

Quarterly Financial Results for the First Quarter, Ended June 30, 2016 (Japanese GAAP, Consolidated)

August 8, 2016

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: August 10, 2016 Scheduled date of dividend distribution: —

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

1. Consolidated Business Performance for the First Quarter, Ended June 30, 2016

(from April 1, 2016 to June 30, 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 – Jun. 2016	136,058	(2.4)	8,779	2.0	7,131	(11.3)	4,600	(10.7)
Apr. 2015 – Jun. 2015	139,374	2.5	8,607	76.5	8,044	64.8	5,150	72.8

Note: Comprehensive income: (¥2,245) million (–%) three months ended June 30, 2016

¥10,233 million (162.9%) three months ended June 30, 2016

	Net income per share	Fully diluted net income per share
Apr. 2016 – Jun. 2016	¥ 13.87	¥ 13.86
Apr. 2015 – Jun. 2015	15.38	15.37

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of Jun 30, 2016	564,820	303,123	50.8
As of March 31, 2016	557,251	308,722	50.6

(Reference) Shareholders' equity: ¥286,835 million as of June 30, 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	—				
Apr. 2016 – Mar. 2017 (Forecasts)		9.00	—	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	%	
First half	280,000	0.1	18,000	(6.2)	16,000	1.2	10,000	0.9	30.15
Full year	600,000	8.1	42,000	9.9	38,000	15.0	23,000	9.6	69.35

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):

June 30, 2016	350,000,000 shares	March 31, 2016	350,000,000 shares
---------------	-----------------------	----------------	-----------------------

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

June 30, 2016	18,246,908 shares	March 31, 2016	18,356,481 Shares
---------------	----------------------	----------------	----------------------

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

June 30, 2016	331,663,263 shares	June 30, 2015	334,867,311 shares
---------------	-----------------------	---------------	-----------------------

(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 3.

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. 3
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 three months under review (April 1, 2016 to June 30, 2016, hereinafter the “first quarter”). In this situation, the U.K.’s departure from the EU that was decided in late June caused turmoil that spread beyond the Eurozone, rippling out into financial markets around the world and adding to the sense of uncertainty surrounding the future of the global economy. The Japanese economy was also affected, with a rapid appreciation of the yen and a fall in stock prices beginning to have an impact on corporate earnings.

In this business environment, the Kaneka Group reported consolidated net sales of ¥136,058 million (down 2.4% year on year), due to the effect of the yen’s appreciation and the market conditions for raw materials. Operating income was ¥8,779 million (up 2.0% year on year) due to an increase in sales volume and to maintaining spreads, and ordinary income was ¥7,131 million (down 11.3% year on year), and net income attributable to owners of the parent was ¥4,600 million (down 10.7% year on year).

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

Operating performance by business segment was as follows:

1) Chemicals

In the PVC resins business, while net sales decreased amid declines in resource prices, profitability improved due to an increase in sales for Asian markets such as India. In the Specialty PVC resins business, sales for overseas markets remained solid, mainly due to demand for Paste PVC resins in Asia and Chlorinated PVC in the U.S. In the caustic soda business, profitability improved with cost reduction efforts while domestic market conditions remained sluggish.

As a result of the foregoing, segment sales decreased ¥4,069 million, or 15.1%, year on year to ¥22,926 million, and the segment posted operating income of ¥1,933 million, an increase of ¥603 million, or 45.4%, year on year.

2) Functional Plastics

In the modifiers business, sales volume in the markets of the U.S., Europe, and Asia steadily increased as the Kaneka Group made progress globally with steps to enhance product differentiation and to expand new products for application in the non-PVC field. The modified silicone polymers business saw a steady increase in sales volume in both domestic and overseas markets. This was because the polymers were evaluated highly for their unique quality and displaced other materials for application in the construction field. In addition, making CEMEDINE CO., LTD. a consolidated subsidiary of the Group from the fourth quarter of the fiscal year ended March 31, 2016 contributed to the profitability of the segment.

