



Quarterly Financial Results for the Second Quarter, Ended September 30, 2013 (Japanese GAAP, Consolidated)

November 11, 2013

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

Representative: Kimikazu Sugawara Title: President, Representative Director

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Scheduled date for submitting financial statements: November 12, 2013 Scheduled date of dividend distribution: December 5, 2013

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

1. Consolidated Business Performance for the Second Quarter, Ended September 30, 2013 (from April 1, 2013 to September 30, 2013)

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

	Net sales		Operating income		Ordinary income		Net income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2013 – Sep. 2013	257,171	10.0	11,361	53.4	11,790	73.8	7,068	100.0
Apr. 2012 – Sep. 2012	233,760	(0.5)	7,407	15.0	6,784	17.5	3,534	(24.4)

Note: Comprehensive income: ¥12,840 million (—%) six months ended September 30, 2013
(¥ 1,037) million (—%) six months ended September 30, 2012

	Net income per share	Fully diluted net income per share
Apr. 2013 – Sep. 2013	¥ 20.98	¥ 20.96
Apr. 2012 – Sep. 2012	¥ 10.49	¥ 10.48

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2013	¥ million 500,329	¥ million 280,875	% 54.1
As of March 31, 2013	484,456	270,449	53.8

(Reference) Shareholders' equity: ¥270,484 million as of September 30, 2013
¥260,594 million as of March 31, 2013

2. Dividends

(Record date)	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2012 – Mar. 2013	¥ —	¥ 8.00	¥ —	¥ 8.00	¥ 16.00
Apr. 2013 – Mar. 2014	—	8.00			
Apr. 2013 – Mar. 2014 (Forecasts)			—	8.00	16.00

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

3. Forecast for consolidated business performance for the year ending March 31, 2014 (from April 1, 2013 to March 31, 2014)

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	530,000	11.2	30,000	89.8	28,000	71.3	15,000	60.9	44.52

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: Yes

3. Changes in accounting estimates: Yes

4. Restatements: No

(Note) Changes were made in accordance with Article 10-5 of the Ordinance on Terminology, Forms and Preparation Methods of Quarterly Financial Statements, etc. Please refer to “(3) Changes in accounting principles, changes in estimates, or restatements” under “2. Other Information” on page 4 for further details.

(4) Number of shares outstanding (common stock)

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

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

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

September 30 2013	350,000,000 shares	March 31, 2013	350,000,000 shares
September 30, 2013	12,958,466 shares	March 31, 2013	13,049,280 shares
September 30, 2013	336,979,779 shares	September 30, 2012	336,952,876 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 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

During the first six months under review (April 1, 2013 to September 30, 2013), the Kaneka Group reported consolidated net sales of ¥257,171 million (up 10.0% year on year). Operating income was ¥11,361 million (up 53.4% year on year), and ordinary income increased 73.8% to ¥11,790 million. Net income increased to ¥7,068 million, up 100.0% year on year.

By segment, sales increased in all the segments, while operating income declined in the Chemicals, Expandable Plastics and Products, and Life Science Products segments, operating income rose in the Functional Plastics, Foodstuffs Products, and Synthetic Fibers and Others segments. The Electronic Products segment returned to profit.

Operating performance by business segment was as follows:

1) Chemicals

PVC resins saw firm conditions in the Japanese market but these were affected by the rise in raw materials. Specialty PVC resins saw sales volume increase in overseas market. In the caustic soda business, domestic market conditions remained sluggish and sales volume decreased.

As a result of the foregoing, segment sales increased ¥4,643 million, or 9.9%, year on year to ¥51,565 million. However, the segment posted operating income of ¥1,184 million, a decrease of ¥983 million, or 45.4%, year on year.

2) Functional Plastics

In modifiers, the Kaneka Group took extensive steps to enhance product differentiation and bolster the earnings structure in this business, including through cost reductions, and sales volume increased in both the Japanese and overseas markets. There was an increase in sales volume of modified silicone polymers, which received a high evaluation of unique quality, for the Japanese and overseas markets.

As a result of the foregoing, segment sales increased ¥6,428 million, or 18.1%, year on year to ¥41,882 million. The segment posted operating income of ¥4,368 million, up ¥1,216 million, or 38.6%, year on year.

3) Expandable Plastics and Products

Expandable polystyrene resins and products, and extruded polystyrene foam boards saw sales volume increase, but these were affected by the rise in raw materials. Polyolefin foam by the beads method saw higher sales volume mainly in the overseas market.

