

Quarterly Financial Results for the Second Quarter, Ended September 30, 2016 (Japanese GAAP, Consolidated)

November 9, 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

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Scheduled date for submitting financial statements: November 11, 2016 Scheduled date of dividend distribution: December 5, 2016

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

1. Consolidated Business Performance for the Second Quarter, Ended September 30, 2016 (from April 1, 2016 to September 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 – Sep. 2016	270,182	(3.5)	16,460	(14.2)	14,044	(11.2)	9,143	(7.7)
Apr. 2015 – Sep. 2015	279,843	2.4	19,195	102.4	15,808	64.8	9,909	82.2

Note: Comprehensive income: ¥2,366 million (-70.0%) six months ended September 30, 2016
¥7,878 million (-22.2%) six months ended September 30, 2015

	Net income per share	Fully diluted net income per share
Apr. 2016 – Sep. 2016	27.56	27.53
Apr. 2015 – Sep. 2015	29.66	29.64

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2016	¥ million 563,007	¥ million 305,290	% 51.4
As of March 31, 2016	577,251	308,722	50.6

(Reference) Shareholders' equity: ¥289,324 million as of Sep 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	—	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: Yes

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):

September 30, 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:

September 30, 2016	18,053,780 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)

September 30, 2016	331,762,182 shares	September 30, 2015	334,083,678 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.

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economic outlook lacked strength overall during the first six months under review (April 1, 2016 to September 30, 2016). Although the U.S. economy continued to expand, future prospects of the economy, including the political situation, looked increasingly uncertain. Also, the recoveries of economic conditions in Europe were still sluggish. In addition, economic conditions in China also continued to show the existence of an economic slowdown. Although Japanese economic conditions seemed to have partly recovered, as shown by investment in housing, consumer spending remained sluggish, and the rapid appreciation of the yen had an impact on corporate earnings.

In this business environment, the Kaneka Group reported consolidated net sales of ¥270,182 million (down 3.5% year on year), due to the effect of the yen appreciation and the Asian market remaining sluggish, despite putting efforts into expanding sales and promoting business structural reforms. Operating income was ¥16,460 million (down 14.2% year on year), and ordinary income was ¥14,044 million (down 11.2% year on year), and net income attributable to owners of the parent was ¥9,143 million (down 7.7% 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, the sales volume for Asian markets increased. Although net sales decreased due to the yen appreciation and the fall in raw materials prices, profits increased. In the Specialty PVC resins business, the sales volume of Paste PVC increased, mainly for Asia. On the other hand, sales of Chlorinated PVC resins for India remained sluggish. In the caustic soda business, profitability improved due to cost reduction efforts while domestic market conditions remained sluggish.

As a result of the foregoing, segment sales decreased ¥6,511 million, or 12.4%, year on year to ¥46,056 million, and the segment posted operating income of ¥3,148 million, an increase of ¥677 million, or 27.4%, year on year.

2) Functional Plastics

In the modifiers business, although sales decreased due to the yen appreciation, sales volume steadily increased mainly for overseas markets as Kaneka Group made progress with extensive steps to enhance product differentiation and expand sales for new applications as in the non-PVC field. The modified silicone polymers business saw a steady increase in sales volume in Europe, U.S. and Asia markets. This was because the polymers were evaluated highly for their unique quality and so displaced other materials as regards finding applications in the construction and other industrial fields. The construction of new production facilities for the modifiers (to be operational in March, 2017) and the modified silicone polymers (to be operational in July, 2017) in Malaysia made steady progress. In addition, by making CEMEDINE CO., LTD. a consolidated subsidiary of the Group from the fourth quarter of the fiscal year ended March 31, 2016, the Kaneka Group made progress in realizing group synergies focusing on overseas development.

As a result of the foregoing, segment sales increased ¥5,932 million, or 12.5%, year on year to ¥53,487 million, and the segment posted operating income of ¥7,357 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 moderate recovery of the Japanese housing-related markets. Moreover, the segment saw expanded sales of bead-method polyolefin foam, particularly in the automotive field.

