

Quarterly Financial Results for the Third Quarter, Ended December 31, 2016 (Japanese GAAP, Consolidated)

February 8, 2017

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

Representative: Mamoru Kadokura Title: President, Representative Director

Contact Person: Keiji Suzuki Title: General Manager – Accounting Department Phone: +81-6-6226-5169

Scheduled date for submitting financial statements: February 13, 2017 Scheduled date of dividend distribution: —

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

1. Consolidated Business Performance for the Third Quarter, Ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2016 – Dec. 2016	408,082	(2.2)	24,570	(16.3)	20,762	(19.2)	12,952	(21.0)
Apr. 2015 – Dec. 2015	417,204	0.8	29,360	75.1	25,692	47.6	16,401	63.3

Note: Comprehensive income: ¥20,346 million (-5.7%) nine months ended December 31, 2016
¥17,102 million (-15.9%) nine months ended December 31, 2015

	Net income per share	Fully diluted net income per share
Apr. 2016 – Dec. 2016	¥ 39.03	¥ 38.99
Apr. 2015 – Dec. 2015	49.15	49.11

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of December 31, 2016	¥ million 598,304	¥ million 316,997	50.3%
As of March 31, 2016	577,251	308,722	50.6%

(Reference) Shareholders' equity: ¥300,746 million as of December 31, 2016
¥292,208 million as of March 31, 2016

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2015 – Mar. 2016	¥ —	¥ 8.00	¥ —	¥ 10.00	¥ 18.00
Apr. 2016 – Mar. 2017	—	9.00	—		
Apr. 2016 – Mar. 2017 (Forecasts)				9.00	18.00

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

3. Forecast for consolidated business performance for the year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	560,000	0.9	38,500	0.7	34,000	2.9	21,000	0.1	63.28

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

4. Other

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

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

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

1. Changes owing to revisions in accounting standards: No

2. Changes other than 1. above: No

3. Changes in accounting estimates: No

4. Restatements: No

(4) Number of shares outstanding (common stock)

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

December 31, 2016	350,000,000 shares	March 31, 2016	350,000,000 shares
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2. Shares of treasury stock at the end of the period:

December 31, 2016	17,903,979 shares	March 31, 2016	18,356,481 shares
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3. Average number of shares during the period (calculated
cumulatively from the beginning of the fiscal year)

December 31, 2016	331,831,487 shares	December 31, 2015	333,682,914 shares
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(Disclosure of Implementation Status of Review Procedures)

As of the date of this report, the review procedures prescribed in the Financial Instruments and Exchange Act were not complete.

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

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the company will achieve these forecasts or other forward-looking statements. For cautionary items used in operating results forecasts, please refer to "(3) Consolidated Business Forecasts" under "1. Quarterly Consolidated Business Performance" on page 4.

Supplementary Materials

Contents

1. Quarterly Consolidated Business Performance	P. 2
(1) Consolidated Business Performance	P. 2
(2) Consolidated Financial Position	P. 3
(3) Consolidated Business Forecasts	P. 4
2. Other Information	P. 4
(1) Changes in Principal Subsidiaries during the Term	P. 4
(2) Application of Specific Accounting Methods in Preparation of Financial Statements	P. 4
(3) Changes in Accounting Principles, Changes in Estimates, or Restatements	P. 4
3. Quarterly Consolidated Financial Statements	P. 5
(1) Quarterly Consolidated Balance Sheets	P. 5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	P. 7
(3) Quarterly Consolidated Statements of Cash Flows	P. 9
(4) Notes on Consolidated Financial Statements	P.10
(Notes on the Premise of a Going Concern)	P.10
(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)	P.10
(Segment Information)	P.10

1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economic outlook lacked strength overall during the first nine months under review (April 1, 2016 to December 31, 2016). The global economy and financial markets were greatly shaken by two unexpected events: the U.K.'s decision to withdraw from the EU and the election of Donald Trump as the new president of the U.S. The impact of these events spread to and slowed down the economies of developed, emerging, and resource-rich countries. The Japanese economy was also affected: exports weakened due to the impact of the global economic slowdown and the appreciation of the yen, and personal consumption stagnated.

