

Quarterly Financial Results for the Second Quarter, Ended September 30, 2017 (Japanese GAAP, Consolidated)

November 9, 2017

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

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Scheduled date for submitting financial statements: November 13, 2017 Scheduled date of dividend distribution: December 4, 2017

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

1. Consolidated Business Performance for the Second Quarter, Ended September 30, 2017

(from April 1, 2017 to September 30, 2017)

(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. 2017 – Sep. 2017	292,258	8.2	15,879	(3.5)	14,492	3.2	9,615	5.2
Apr. 2016 – Sep. 2016	270,182	(3.5)	16,460	(14.2)	14,044	(11.2)	9,143	(7.7)

Note: Comprehensive income: ¥18,813 million (694.9%) six months ended September 30, 2017
¥2,366 million (-70.0%) six months ended September 30, 2016

	Net income per share	Fully diluted net income per share
Apr. 2017 – Sep. 2017	¥ 29.21	¥ 29.18
Apr. 2016 – Sep. 2016	27.56	27.53

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2017	¥ million 623,724	¥ million 336,300	% 51.1
As of March 31, 2017	592,900	321,551	51.5

(Reference) Shareholders' equity: ¥319,012 million as of Sep 30, 2017
¥305,149 million as of March 31, 2017

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2016 – Mar. 2017	¥ —	¥ 9.00	¥ —	¥ 9.00	¥ 18.00
Apr. 2017 – Mar. 2018	—	9.00			
Apr. 2017 – Mar. 2018 (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, 2018

(from April 1, 2017 to March 31, 2018)

(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	610,000	11.3	37,000	11.6	33,000	20.3	21,000	2.5	63.96

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):

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, 2017	350,000,000 shares	March 31, 2017	350,000,000 shares
September 30, 2017	22,478,637 shares	March 31, 2017	19,834,211 shares
September 30, 2017	329,135,979 shares	September 30, 2016	331,762,182 shares

(These financial statements are exempt from audit procedures)

(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.

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economy continued to experience a modest recovery, during the first six months under review (April 1, 2017 to September 30, 2017), the Kaneka Group reported consolidated net sales of ¥292,258 million (up 8.2% year on year), the highest on record, due to sales increases mainly in overseas markets. Ordinary income was ¥14,492 million (up 3.2% year on year), and net income attributable to owners of parent was ¥9,615 million (up 5.2% year on year). On the other hand, operating income was ¥15,879 million (down 3.5% year on year) due to a lower income from April 1 to September 30 caused by a sharp increase in certain raw material prices. However, operating income from July 1 to September 30 increased year on year despite an impact caused by a hurricane in the U.S.

Operating performance by business segment was as follows:

1) Material Solutions Unit

In the Vinyls and Chlor-Alkali business, exports of general PVC resins and caustic soda to Asia continued to be strong, while domestic sales for those were fine. Sales of chlorinated PVC and paste PVC expanded steadily, mainly in overseas markets. Considering that strong demand will continue even after the third quarter, business performance is expected to be better.

In the Performance Polymers business, although sales of modifiers were affected by a hurricane in the U.S. and declining profitability due to an abrupt change in the market price of the major raw material butadiene in the first quarter, strong demand continued globally and sales expanded with the full contribution of a new production facility in Malaysia. After the third quarter, the Group is forecasting these temporary problems will have gone and the enhancement of business performance through expanding applications around the world. Regarding modified silicone polymers, a new facility in Malaysia, which can satisfy current demand, commenced service in July 2017. Additionally, the Group decided to increase the production capacity in Belgium to respond to further demand expansion.

2) Quality of Life Solutions Unit

In the E & I Technology business, regarding ultra-heat-resistant polyimide films, sales of highly functional products (Pixeo) increased due to the contribution from strengthening the supply system in response to strong demand for new models from major smartphone manufacturers. Looking ahead, it is expected that the downsizing and multifunctioning of digital devices, such as smartphones, will create higher demand for ultra-heat-resistant polyimide films and high thermal conductive graphite sheets as thermal countermeasure resins. The Group is concerned with the issue of supplying those products under current production capacity. On top of that, the Group forecast that strong demand for new products exploiting polyimide resin technology, used in display application, etc., will come, and the Group will reinforce production and expand profit further.

In the Foam & Residential Techs business, sales grew sluggish pace due to decreased haul and delays in construction caused by bad weather, also there was an impact of a sharp increase in certain raw material prices. Looking ahead, the Group will put highly functional expandable plastics products on the market that are light weight, energy saving, resource saving and heat insulating. As a result, demand for applications for cars and housing will increase and the business performance will get better.

In the Performance Fibers business, sales volume increased due to strong demand in the pile market, but the business was strongly affected by sharp increase in raw material prices. The Group will expand the business in the hair accessory market in the stage of demand recovery and develop new markets by taking advantage of the plant in Malaysia with high competitiveness.