As a result of the abovementioned factors, segment sales increased ¥3,082 million, or 10.6%, year on year to ¥32,128 million. The segment posted operating income of ¥1,865 million, a decrease of ¥292 million, or 13.5%, year on year.

4) Foodstuffs Products

Foodstuffs products faced further diversification of food consumption and an increasingly stronger shift to low-priced products. In this environment, the Group strove to expand sales of new products which anticipated consumer needs and reduce costs.

As a result of the foregoing, segment sales increased ¥1,817 million, or 2.9%, year on year to ¥65,080 million. The segment posted operating income of ¥2,536 million, an increase of ¥327 million, or 14.8%, year on year.

5) Life Science Products

In medical devices, blood purification systems sales were sluggish initially at the beginning of the fiscal year. However, their sales strengthened following sales promotions around the world and efforts to reduce costs. Sales volume of bulk and intermediate pharmaceuticals was sluggish, while functional foodstuffs saw growing market recognition of reduced-form coenzyme Q10 as a food supplement drive an increase in sales volume from the first half of the previous fiscal year.

As a result of the abovementioned factors, segment sales were ¥22,254 million, up ¥150 million, or 0.7%, year on year. However, the segment posted operating income of ¥3,059 million, representing a year-on-year decrease of ¥888 million, or 22.5%.

6) Electronic Products

Sales volume of ultra-heat-resistant polyimide film increased year on year. This was mainly due to the launch of new product lineups and the new adoption of these materials in the electronic products

market where demand is expanding. Moreover, Kaneka commercialized Transparent Conductive Film (ITO film) for the touch panels of smartphones and tablet PCs starting this fiscal year in response to the acutely rising demand for those devices. 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. As a result, sales volume of solar cells increased year on year in contrast to sluggish sales volume of solar cell-related materials.

As a result of the abovementioned factors, segment sales increased ¥4,293 million, or 21.3%, to ¥24,483 million. The segment restored operating profitability, posting operating income of ¥889 million.

7) Synthetic Fibers and Others

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

As a result of the foregoing, segment sales increased ¥2,995 million, or 17.9%, year on year to ¥19,776 million. The segment posted operating income of ¥4,357 million, a year-on-year increase of ¥1,792 million, or 69.8%.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥500,329 million as of September 30, 2013, up ¥15,872 million compared with March 31, 2013. Interest-bearing debt totaled ¥87,522 million, up ¥1,090 million. Net assets increased ¥10,425 million, to ¥280,875 million, mainly due to an increase in retained earnings, valuation difference on available-for-sale securities and a foreign currency translation adjustment.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first six months of the year was ¥21,929 million, mainly due to income before income taxes and minority interests, and depreciation and amortization, while net cash used in investing activities amounted to ¥15,872 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥3,134 million, used mainly for cash dividends paid. As a result, cash and cash equivalents as of September 30, 2013, totaled ¥35,037 million.

(3) Consolidated Business Forecasts

The global economic outlook remained highly uncertain during the second quarter ended September 30, 2013, due mainly to concerns about protracted European economic weakness and slowing growth in China, India and other Asian countries, despite a gradual recovery trend in the U.S. economy.

Business in the Japanese economy is in the process of recovering gradually against a backdrop of a correction in the yen's appreciation, and the economic policies the Cabinet of Japan is implementing. That said, the prospects for a full-fledged recovery still remain tenuous and overshadowed by downside risks in the global economy.

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.

The Group has not revised its full-year consolidated business forecasts for the fiscal year ending March 31, 2014.

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 half 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

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

The depreciation method of property, plant and equipment, excluding some categories, for the Company and its consolidated domestic subsidiaries, and some overseas consolidated subsidiaries, was changed from the declining-balance method to the straight-line method starting from the three months ended June 30, 2013.

The Kaneka Group is pressing forward strongly to globalize, based on the targets for fiscal 2020 in the Declaration of Kaneka United long-term management vision the Company formulated in 2009. From this fiscal year onward, the Company will begin making foreign investments in earnest for mainly establishing new manufacturing and marketing bases overseas and bolstering manufacturing capacity. Kaneka reached the conclusion of unifying depreciation under the straight-line method after having reviewed the Group's depreciation method, with this change in asset distribution as the impetus. Depreciation of the Group's property, plant and equipment is commensurate with the straight-line method given that those assets can all be utilized steadily over the longer term, and because their economic realities conform with the method. Moreover, unification under this method will enhance the Company's ability to make decisions regarding asset distribution by enabling it to compare costs among Group companies. It will also make it easier to compare the Kaneka Group's earnings performance against other multinational companies developing globally. In summation, this change in depreciation method should contribute to globalization of the Kaneka Group.