As a result of the foregoing, segment sales decreased ¥1,517 million, or 4.5%, year on year to ¥31,941 million, and the segment posted operating income of ¥3,010 million, down ¥137 million, or 4.4%, 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. Being affected by bad weather during the summer season, the Group improved profitability by promoting business structural reforms designed to strengthen and streamline the entire supply chain.

As a result of the foregoing, segment sales increased ¥1,923 million, or 2.7%, year on year to ¥72,616 million, and the segment posted operating income of ¥1,946 million, an increase of ¥1,046 million, or 116.2%, year on year.

5) Life Science Products

In the medical devices business, in contrast to sales in the blood purification business remaining sluggish, sales for the U.S. in the vascular intervention business expanded due to enlarging joint businesses with other companies. In domestic markets, despite the dampening effect of the revision of reimbursement prices, the segment nevertheless concentrated on initiatives for expanding business in new domains, including the 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, particularly in the U.S market, which is 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 foregoing, segment sales decreased ¥1,614 million, or 5.4%, year on year to ¥28,453 million, and the segment posted operating income of ¥5,669 million, down ¥82 million, or 1.4%, 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 high-function products and new products as the new driving forces. In the photovoltaic modules business, the sales volume for a major house manufacturer expanded and profitability improved in tandem with the continued implementation of business structural reforms. The business concentrated 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 ¥3,815 million, or 18.3%, to ¥17,077 million, and the segment posted an operating loss of ¥979 million.

7) Synthetic Fibers and Others

In the synthetic fibers business, although sales for materials for hair accessory products in the African market remained solid, sales were affected from the delay in a recovery in the Asian market. Also, the segment was strongly impacted by the yen appreciation, despite putting efforts into expanding sales of products with high added-value and reducing costs.

As a result of the foregoing, segment sales decreased ¥4,056 million, or 16.5%, year on year to ¥20,549 million, and the segment posted operating income of ¥6,552 million, a decrease of ¥2,156 million, or 24.8%, year on year.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥563,007 million as of September 30, 2016, down ¥14,243 million compared with March 31, 2016, mainly due to decreases in cash and deposits, and notes and accounts receivable-trade. Liabilities were ¥257,717 million, down ¥10,811 million, mainly due to a decrease in loans payable. Net assets (equity) decreased ¥3,431 million, to ¥305,290 million, mainly due to a decrease in the foreign currency translation adjustment.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first six months of the fiscal year was ¥26,223 million, mainly due to income before income taxes, and depreciation and amortization. Net cash used in investing activities amounted to ¥20,331 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥8,748 million, mainly owing to the repayment of loans payable and cash dividends paid. As a result, cash and cash equivalents as

of September 30, 2016 totaled ¥39,188 million.

(3) Consolidated Business Forecasts

The Kaneka Group's performance during the six months ended September 30, 2016 was strongly impacted by the rapid appreciation of the yen, sluggish demand for smartphones in the electronics market, and other factors. The Group will continue striving to improve earnings by differentiating its products by technology, by reducing costs, and by accelerating business structure reforms.

Nevertheless, earnings are now projected to be lower than the previously disclosed full-year forecast because the future outlook is highly uncertain, mainly due to the persistently strong yen, the slow pace of economic recovery in Asia, and various political circumstances in overseas countries.

With regard to exchange rates and raw material prices, forecast figures assume an exchange rate of ¥100 to the U.S. dollar, ¥110 to the euro and a domestic naphtha price of ¥34,000 per kiloliter from October 1, 2016 onward.

Revised forecast for consolidated business performance for the year ending March 31, 2017

(from April 1, 2016 to March 31, 2017)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
	¥ million	¥ million	¥ million	¥ million	¥
Previous forecast (A)	600,000	42,000	38,000	23,000	69.35
This forecast (B)	560,000	38,500	34,000	21,000	63.28
Amount of increase (decrease) (B-A)	(40,000)	(3,500)	(4,000)	(2,000)	
Percentage of increase (decrease) (%)	(6.7%)	(8.3%)	(10.5%)	(8.7%)	
(Reference) Results from the previous fiscal year Apr. 2014 – Mar. 2015	555,227	38,220	33,038	20,985	62.98

The forecasts above are based on information currently available, and are subject to risks and uncertainties that may cause the actual results to vary.