As a result of the foregoing, segment sales increased ¥3,480 million, or 14.7%, year on year to ¥27,164 million, and the segment posted operating income of ¥3,744 million, up ¥133 million, or 3.7%, year on year.

3) Expandable Plastics and Products

Sales in the expandable polystyrene resins and products business were affected by sluggish demand in the agriculture and fisheries fields. Sales in the extruded polystyrene foam boards business were solid due to a moderate recovery of the Japanese housing-related markets. Meanwhile, the segment saw faltering demand for bead-method polyolefin foam, particularly in the automotive field in overseas markets.

As a result of the abovementioned factors, segment sales decreased ¥1,194 million, or 7.2%, year on year to ¥15,384 million, and the segment posted operating income of ¥1,271 million, down ¥66 million, or 5.0%, year on year.

4) Foodstuffs Products

In the Foodstuff Products business, the Group focused on 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. Moreover, the Group improved profitability by promoting business structure innovations designed to strengthen and

streamline the entire supply chain totally.

As a result of the foregoing, segment sales increased ¥1,043 million, or 3.0%, year on year to ¥36,326 million, and the segment posted operating income of ¥901 million, an increase of ¥535 million, or 146.5%, year on year.

5) Life Science Products

In the medical devices business, sales in the vascular intervention business expanded due to conducting joint businesses with other companies in the Europe and U.S. markets despite the effect of revision of reimbursement prices in domestic markets. The segment also concentrated on initiatives for expanding business in new domains including internal treatment of gastrointestinal systems. 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 in all markets, and particularly the U.S market as the biggest market. Moreover, the Group saw sales of its "Foods with Functional Claims" products increase amid growing recognition of this category following the launch of a Food with Functional Claims System in the Japanese market.

As a result of the abovementioned factors, segment sales amounted to ¥15,036 million, an increase of ¥449 million, or 3.1%, year on year, and the segment posted operating income of ¥2,845 million, an increase of ¥301 million, or 11.9%, year on year.

6) Electronic Products

Overall sales of ultra-heat-resistant polyimide film and high thermal conductive graphite sheet were strongly affected by sluggish demand in the smartphone market despite progress with proactive steps to develop markets for high-function products and new products. In the photovoltaic modules business, profitability improved in tandem with the continued implementation of business structure reforms. The segment concentrated on expanding 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 realization of net zero energy houses.

As a result of the abovementioned factors, segment sales decreased ¥2,289 million, or 22.2%, to ¥8,045 million, and the segment posted an operating loss of ¥585 million.

7) Synthetic Fibers and Others

In the synthetic fibers business, sales for materials for hair accessory products in the African market remained solid despite the significant impact of the yen's appreciation. The segment also concentrated on expanding sales of products with high added-value and reducing costs. Moreover, a new plant in Malaysia started commercial operation in July, 2016.

As a result of the foregoing, segment sales decreased ¥735 million, or 6.2%, year on year to ¥11,175 million, and the segment posted operating income of ¥3,932 million, a decrease of ¥93 million, or 2.3%, year on year.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥564,820 million as of June 30, 2016, down ¥12,431 million compared with March 31, 2016. Interest-bearing debt totaled ¥108,786 million, down ¥5,089 million. Net assets (equity) decreased ¥5,599 million, to ¥303,123 million, due to a decrease in the valuation difference on available-for-sale securities and also a decrease in the foreign currency translation adjustment.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first three months of the fiscal year was ¥16,705 million, mainly due to income before income taxes and minority interests and depreciation and amortization. Net cash used in investing activities amounted to ¥11,095 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥5,585 million, mainly owing to cash dividends paid. As a result, cash and cash equivalents as of June 30, 2016 totaled ¥42,303 million.

(3) Consolidated Business Forecasts

The sense of uncertainty over the future of the global economy has grown stronger with the unpredictable impact of the U.K.'s departure from the EU in addition to trends in the political and economic situations and fiscal policies of leading countries, the situation in China, and geopolitical risks. The risk of downward pressure on the real economy has grown more acute. Moreover, the Japanese economy faces the risk of a downturn in external demand and corporate earnings due to

uncertainty over the direction of the global economy and the persistent appreciation of the yen, although economic and fiscal policies are expected to have some positive effect.