In the PV & Energy management business, sales of high efficiency roof-tile-integrated photovoltaic modules to major housing manufacturers expanded steadily. Looking ahead, the Group will commit to providing energy solutions that contribute to net zero energy houses, centering on the photovoltaic modules business.

3) Health Care Solutions Unit

In the Medical Devices business, sales remained solid in the domestic and overseas markets. The Group worked on business expansion through joint businesses with other companies of the vascular intervention and reinforcement sales and marketing system of the blood purification business in the U.S.

In the Pharma business, sales of active pharmaceutical ingredients (API) and biopharmaceuticals expanded steadily and production expansion both in Japan and overseas took place. However, the sales volume of low-molecular pharmaceutical materials was less than previous year since these products were shipped intensively during the first half of the previous year. The Group expects sales will recover from the third quarter.

4) Nutrition Solutions Unit

In the Foods & Agris business, sales expanded due to progress proposal-based approach to major suppliers of bakery products, convenience stores, and food product manufacturers, which have strengths in new foodstuffs amid continued faltering in domestic demand.

In the Supplemental Nutrition business, the sales volume of the reduced form of coenzyme Q10 increased mainly in the U.S market, and significantly contributed to business performance. The Group will continue to expand the business globally after the third quarter.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥623,724 million as of September 30, 2017, up ¥30,824 million compared with March 31, 2017 due to increases in receivable-trade, investment securities and noncurrent assets. Liabilities totaled ¥287,424 million, up ¥16,074 million due to an increase in payable-trade. Net assets (equity) increased by ¥14,749 million to ¥336,300 million, due to increases in retained earnings and valuation difference on available-for-sale securities.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first six months of the year was ¥21,596 million, mainly due to income before income taxes and depreciation and amortization, while net cash used in investing activities amounted to ¥19,463 million, mainly due to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥4,443 million, mainly owing to cash dividends paid. As a result, cash and cash equivalents as of September 30, 2017 totaled ¥39,542 million mainly due to cash dividends paid and purchase of treasury stock.

(3) Consolidated Business Forecasts

Looking ahead, the global economy is expected to follow a gradual recovery trend, uncertainties remain, such as political and economic trends in key countries, economic conditions in emerging nations, and geopolitical risks.

In the first half of the year, net sales increased steadily due to expanding sales by production capacity expansion for main businesses and higher contributions from new products, although the sharp price increase in raw materials in the first quarter and the hurricane in the U.S had an impact on the profit. Based on its financial performance in the first half, the Group revised the forecast for consolidated financial performance announced on May 12, 2017.

In the second half of the year, the Group forecast improvement in the supply-demand balance for products and proceeding development of new unique product in the Material Solutions Unit (Vinyls, Performance Polymers), strong demand in the market for smartphones in the E & I Technology business, sales expansion for the reduced form of coenzyme Q10 mainly in the U.S. market will significantly increase income. As a result, the Group forecasts operating income of ¥37,000 million, which will exceed the record in the previous year of ¥33,164 million, even though less than the original forecast of ¥43,000 million.

With regard to exchange rates and raw material prices, forecast figures assume an exchange rate of ¥110 to the U.S dollar, ¥130 to the euro and a domestic naphtha price of ¥42,000 per kiloliter from October 1, 2017 onward.

Revisions to forecast for consolidated business performance in the term ending March 31, 2018
(from April 1, 2017 to March 31, 2018)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
	¥ million	¥ million	¥ million	¥ million	¥
Previous forecast (A)	610,000	43,000	39,000	23,000	69.66
Current forecast (B)	610,000	37,000	33,000	21,000	63.96
Change (B-A)	—	(6,000)	(6,000)	(2,000)	
Percentage change (%)	—	(14.0%)	(15.4%)	(8.7%)	
(Reference: Year ended March 31, 2017)	548,222	33,164	27,426	20,484	61.72

Note: The above performance forecasts are regarded as reasonable on the basis of information available at the time of announcement. Readers should therefore be aware that actual results may vary from these forecasts due to various uncertainties.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2016 Term ended March 31, 2017	FY2017 2nd Quarter Term ended September 30, 2017
Assets		
Current assets		
Cash and deposits	41,116	39,825
Notes and accounts receivable-trade	125,482	138,299
Short-term investment securities	110	110
Merchandise and finished goods	52,493	55,014
Work in process	10,148	9,461
Raw materials and supplies	34,106	35,620
Other	17,334	20,172
Allowance for doubtful accounts	(353)	(361)
Total current assets	280,439	298,142
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	74,073	75,411
Machinery, equipment and vehicles, net	98,666	102,135
Other, net	52,803	54,124
Total property, plant and equipment	225,544	231,671
Intangible assets		
Goodwill	3,322	4,303
Other	6,929	7,255
Total intangible assets	10,251	11,558
Investments and other assets		
Investment securities	62,584	70,138
Other	14,309	12,483
Allowance for doubtful accounts	(228)	(270)
Total investments and other assets	76,665	82,352
Total noncurrent assets	312,461	325,582
Total assets	592,900	623,724

