
¥ 131,548	**¥ 17,153**	**¥ 14,599**	**¥ 6,247**	**¥ 169,547**

2012				Millions of yen
Japan	Asia	North America	Europe	Total
¥ 133,848	¥ 11,238	¥ 13,297	¥ 6,055	¥ 164,438

2013				Thousands of U.S. dollars (Note 1)
Japan	Asia	North America	Europe	Total
$ 1,398,703	**$ 182,382**	**$ 155,226**	**$ 66,422**	**$ 1,802,733**

3) Information on Major Customers

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

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2013 and 2012 consisted of the following:

Nothing to report

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2013 and 2012 consisted of the following:

Millions of yen

	Segment Information									
2013	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	**¥ —**	**¥ 29**	**¥ —**	**¥ —**	**¥ 270**	**¥ —**	**¥ —**	**¥ 299**	**¥ —**	**¥ 299**
Balance	**—**	**273**	**—**	**—**	**3,742**	**—**	**—**	**4,015**	**—**	**4,015**
(Negative goodwill)										
Amortization	**—**	**—**	**—**	**71**	**—**	**152**	**—**	**223**	**—**	**223**
Balance	**—**	**—**	**—**	**56**	**—**	**152**	**—**	**208**	**—**	**208**

Millions of yen

	Segment Information									
2012	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	¥ —	¥ 20	¥ —	¥ —	¥ 264	¥ —	¥ —	¥ 284	¥ —	¥ 284
Balance	—	278	—	—	3,657	—	—	3,935	—	3,935
(Negative goodwill)										
Amortization	—	—	—	57	—	151	—	208	—	208
Balance	—	—	—	128	—	303	—	431	—	431

Thousands of U.S. dollars (Note 1)

	Segment Information									
2013	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	**$ —**	**$ 308**	**$ —**	**$ —**	**$ 2,871**	**$ —**	**$ —**	**$ 3,179**	**$ —**	**$ 3,179**
Balance	**—**	**2,903**	**—**	**—**	**39,787**	**—**	**—**	**42,690**	**—**	**42,690**
(Negative goodwill)										
Amortization	**—**	**—**	**—**	**755**	**—**	**1,616**	**—**	**2,371**	**—**	**2,371**
Balance	**—**	**—**	**—**	**596**	**—**	**1,616**	**—**	**2,212**	**—**	**2,212**

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Foodstuffs Products segment, the Company recorded negative goodwill of ¥192 million in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2011.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kaneka Corporation:

We have audited the accompanying consolidated financial statements of Kaneka Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaneka Corporation and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for each of the three years in the period ended March 31, 2013, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
August, 2, 2013
Osaka, Japan

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

● **Eurogentec S.A. <Belgium>**
Sales and manufacture of biopharmaceuticals, diagnostic and biotech products

● **Kaneka Modifiers Deutschland GmbH <Germany>**
Manufacture of functional plastics

U.S.A.

● **Kaneka Americas Holding, Inc.**
Operating headquarters in the Americas

● **Kaneka North America LLC**
Sales and manufacture of specialty PVC resins, functional plastics, electronic products and functional foodstuffs

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

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

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

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

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

● **Kaneka Asia Co., Ltd. <P.R. China>**
Operating headquarters in Asia

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

● **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

● **Kaneka Taiwan Corporation <Taiwan>**
Sales activity and market research

● **Kaneka Korea Corporation <South Korea>**
Market research, sales and business support activities

JAPAN

■ **Kaneka Hokkaido Styrol Co., Ltd.**
■ **Kaneka Tohoku Styrol Co., Ltd.**
■ **Kaneka Kanto Styrol Co., Ltd.**
■ **Kaneka Chubu Styrol Co., Ltd.**
■ **Kaneka Nishinippon Styrol Co., Ltd.**
■ **Sanwa Kasei Kogyo Co., Ltd.**
■ **Hokkaido Kanelite Co., Ltd.**
■ **Kyushu Kanelite Co., Ltd.**
Manufacture of expandable plastics and products

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

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

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

■ **Kaneka Foam Plastics Co., Ltd.**
■ **Hane Co., Ltd.**
Sales of expandable plastics and products

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

■ **Kaneka Shokuhin Corporation**
■ **Tokyo Kaneka Shokuhin Corporation**
■ **Tokai Kaneka Shokuhin Corporation**
■ **Kyushu Kaneka Shokuhin Corporation**
Sales of foodstuffs products

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

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

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

■ **Kanto Styrene Co., Ltd.**
■ **Kochi Styrol Co., Ltd.**
■ **Tamai Kasei Co., Ltd.**
Sales and manufacture of expandable plastics and products

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

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

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

■ **Sanvic Inc.**
■ **Vienex Corporation**
Sales and manufacture of electronic products

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

■ **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 Complex

■ **OLED Aomori Co., Ltd.**
Manufacture and development of organic EL light-emitting devices

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

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

CORPORATE DATA

KANEKA CORPORATION

OFFICES

Osaka Head office:

2-3-18, Nakanoshima, Kita-ku, Osaka 530-8288, Japan
Telephone: +81-6-6226-5050
Facsimile: +81-6-6226-5037

Tokyo Head office:

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

DATE OF ESTABLISHMENT

September 1, 1949

NUMBER OF EMPLOYEES (as of March 31, 2013)

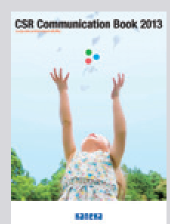
3,289 (Kaneka Corporation)
8,600 (including consolidated subsidiaries)

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
Molding & Processing Development Center
Process Technology Laboratories



Please refer to the Kaneka Group CSR report 2013 for information on Kaneka's CSR activities.
http://www.kaneka.co.jp/kaneka-e/csr/index.html

INVESTOR INFORMATION (as of March 31, 2013)

COMMON STOCK TRADED*

Tokyo, Osaka, Nagoya

TRANSFER AGENT

Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch

3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502

ACCOUNTING AUDITOR

KPMG AZSA LLC

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

AUTHORIZED CAPITAL

750,000,000 shares

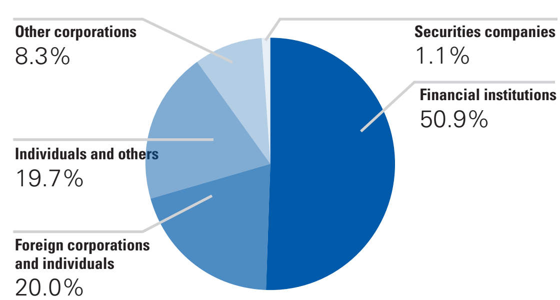
ISSUED SHARES

350,000,000 shares

NUMBER OF SHAREHOLDERS

22,396

DISTRIBUTION OF STOCKHOLDERS



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

Fiscal Year	2009	2010	2011	2012	**2013**
High	820	720	623	601	**567**
Low	334	486	420	397	**370**

* On July 16, 2013, the cash equity market functions of Osaka Securities Exchange were integrated with that of Tokyo Stock Exchange.

KANEKA CORPORATION
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