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 six 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 March31, 2016	FY2016 2nd Quarter Term ended September 30, 2016
Assets		
Current assets		
Cash and deposits	43,447	39,345
Notes and accounts receivable – trade	121,682	117,474
Short-term investment securities	110	110
Merchandise and finished goods	51,745	48,661
Work in process	10,125	10,074
Raw materials and supplies	31,828	29,888
Other	15,113	15,792
Allowance for doubtful accounts	(345)	(320)
Total current assets	273,708	261,026
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	69,204	71,097
Machinery, equipment and vehicles, net	88,753	91,602
Other, net	61,757	55,671
Total property, plant and equipment	219,715	218,372
Intangible assets		
Goodwill	4,123	3,533
Other	8,074	7,391
Total intangible assets	12,197	10,924
Investments and other assets		
Investment securities	55,602	56,986
Other	16,242	15,913
Allowance for doubtful accounts	(215)	(215)
Total investments and other assets	71,629	72,684
Total noncurrent assets	303,542	301,980
Total assets	577,251	563,007

	(Millions of yen)	
	FY2015	FY2016 2nd Quarter
	Term ended March31, 2016	Term ended September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable – trade	64,819	61,735
Short-term loans payable	52,695	48,741
Income taxes payable	3,708	3,449
Provision	134	14
Other	42,191	41,559
Total current liabilities	163,550	155,500
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	53,773	51,075
Provision	303	317
Net defined benefit liability	36,667	36,616
Other	4,233	4,207
Total noncurrent liabilities	104,978	102,217
Total liabilities	268,528	257,717
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,936	32,841
Retained earnings	234,377	240,180
Treasury stock	(15,558)	(15,213)
Total shareholders' equity	286,801	290,856
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	17,450	18,263
Deferred gains or losses on hedges	(51)	(74)
Foreign currency translation adjustment	(1,082)	(9,683)
Remeasurements of defined benefit plans	(10,909)	(10,036)
Total accumulated other comprehensive income	5,406	(1,531)
Subscription rights to shares	228	264
Noncontrolling interests	16,285	15,702
Total net assets	308,722	305,290
Total liabilities and net assets	577,251	563,007

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2015 2nd Quarter	FY2016 2nd Quarter	
	From April 1, 2015 to September 30, 2015	From April 1, 2016 to September 30, 2016	
Net sales	279,843	270,182	
Cost of sales	200,245	188,899	
Gross profit	79,597	81,282	
Selling, general and administrative expenses	60,402	64,822	
Operating income	19,195	16,460	
Non-operating income			
Dividends income	752	1,026	
Gain on sales of investment securities	60	480	
Equity in earnings of affiliates	167	75	
Other	343	458	
Total non-operating income	1,324	2,040	
Non-operating expenses			
Interest expenses	596	652	
Loss on retirement of noncurrent assets	1,536	1,108	
Foreign exchange losses	1,493	1,883	
Other	1,084	811	
Total non-operating expenses	4,711	4,456	
Ordinary income	15,808	14,044	
Extraordinary loss			
Patent protection court cost	498	294	
Total extraordinary losses	498	294	
Income before income taxes	15,309	13,749	
Income taxes-current	3,778	3,882	
Income taxes-deferred	1,329	237	
Total income taxes	5,108	4,120	
Net income	10,200	9,629	
Net income attributable to non-controlling interests	291	485	
Net income attributable to owners of parent	9,909	9,143	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2015 2nd Quarter From April 1, 2015 to September 30, 2015	FY2016 2nd Quarter From April 1, 2016 to September 30, 2016
Net income	10,200	9,629
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,446)	874
Deferred gains or losses on hedges	44	(22)
Foreign currency translation adjustment	(1,014)	(8,985)
Remeasurements of defined benefit plans, net of tax	115	872
Share of other comprehensive income of associates accounted for using equity method	(21)	(1)
Total other comprehensive income	(2,322)	(7,262)
Comprehensive income	7,878	2,366
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,479	2,205
Comprehensive income attributable to noncontrolling interests	399	161

