FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

In the fiscal year from April 1, 2015 to March 31, 2016 (FY2016), the Kaneka Group achieved a new record in sales, marking the sixth consecutive year of growth. Overall, net sales for FY2016 increased 0.6% from the previous fiscal year to ¥555,227 million. With a focus on strengthening its global business foundation mainly by organizing and implementing regional umbrella company systems in Europe, the U.S. and Asia, overseas sales rose 3.0% year on year to ¥217,413 million and the ratio of overseas sales to total sales increased from 38.2% to 39.2%.

OPERATING EXPENSES AND OPERATING INCOME

During FY2016, the cost of sales decreased by 4.7% to ¥394,021 million. The cost of sales ratio decreased from 74.9% to 71.0%. SG&A expenses increased 7.7% to ¥122,986 million, and the ratio of SG&A expenses to sales increased from 20.7% to 22.2%.

Operating income during FY2016 increased 55.1% to ¥38,220 million. By segment, while sales decreased year on year in the Chemicals, Expandable Plastics and Products and Electronic Products segments, sales increased year on year in the Functional Plastics, Foodstuffs Products, Life Science Products, and Synthetic Fibers and Others segments. Operating income increased in all segments due to favorable sales centered on principal products and improved profitability.

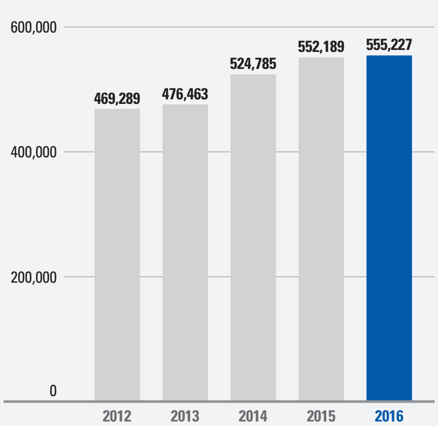
NET INCOME

For the year, the Group recorded net income attributable to owners of parent of ¥20,986 million, up 16.4% from the previous fiscal year.

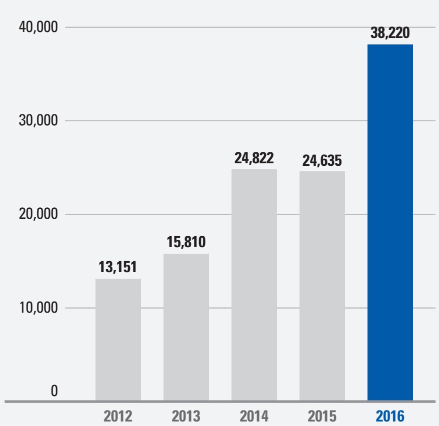
FINANCIAL CONDITION

As of March 31, 2016, total assets were ¥577,251 million, up ¥19,288 million from March 31, 2015, due mainly to increases in property, plant and equipment. The ratio of net income attributable to owners of parent to total assets (ROA) was 3.7%, up 0.4% from the previous fiscal year. Interest-bearing debt stood at ¥113,877 million, up ¥3,445 million from March 31, 2015. Net assets decreased ¥505 million to ¥308,722 million, reflecting an increase in retained earnings and a decrease in remeasurements of defined benefit plans. As a result, the equity ratio came to 50.6%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.39.

Net sales
(Millions of yen)



Operating income
(Millions of yen)



CASH FLOWS

Cash and cash equivalents at March 31, 2016 were ¥43,162 million, ¥15,142 million more than at March 31, 2015.

Net cash provided by operating activities was ¥59,705 million, ¥26,102 million more than in the previous fiscal year. The main contributors to the increase were income before income taxes and non-controlling interests of ¥30,602 million and depreciation and amortization of ¥26,438 million, which were partially offset by income taxes paid of ¥5,387 million.

Net cash used in investing activities amounted to ¥40,752 million, ¥2,538 million more than in the previous fiscal year. The principal use of cash was ¥38,552 million for the purchase of property, plant and equipment.

Financing activities used net cash of ¥3,552 million, ¥2,748 million more than in the previous fiscal year. This mainly reflected ¥5,384 million in proceeds from loans payable, which was partially offset by cash dividends paid of ¥5,345 million and purchase of treasury stock of ¥3,585 million.

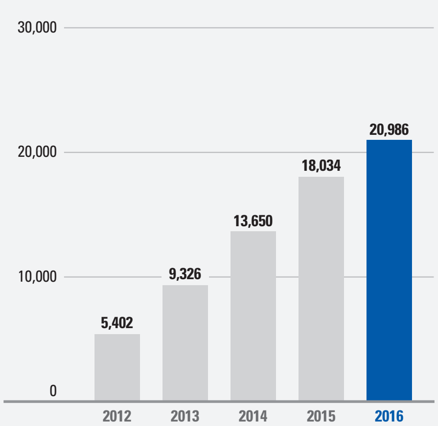
Financial Index Trends

	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016
Shareholders' equity ratio	53.0%	53.8%	52.8%	53.5%	50.6%
Shareholders' equity ratio based on market value	36.0%	37.9%	40.6%	50.8%	55.4%
Interest-bearing debt coverage ratio	4.7	2.6	3.0	3.3	1.9
Interest coverage ratio	17.9	36.4	33.6	27.8	50.9

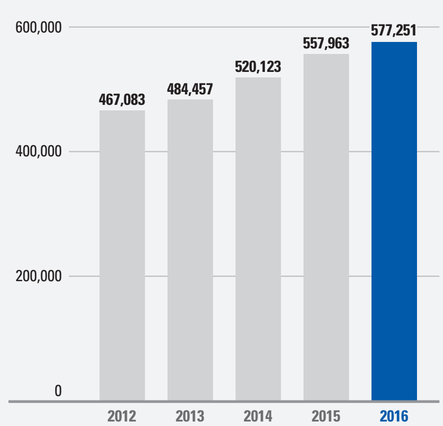
Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:
1. All 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.

FINANCIAL SECTION

Net income attributable to owners of parent
(Millions of yen)



Total assets
(Millions of yen)



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, 2016 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 by 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 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 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 rights 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 world's ecosystem, the Kaneka Group puts forth its best efforts to reduce its environmental footprint and to save resources and energy throughout the lifecycle 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 it 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.