In this business environment, the Kaneka Group reported consolidated net sales of ¥408,082 million (down 2.2% year on year), and operating income was ¥24,570 million (down 16.3% year on year), due to the effect of the yen appreciation and sluggish demand in the electronic market, despite accomplishing an increase of total sales volume by expansion of sales of new products and specialized products. Ordinary income was ¥20,762 million (down 19.2% year on year), and net income attributable to owners of the parent was ¥12,952 million (down 21.0% year on year).

By segment, sales increased year on year in the Functional Plastics and Foodstuffs Products segments and decreased in the Chemicals, Expandable Plastics and Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others segments. Operating income increased year on year in the Chemicals and Foodstuffs Products segments, was approximately the same level in Functional Plastics, and decreased in the Expandable Plastics and Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others segments.

Operating performance by business segment was as follows:

1) Chemicals

In the PVC resins business, profits improved due to the increasing sales volume in Asian markets, although net sales decreased due to the yen appreciation and the fall in raw materials prices. In the Specialty PVC resins business, Paste PVC continued its firm sales, mainly for Asia, and sales of Chlorinated PVC resins for the U.S. and Asia continued to expand. The caustic soda business remained sluggish due to the delayed recoveries of domestic market conditions.

As a result of the foregoing, segment sales decreased ¥8,298 million, or 10.6%, year on year to ¥69,873 million, and the segment posted operating income of ¥4,524 million, an increase of ¥1,032 million, or 29.6%, year on year.

2) Functional Plastics

In the modifiers business, sales volume increased for domestic and overseas as Kaneka Group expanded sales for new applications as in the non-PVC field. The modified silicone polymers business saw an increase in sales volume in all regions in both domestic and overseas. This was because the polymers were evaluated highly for their unique quality and expanded sales in the construction and other industrial fields. The construction of new production facilities for the modifiers (to be operational in March, 2017) and for the modified silicone polymers (to be operational in July, 2017) in Malaysia made steady progress. After operations start, Kaneka Group will respond rapidly to expanding demand in Asian market. In addition, by making CEMEDINE CO., LTD. a consolidated subsidiary of the Group from January, 2016, the Kaneka Group made progress in realizing Group synergies focusing on overseas development.

As a result of the foregoing, segment sales increased ¥9,976 million, or 14.3%, year on year to ¥79,930 million, and the segment posted operating income of ¥10,896 million, approximately the same level year on year.

3) Expandable Plastics and Products

Demands in the expandable polystyrene resins and products business remained sluggish in the agriculture and fisheries fields. On the other hand, sales in the extruded polystyrene foam boards business were solid due to a recovery of the Japanese housing-related markets. Moreover, the segment saw expanded sales of bead-method polyolefin foam in the Asian market, particularly in the automotive field.

As a result of the foregoing, segment sales decreased ¥1,327 million, or 2.6%, year on year to ¥49,086 million, and the segment posted operating income of ¥5,007 million, down ¥143 million, or 2.8%, year on year.

4) Foodstuffs Products

In the Foodstuff Products business, the Group focused on strengthening R&D, and developing and

selling new products that anticipate consumer needs in order to add high added-value to the product mix amid a continued faltering in domestic demand and consumer preference for low prices and in progressing food diversity. Being affected by bad weather during the summer season, the Group improved profitability by launching new products and promoting business structural reforms designed to strengthen and streamline the entire supply chain.

As a result of the foregoing, segment sales increased ¥1,905 million, or 1.7%, year on year to ¥111,075 million, and the segment posted operating income of ¥3,512 million, an increase of ¥1,040 million, or 42.1%, year on year.

5) Life Science Products

In the medical devices business, sales of the blood purification business remained sluggish. On the other hand, sales for overseas markets in the vascular intervention business expanded steadily due to the enlarging of joint businesses with other companies and the obtaining of results by conducting new joint businesses, despite the dampening effect of the revision of reimbursement prices in domestic markets. In the pharmaceutical business, sales expanded steadily in the active pharmaceutical ingredients (API) market and the bio-pharmaceutical market. The functional foodstuffs business saw a steady increase in sales volume of the reduced form of coenzyme Q10, mainly in the U.S market, which is the biggest market. Moreover, the Group saw sales increase following the launch of a Food with Functional Claims System in the Japanese market.