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	FY2015 2nd Quarter From April 1, 2015 to September 30, 2015	FY2016 2nd Quarter From April 1, 2016 to September 30, 2016
Net cash provided by (used in) operating activities		
Income before income taxes	15,309	13,749
Depreciation and amortization	12,847	13,425
Increase (decrease) in net defined benefit liability	311	1,389
Decrease (increase) in net defined benefit asset	212	–
Increase (decrease) in allowance for doubtful accounts	43	0
Interest and dividends income	(776)	(1,063)
Interest expenses	596	652
Equity in (earnings) losses of affiliates	(167)	(75)
Loss (gain) on disposal of noncurrent assets	289	317
Decrease (increase) in notes and accounts receivable–trade	3,089	2,133
Decrease (increase) in inventories	(1,515)	2,193
Increase (decrease) in notes and accounts payable–trade	261	(2,037)
Other, net	3,758	(465)
Subtotal	34,261	30,219
Interest and dividends income received	802	1,065
Interest expenses paid	(590)	(649)
Income taxes paid	(2,846)	(4,411)
Net cash provided by (used in) operating activities	31,627	26,223
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(20,378)	(19,556)
Purchase of intangible assets	(1,636)	(758)
Purchase of investment securities	(46)	(36)
Proceeds from sales of investment securities	320	511
Purchase of stocks of subsidiaries and affiliates	–	(102)
Payments of loans receivable	(1,162)	(271)
Collection of loans receivable	531	160
Other, net	(378)	(279)
Net cash provided by (used in) investing activities	(22,750)	(20,331)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(334)	(1,943)
Proceeds from long-term loans payable	10,804	3,120
Repayments of long-term loans payable	(7,463)	(3,894)
Repayments of lease obligations	(56)	(81)
Purchase of treasury stock	(1,819)	(3)
Proceeds from sales of treasury stock	0	201
Proceeds from stock issuance to noncontrolling shareholders	–	53
Cash dividends paid	(2,680)	(3,330)
Dividends paid to noncontrolling interests	(147)	(245)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(7)	(2,626)
Net cash provided by (used in) financing activities	(1,705)	(8,748)
Effect of exchange rate change on cash and cash equivalents	225	(1,116)
Net increase (decrease) in cash and cash equivalents	7,396	(3,973)
Cash and cash equivalents at beginning of period	28,020	43,161
Cash and cash equivalents at end of period	35,417	39,188

(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 September 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	52,568	47,555	33,459	70,693	30,067	20,892	24,606	279,843	—	279,843
Intersegment	479	336	28	3	10	139	646	1,643	(1,643)	—
Total	53,047	47,892	33,487	70,696	30,078	21,032	25,252	281,487	(1,643)	279,843
Segment income (loss)	2,471	7,359	3,148	900	5,752	572	8,708	28,912	(9,717)	19,195

(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	28,912
Elimination of intersegment transactions	4
Companywide expenses (Note)	(9,742)
Other adjustments	19
Operating income in the quarterly consolidated statements of income	19,195

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

Term from April 1, 2016 to September 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	46,056	53,487	31,941	72,616	28,453	17,077	20,549	270,182	—	270,182
Intersegment	502	436	45	3	15	105	764	1,873	(1,873)	—
Total	46,559	53,924	31,987	72,620	28,469	17,182	21,313	272,055	(1,873)	270,182
Segment income	3,148	7,357	3,010	1,946	5,669	(979)	6,552	26,705	(10,245)	16,460

(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	26,705
Elimination of intersegment transactions	(17)
Companywide expenses (Note)	(10,214)
Other adjustments	(12)
Operating income in the quarterly consolidated statements of income	16,460

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