As a result of this change, in comparison with the previous depreciation method, Kaneka's operating income, ordinary income and income before income taxes and minority interests for the six months ended September 30, 2013 all increased ¥3,620 million.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2012 Term ended March 31, 2013	FY2013 2nd Quarter Term ended September 30, 2013
Assets		
Current assets		
Cash and deposits	32,038	35,265
Notes and accounts receivable-trade	116,705	114,416
Short-term investment securities	110	110
Merchandise and finished goods	47,409	48,280
Work in process	8,451	9,091
Raw materials and supplies	24,417	24,763
Other	13,847	11,792
Allowance for doubtful accounts	(110)	(92)
Total current assets	242,869	243,627
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	53,484	54,848
Machinery, equipment and vehicles, net	64,185	67,664
Other, net	51,877	56,966
Total property, plant and equipment	169,547	179,479
Intangible assets		
Goodwill	4,014	5,347
Other	4,589	5,694
Total intangible assets	8,603	11,041
Investments and other assets		
Investment securities	46,862	50,756
Other	16,799	15,646
Allowance for doubtful accounts	(226)	(222)
Total investments and other assets	63,435	66,180
Total noncurrent assets	241,586	256,701
Total assets	484,456	500,329

(Millions of yen)

	FY2012 Term ended March 31, 2013	FY2013 2nd Quarter Term ended September 30, 2013
Liabilities		
Current liabilities		
Notes and accounts payable-trade	64,238	62,121
Short-term loans payable	48,226	46,553
Income taxes payable	1,622	2,675
Provision	115	10
Other	34,924	46,163
Total current liabilities	149,128	157,524
Noncurrent liabilities		
Bonds payable	15,000	10,000
Long-term loans payable	25,442	28,232
Provision for retirement benefits	19,497	19,926
Provision	322	226
Negative goodwill	208	104
Other	4,407	3,439
Total noncurrent liabilities	64,878	61,929
Total liabilities	214,006	219,453
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,836	34,836
Retained earnings	200,986	205,532
Treasury stock	(10,547)	(10,471)
Total shareholders' equity	258,322	262,944
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,261	10,819
Foreign currency translation adjustment	(5,989)	(3,279)
Total accumulated other comprehensive income	2,271	7,540
Subscription rights to shares	159	139
Minority interests	9,695	10,251
Total net assets	270,449	280,875
Total liabilities and net assets	484,456	500,329

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2012 2nd Quarter	FY2013 2nd Quarter	
	From April 1, 2012 to September 30, 2012	From April 1, 2013 to September 30, 2013	
Net sales	233,760	257,171	
Cost of sales	176,792	192,954	
Gross profit	56,967	64,217	
Selling, general and administrative expenses	49,560	52,856	
Operating income	7,407	11,361	
Non-operating income			
Dividends income	624	719	
Foreign exchange gains	256	817	
Equity in earnings of affiliates	—	183	
Other	457	749	
Total non-operating income	1,338	2,470	
Non-operating expenses			
Interest expenses	435	477	
Loss on retirement of noncurrent assets	509	823	
Equity in losses of affiliates	41	—	
Other	974	740	
Total non-operating expenses	1,961	2,041	
Ordinary income	6,784	11,790	
Extraordinary income			
Gain on sales of investment securities	277	—	
Total extraordinary income	277	—	
Extraordinary loss			
Loss on sales of noncurrent assets	—	293	
Compensation expenses	796	—	
Patent protection court cost	345	562	
Retirement benefit expenses	—	363	
Total extraordinary losses	1,141	1,218	
Income before income taxes and minority interests	5,921	10,571	
Income taxes-current	1,425	2,667	
Income taxes-deferred	942	510	
Total income taxes	2,367	3,177	
Income before minority interests	3,553	7,393	
Minority interests in income	18	325	
Net income	3,534	7,068	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2012 2nd Quarter From April 1, 2012 to September 30, 2012	FY2013 2nd Quarter From April 1, 2013 to September 30, 2013
Income before minority interests	3,553	7,393
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,272)	2,575
Foreign currency translation adjustment	(2,313)	2,860
Share of other comprehensive income of associates accounted for using equity method	(4)	10
Total other comprehensive income	(4,590)	5,447
Comprehensive income	(1,037)	12,840
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	(900)	12,337
Comprehensive income attributable to minority interests	(137)	503