As a result of the foregoing, segment sales decreased ¥1,362 million, or 3.1%, year on year to ¥42,090 million, and the segment posted operating income of ¥8,392 million, down ¥245 million, or 2.8%, year on year.

6) Electronic Products

Overall sales of ultra-heat-resistant polyimide film and high thermal conductive graphite sheet were affected by a slow start in the overall smartphone market and the yen appreciation, despite the expansion of sales of mainly high-function products as the new driving forces in line with progress in high-functioning smartphones made in China. In the photovoltaic modules business, the sales volume for a major house manufacturer expanded due to it being evaluated highly for the function and beauty of its new products, and profitability improved in tandem with the continued implementation of business structural reforms. The business concentrated more on expanding the sales of new products and high-function products using heterojunction technology, which has one of the world's highest conversion efficiencies, and on initiatives to provide solutions contributing to the realization of net zero energy houses.

As a result of the foregoing, segment sales decreased ¥4,073 million, or 13.3%, to ¥26,612 million, and the segment posted an operating loss of ¥1,300 million.

7) Synthetic Fibers and Others

In the synthetic fibers business, the segment was strongly impacted by the yen appreciation, despite putting efforts into expanding sales of products with high added-value and reducing costs. Also the segment was impacted by the sluggish economy in Africa overall and the delay in a recovery in the Asian market. The segment continued planning to improve profits by making higher functional products through utilizing R&D, and by utilizing competition of new production facilities in Malaysia.

As a result of the foregoing, segment sales decreased ¥5,942 million, or 16.8%, year on year to ¥29,413 million, and the segment posted operating income of ¥8,906 million, a decrease of ¥3,739 million, or 29.6%, year on year.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥598,304 million as of December 31, 2016, up ¥21,053 million compared with March 31, 2016, mainly due to increases in notes and accounts receivable-trade, and investment of stock. Liabilities were ¥281,306 million, an increase of ¥12,778 million, mainly due to increases in notes and accounts payable-trade. Net assets (equity) increased ¥8,275 million, to ¥316,997 million, mainly due to an increase in the retained earnings.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first nine months of the fiscal year was ¥37,709 million, mainly due to income before income taxes, and depreciation and amortization. Net cash used in investing activities amounted to ¥28,606 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥10,860 million, mainly owing to the repayment of loans payable and cash dividends paid. As a result, cash and cash equivalents as

of December 31, 2016 totaled ¥41,120 million.

(3) Consolidated Business Forecasts

The global economy is expected to recover as a whole, although there are many uncertainties about the future, including the impact of the birth of the new political administration in the U.S., sharp fluctuations in crude oil prices and the problem of the U.K.'s withdrawal from the EU. The Japanese economy is also forecast to recover moderately, on the back of the global economy's recovery.

The Kaneka Group's performance during the nine months ended December 31, 2016 was strongly impacted by the appreciation of the yen, sluggish demand for smartphones in the electronics market, and other factors. From January 1, 2017 onwards, however, the business performance overall is forecast to move to a recovery, mainly due to the expected increase in demand in the electronics-related market, expansion of sales of new products in the Foodstuffs Product business, expansion of overseas sales in the Chemicals and Functional Plastics businesses, and increase of sales in the pharmaceutical field. The Group will strive to expand earnings by further reinforcing its product differentiation ability and cost reduction, and by further accelerating business structural reforms initiatives such as ensuring the contributions of new products.

As a result, the Group has not revised its full-year consolidated business forecast for the fiscal year ending March 31, 2017 announced November 9, 2016.