In this business environment, the Kaneka Group will strengthen the earnings capability of its competitive product groups and strive to expand earnings by strengthening R&D to create new businesses and by accelerating the transformation of its business structure. Therefore, the Group has not revised its first-half or full-year consolidated business forecast for the fiscal year ending March 31, 2017.

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 three 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 1st Quarter Term ended June 30, 2016
Assets		
Current assets		
Cash and deposits	43,447	42,678
Notes and accounts receivable – trade	121,682	116,469
Short-term investment securities	110	110
Merchandise and finished goods	51,745	49,549
Work in process	10,125	9,958
Raw materials and supplies	31,828	31,000
Other	15,113	16,200
Allowance for doubtful accounts	(345)	(338)
Total current assets	273,708	265,627
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	69,204	69,751
Machinery, equipment and vehicles, net	88,753	86,912
Other, net	61,757	60,759
Total property, plant and equipment	219,715	217,423
Intangible assets		
Goodwill	4,123	3,674
Other	8,074	7,694
Total intangible assets	12,197	11,368
Investments and other assets		
Investment securities	55,602	54,715
Other	16,242	15,896
Allowance for doubtful accounts	(215)	(211)
Total investments and other assets	71,629	70,400
Total noncurrent assets	303,542	299,192
Total assets	577,251	564,820

	(Millions of yen)	
	FY2015	FY2016 1st Quarter
	Term ended March 31, 2016	Term ended June 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable – trade	64,819	62,090
Short-term loans payable	52,695	50,335
Income taxes payable	3,708	2,428
Provision	134	19
Other	42,191	45,060
Total current liabilities	163,550	159,934
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	53,773	51,061
Provision	303	291
Net defined benefit liability	36,667	36,420
Other	4,233	3,989
Total noncurrent liabilities	104,978	101,762
Total liabilities	268,528	261,696
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,936	34,936
Retained earnings	234,377	235,647
Treasury stock	(15,558)	(15,428)
Total shareholders' equity	286,801	288,202
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,450	16,739
Deferred gains or losses on hedges	(51)	(54)
Foreign currency translation adjustment	(1,082)	(7,579)
Remeasurements of defined benefit plans	(10,909)	(10,472)
Total accumulated other comprehensive income	5,406	(1,367)
Subscription rights to shares	228	230
Noncontrolling interests	16,285	16,057
Total net assets	308,722	303,123
Total liabilities and net assets	577,251	564,820

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2015 1st Quarter From April 1, 2015 to June 30, 2015	FY2016 1st Quarter From April 1, 2016 to June 30, 2016	
Net sales	139,374	136,058	
Cost of sales	100,738	94,321	
Gross profit	38,636	41,737	
Selling, general and administrative expenses	30,028	32,957	
Operating income	8,607	8,779	
Non-operating income			
Dividends income	615	733	
Foreign exchange gains	253	—	
Equity in earnings of affiliates	67	37	
Other	139	164	
Total non-operating income	1,075	935	
Non-operating expenses			
Interest expenses	302	324	
Loss on retirement of noncurrent assets	786	485	
Foreign exchange losses	—	1,349	
Other	550	424	
Total non-operating expenses	1,639	2,584	
Ordinary income	8,044	7,131	
Extraordinary loss			
Patent protection court cost	191	184	
Total extraordinary losses	191	184	
Income before income taxes	7,852	6,946	
Income taxes—current	2,428	2,346	
Income taxes—deferred	108	(271)	
Total income taxes	2,536	2,075	
Net income	5,315	4,871	
Net income attributable to non-controlling interests	165	270	
Net income attributable to owners of parent	5,150	4,600	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2015 1st Quarter From April 1, 2015 to June 30, 2015	FY2016 1st Quarter From April 1, 2016 to June 30, 2016
Net income	5,315	4,871
Other comprehensive income		
Valuation difference on available-for-sale securities	3,104	(703)
Deferred gains or losses on hedges	(8)	(2)
Foreign currency translation adjustment	1,749	(6,845)
Remeasurements of defined benefit plans, net of tax	60	436
Share of other comprehensive income of associates accounted for using equity method	12	(2)
Total other comprehensive income	4,918	(7,116)
Comprehensive income	10,233	(2,245)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	9,918	(2,173)
Comprehensive income attributable to noncontrolling interests	315	(72)