(3) Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	FY2012 2nd Quarter From April 1, 2012 to September 30, 2012	FY2013 2nd Quarter From April 1, 2013 to September 30, 2013
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	5,921	10,571
Depreciation and amortization	13,402	9,761
Increase (decrease) in provision for retirement benefits	231	332
Increase (decrease) in allowance for doubtful accounts	(73)	(24)
Interest and dividends income	(666)	(746)
Interest expenses	435	477
Equity in (earnings) losses of affiliates	41	(183)
Loss (gain) on disposal of noncurrent assets	239	860
Decrease (increase) in notes and accounts receivable-trade	5,316	3,431
Decrease (increase) in inventories	(2,621)	(1,049)
Increase (decrease) in notes and accounts payable-trade	(3,785)	(2,583)
Other, net	(2,750)	1,101
Subtotal	15,690	21,949
Interest and dividends income received	684	786
Interest expenses paid	(435)	(466)
Income taxes paid	(2,063)	(339)
Net cash provided by (used in) operating activities	13,875	21,929
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(15,840)	(13,309)
Proceeds from sales of property, plant and equipment	—	84
Purchase of intangible assets	(1,098)	(1,490)
Purchase of investment securities	(74)	(32)
Proceeds from sales of investment securities	338	140
Purchase of stocks of subsidiaries and affiliates	(7)	(1,003)
Payments of loans receivable	(1,056)	(558)
Collection of loans receivable	912	102
Other, net	(210)	193
Net cash provided by (used in) investing activities	(17,036)	(15,872)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	1,516	(3,552)
Proceeds from long-term loans payable	6,826	4,969
Repayment of long-term loans payable	(6,017)	(1,813)
Repayments of lease obligations	(211)	(173)
Proceeds from stock issuance to minority shareholders	—	224
Cash dividends paid	(2,695)	(2,695)
Cash dividends paid to minority shareholders	(56)	(84)
Purchase of treasury stock	(2)	(8)
Proceeds from sales of treasury stock	0	0
Net cash provided by (used in) financing activities	(641)	(3,134)
Effect of exchange rate change on cash and cash equivalents	(214)	364
Net increase (decrease) in cash and cash equivalents	(4,016)	3,285
Cash and cash equivalents at beginning of period	27,157	31,747
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	182	3
Cash and cash equivalents at end of period	23,323	35,037

(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, 2012 to September 30, 2012

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	46,921	35,454	29,046	63,263	22,104	20,189	16,780	233,760	—	233,760
Intersegment	658	290	66	0	5	376	792	2,188	(2,188)	—
Total	47,580	35,744	29,113	63,263	22,109	20,565	17,572	235,949	(2,188)	233,760
Segment income (loss)	2,167	3,151	2,157	2,208	3,948	(1,689)	2,565	14,510	(7,103)	7,407

(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	14,510
Elimination of intersegment transactions	(26)
Companywide expenses (Note)	(7,054)
Other adjustments	(21)
Operating income in the quarterly consolidated statements of income	7,407

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

Term from April 1, 2013 to September 30, 2013

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	51,565	41,882	32,128	65,080	22,254	24,483	19,776	257,171	—	257,171
Intersegment	1,112	352	102	0	1	596	960	3,125	(3,125)	—
Total	52,677	42,234	32,231	65,080	22,256	25,079	20,737	260,297	(3,125)	257,171
Segment income	1,184	4,368	1,865	2,536	3,059	889	4,357	18,261	(6,900)	11,361

(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	18,261
Elimination of intersegment transactions	12
Companywide expenses (Note)	(6,925)
Other adjustments	11
Operating income in the quarterly consolidated statements of income	11,361

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

3) Notes Concerning Changes in Reporting Segments

As recorded under (Changes in accounting estimates and changes in accounting principles that are difficult to distinguish), the depreciation method of property, plant and equipment, excluding some categories, for the Company and its consolidated domestic subsidiaries, and some overseas consolidated subsidiaries, was changed from the declining-balance method to the straight-line method starting from the three months ended June 30, 2013.

As a result of this change, in comparison with the previous depreciation method, Kaneka's segment profit for the six months ended September 30, 2013 increased ¥860 million in the Chemicals segment, ¥368 million in the Functional Plastics segment, ¥276 million in the Expandable Plastics and Products segment, ¥405 million in the Foodstuffs Products segment, ¥240 million in the Life Science Products segment, ¥876 million in the Electronic Products segment, and ¥278 million in the Synthetic Fibers and Others segment. In addition, Kaneka's companywide expenses not allocable to any reporting segment decreased ¥315 million.

4) Impairment Loss on Fixed Assets or Goodwill by Reporting Segment

(Significant changes in Goodwill)

In the Life Science Products segment, the Company recorded goodwill of ¥1,208 million in conjunction with the acquisition of shares of River Seiko Co., Ltd. in July 2013.