2. Other Information

(1) Changes in Principal Subsidiaries during the Term

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

(2) Application of Specific Accounting Methods in Preparation of Financial Statements

Nothing to report

(3) Changes in Accounting Principles, Changes in Estimates, or Restatements

Nothing to report

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2015 Term ended March 31, 2016	FY2016 3rd Quarter Term ended December 31, 2016
Assets		
Current assets		
Cash and deposits	43,447	41,819
Notes and accounts receivable – trade	121,682	132,718
Short-term investment securities	110	110
Merchandise and finished goods	51,745	51,845
Work in process	10,125	9,796
Raw materials and supplies	31,828	32,526
Other	15,113	16,117
Allowance for doubtful accounts	(345)	(349)
Total current assets	273,708	284,584
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	69,204	73,338
Machinery, equipment and vehicles, net	88,753	95,633
Other, net	61,757	55,950
Total property, plant and equipment	219,715	224,921
Intangible assets		
Goodwill	4,123	3,582
Other	8,074	7,162
Total intangible assets	12,197	10,744
Investments and other assets		
Investment securities	55,602	63,347
Other	16,242	14,923
Allowance for doubtful accounts	(215)	(217)
Total investments and other assets	71,629	78,053
Total noncurrent assets	303,542	313,720
Total assets	577,251	598,304

	(Millions of yen)	
	FY2015	FY2016 3rd Quarter
	Term ended March_31, 2016	Term ended December 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable – trade	64,819	78,008
Short-term loans payable	52,695	50,185
Income taxes payable	3,708	2,525
Provision	134	10
Other	42,191	44,590
Total current liabilities	163,550	175,321
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	53,773	54,532
Provision	303	308
Net defined benefit liability	36,667	36,642
Other	4,233	4,500
Total noncurrent liabilities	104,978	105,985
Total liabilities	268,528	281,306
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,936	32,862
Retained earnings	234,377	240,991
Treasury stock	(15,558)	(15,034)
Total shareholders' equity	286,801	291,867
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,450	22,812
Deferred gains or losses on hedges	(51)	(80)
Foreign currency translation adjustment	(1,082)	(4,263)
Remeasurements of defined benefit plans	(10,909)	(9,589)
Total accumulated other comprehensive income	5,406	8,878
Subscription rights to shares	228	267
Noncontrolling interests	16,285	15,984
Total net assets	308,722	316,997
Total liabilities and net assets	577,251	598,304

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2015 3rd Quarter From April 1, 2015 to December 31, 2015	FY2016 3rd Quarter From April 1, 2016 to December 31, 2016	
Net sales	417,204	408,082	
Cost of sales	297,346	286,416	
Gross profit	119,858	121,665	
Selling, general and administrative expenses	90,497	97,095	
Operating income	29,360	24,570	
Non-operating income			
Dividends income	1,189	1,469	
Gain on sales of investment securities	70	480	
Equity in earnings of affiliates	245	95	
Other	532	681	
Total non-operating income	2,038	2,727	
Non-operating expenses			
Interest expenses	873	1,020	
Loss on retirement of noncurrent assets	2,417	2,107	
Foreign exchange losses	786	2,210	
Other	1,629	1,196	
Total non-operating expenses	5,706	6,535	
Ordinary income	25,692	20,762	
Extraordinary loss			
Patent protection court cost	947	594	
Total extraordinary losses	947	594	
Income before income taxes	24,745	20,168	
Income taxes-current	5,254	5,020	
Income taxes-deferred	2,526	1,421	
Total income taxes	7,781	6,442	
Net income	16,963	13,725	
Net income attributable to non-controlling interests	562	772	
Net income attributable to owners of parent	16,401	12,952	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2015 3rd Quarter From April 1, 2015 to December 31, 2015	FY2016 3rd Quarter From April 1, 2016 to December 31, 2016
Net income	16,963	13,725
Other comprehensive income		
Valuation difference on available-for-sale securities	4,630	5,502
Deferred gains or losses on hedges	40	(28)
Foreign currency translation adjustment	(1,456)	(3,415)
Remeasurements of defined benefit plans, net of tax	174	1,319
Share of other comprehensive income of associates accounted for using equity method	(5)	(1)
Total other comprehensive income	3,382	3,376
Comprehensive income	20,346	17,102
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	19,770	16,424
Comprehensive income attributable to noncontrolling interests	575	677