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	FY2015 1st Quarter From April 1, 2015 to June 30, 2015	FY2016 1st Quarter From April 1, 2016 to June 30, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	7,852	6,946
Depreciation and amortization	6,289	6,634
Increase (decrease) in net defined benefit liability	(24)	541
Increase (decrease) in net defined benefit asset	108	–
Increase (decrease) in allowance for doubtful accounts	10	14
Interest and dividends income	(627)	(747)
Interest expenses	302	324
Equity in (earnings) losses of affiliates	(67)	(37)
Loss (gain) on disposal of noncurrent assets	101	130
Decrease (increase) in notes and accounts receivable–trade	1,854	3,584
Decrease (increase) in inventories	(1,631)	1,163
Increase (decrease) in notes and accounts payable–trade	376	(2,023)
Other, net	5,292	3,125
Subtotal	19,837	19,657
Interest and dividends income received	654	750
Interest expenses paid	(192)	(239)
Income taxes paid	(2,751)	(3,464)
Net cash provided by (used in) operating activities	17,548	16,705
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(9,551)	(10,116)
Purchase of intangible assets	(900)	(425)
Purchase of investment securities	(10)	(10)
Proceeds from sales of investment securities	17	–
Purchase of stocks of subsidiaries and affiliates	–	(102)
Payments of loans receivable	(850)	(67)
Collection of loans receivable	324	30
Other, net	(221)	(403)
Net cash provided by (used in) investing activities	(11,193)	(11,095)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short–term loans payable	(1,909)	(1,568)
Proceeds from long–term loans payable	2,892	17
Repayments of long–term loans payable	(279)	(590)
Repayments of lease obligations	(31)	(44)
Purchase of treasury stock	(1,483)	(1)
Proceeds from sales of treasury stock	–	87
Cash dividends paid	(2,680)	(3,330)
Dividends paid to noncontrolling interests	(72)	(155)
Payments from changes in ownership interests in subsidiaries that do not	(4)	–
Net cash provided by (used in) financing activities	(3,568)	(5,585)
Effect of exchange rate change on cash and cash equivalents	246	(881)
Net increase (decrease) in cash and cash equivalents	3,033	(857)
Cash and cash equivalents at beginning of period	28,020	43,161
Cash and cash equivalents at end of period	31,053	42,303

(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 June 30, 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	26,995	23,683	16,578	35,283	14,586	10,335	11,911	139,374	—	139,374
Intersegment	249	165	13	1	4	72	327	834	(834)	—
Total	27,245	23,849	16,592	35,284	14,591	10,407	12,238	140,209	(834)	139,374
Segment profit	1,329	3,610	1,338	365	2,543	141	4,025	13,354	(4,746)	8,607

(Note) Segment profit 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	13,354
Elimination of intersegment transactions	1
Companywide expenses (Note)	(4,737)
Other adjustments	(10)
Operating income in the quarterly consolidated statements of income	8,607

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

Term from April 1, 2016 to June 30, 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	22,926	27,164	15,384	36,326	15,036	8,045	11,175	136,058	—	136,058
Intersegment	207	209	22	1	4	54	390	891	(891)	—
Total	23,133	27,374	15,407	36,327	15,041	8,099	11,565	136,949	(891)	136,058
Segment profit (loss)	1,933	3,744	1,271	901	2,845	(585)	3,932	14,042	(5,262)	8,779

(Note) Segment profit or 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	14,042
Elimination of intersegment transactions	(16)
Companywide expenses (Note)	(5,255)
Other adjustments	9
Operating income in the quarterly consolidated statements of income	8,779

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