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	FY2015 3rd Quarter From April 1, 2015 to December 31, 2015	FY2016 3rd Quarter From April 1, 2016 to December 31, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	24,745	20,168
Depreciation and amortization	19,504	20,503
Increase (decrease) in net defined benefit liability	126	1,843
Increase (decrease) in net defined benefit asset	317	–
Increase (decrease) in allowance for doubtful accounts	20	12
Interest and dividends income	(1,230)	(1,530)
Interest expenses	873	1,020
Equity in (earnings) losses of affiliates	(245)	(95)
Loss (gain) on disposal of noncurrent assets	494	526
Decrease (increase) in notes and accounts receivable–trade	(3,962)	(11,628)
Decrease (increase) in inventories	(3,601)	(1,256)
Increase (decrease) in notes and accounts payable–trade	8,434	13,578
Other, net	5,572	663
Subtotal	51,050	43,805
Interest and dividends income received	1,274	1,529
Interest expenses paid	(758)	(891)
Income taxes paid	(5,004)	(6,734)
Net cash provided by (used in) operating activities	46,561	37,709
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(29,538)	(26,893)
Proceeds from sales of property, plant and equipment	375	55
Purchase of intangible assets	(2,135)	(993)
Purchase of investment securities	(63)	(56)
Proceeds from sales of investment securities	365	511
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(102)
Payments of loans receivable	(1,386)	(363)
Collection of loans receivable	824	187
Other, net	(963)	(952)
Net cash provided by (used in) investing activities	(32,522)	(28,606)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	1,666	(2,128)
Proceeds from long-term loans payable	13,140	4,911
Repayments of long-term loans payable	(7,950)	(4,502)
Repayments of lease obligations	(73)	(119)
Purchase of treasury stock	(2,769)	(7)
Proceeds from sales of treasury stock	0	346
Proceeds from stock issuance to noncontrolling shareholders	–	53
Cash dividends paid	(5,344)	(6,328)
Dividends paid to noncontrolling interests	(152)	(398)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(11)	(2,686)
Net cash provided by (used in) financing activities	(1,494)	(10,860)
Effect of exchange rate change on cash and cash equivalents	(121)	(283)
Net increase (decrease) in cash and cash equivalents	12,422	(2,041)
Cash and cash equivalents at beginning of period	28,020	43,161
Cash and cash equivalents at end of period	40,443	41,120

(4) Notes on Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

No corresponding transactions

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

No corresponding transactions

(Segment Information)

Term from April 1, 2015 to December 31, 2015

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	78,172	69,954	50,413	109,170	43,452	30,685	35,356	417,204	—	417,204
Intersegment	704	526	40	5	23	188	952	2,441	(2,441)	—
Total	78,876	70,480	50,454	109,176	43,475	30,874	36,308	419,646	(2,441)	417,204
Segment income	3,491	10,974	5,151	2,472	8,638	552	12,645	43,927	(14,566)	29,360

(Note) Segment income is reconciled with operating income in the quarterly consolidated financial statements.

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

(Millions of yen)

Income	Amount
Segment total	43,927
Elimination of intersegment transactions	(1)
Companywide expenses (Note)	(14,556)
Other adjustments	(8)
Operating income in the quarterly consolidated statements of income	29,360

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

Term from April 1, 2016 to December 31, 2016

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	69,873	79,930	49,086	111,075	42,090	26,612	29,413	408,082	—	408,082
Intersegment	798	698	69	4	25	165	1,084	2,846	(2,846)	—
Total	70,672	80,628	49,156	111,080	42,115	26,778	30,498	410,929	(2,846)	408,082
Segment income (loss)	4,524	10,896	5,007	3,512	8,392	(1,300)	8,906	39,940	(15,370)	24,570

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

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

(Millions of yen)

Income	Amount
Segment total	39,940
Elimination of intersegment transactions	(7)
Companywide expenses (Note)	(15,352)
Other adjustments	(10)
Operating income in the quarterly consolidated statements of income	24,570

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