	(Millions of yen)	
	FY2016	FY2017 2nd Quarter
	Term ended March 31, 2017	Term ended September 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable-trade	73,058	80,944
Short-term loans payable	52,294	58,658
Income taxes payable	3,390	3,559
Provision	135	13
Other	40,122	44,621
Total current liabilities	169,001	187,797
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	50,336	45,984
Provision	319	259
Net defined benefit liability	37,310	37,576
Other	4,381	5,805
Total noncurrent liabilities	102,347	99,626
Total liabilities	271,349	287,424
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,813	32,805
Retained earnings	248,523	255,960
Treasury stock	(16,753)	(18,922)
Total shareholders' equity	297,630	302,890
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,338	26,731
Deferred gains or losses on hedges	(61)	(63)
Foreign currency translation adjustment	(5,105)	(1,797)
Remeasurements of defined benefit plans	(9,653)	(8,747)
Total accumulated other comprehensive income	7,518	16,122
Subscription rights to shares	271	295
Noncontrolling interests	16,130	16,992
Total net assets	321,551	336,300
Total liabilities and net assets	592,900	623,724

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2016 2nd Quarter	FY2017 2nd Quarter	
	From April 1, 2016 to September 30, 2016	From April 1, 2017 to September 30, 2017	
Net sales	270,182	292,258	
Cost of sales	188,899	210,513	
Gross profit	81,282	81,744	
Selling, general and administrative expenses	64,822	65,864	
Operating income	16,460	15,879	
Non-operating income			
Dividends income	1,026	811	
Gain on sales of investment securities	480	0	
Foreign exchange gains	-	414	
Equity in earnings of affiliates	75	67	
Other	458	390	
Total non-operating income	2,040	1,683	
Non-operating expenses			
Interest expenses	652	799	
Loss on retirement of noncurrent assets	1,108	767	
Foreign exchange losses	1,883	-	
Other	811	1,504	
Total non-operating expenses	4,456	3,071	
Ordinary income	14,044	14,492	
Extraordinary loss			
Patent protection court cost	294	473	
Total extraordinary losses	294	473	
Income before income taxes	13,749	14,018	
Income taxes-current	3,882	3,831	
Income taxes-deferred	237	165	
Total income taxes	4,120	3,996	
Net income	9,629	10,021	
Net income attributable to non-controlling interests	485	406	
Net income attributable to owners of parent	9,143	9,615	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016 2nd Quarter From April 1, 2016 to September 30, 2016	FY2017 2nd Quarter From April 1, 2017 to September 30, 2017
Net income	9,629	10,021
Other comprehensive income		
Valuation difference on available-for-sale securities	874	4,505
Deferred gains or losses on hedges	(22)	(2)
Foreign currency translation adjustment	(8,985)	3,374
Remeasurements of defined benefit plans, net of tax	872	912
Share of other comprehensive income of associates accounted for using equity method	(1)	1
Total other comprehensive income	(7,262)	8,792
Comprehensive income	2,366	18,813
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,205	18,064
Comprehensive income attributable to noncontrolling interests	161	749

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	FY2016 2nd Quarter From April 1, 2016 to September 30, 2016	FY2017 2nd Quarter From April 1, 2017 to September 30, 2017
Net cash provided by (used in) operating activities		
Income before income taxes	13,749	14,018
Depreciation and amortization	13,425	14,731
Increase (decrease) in net defined benefit liability	1,389	1,496
Increase (decrease) in allowance for doubtful accounts	0	22
Interest and dividends income	(1,063)	(853)
Interest expenses	652	799
Equity in (earnings) losses of affiliates	(75)	(67)
Loss (gain) on disposal of noncurrent assets	317	284
Decrease (increase) in notes and accounts receivable-trade	2,133	(11,685)
Decrease (increase) in inventories	2,193	(1,218)
Increase (decrease) in notes and accounts payable-trade	(2,037)	6,983
Other, net	(465)	326
Subtotal	30,219	24,839
Interest and dividends income received	1,065	873
Interest expenses paid	(649)	(799)
Income taxes paid	(4,411)	(3,317)
Net cash provided by (used in) operating activities	26,223	21,596
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(19,556)	(16,146)
Proceeds from sales of property, plant and equipment	-	30
Purchase of intangible assets	(758)	(548)
Purchase of investment securities	(36)	(1,050)
Proceeds from sales of investment securities	511	138
Purchase of stocks of subsidiaries and affiliates	(102)	(1,466)
Payments of loans receivable	(271)	(833)
Collection of loans receivable	160	777
Other, net	(279)	(363)
Net cash provided by (used in) investing activities	(20,331)	(19,463)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,943)	5,732
Proceeds from long-term loans payable	3,120	48
Repayments of long-term loans payable	(3,894)	(4,403)
Repayments of lease obligations	(81)	(206)
Purchase of treasury stock	(3)	(2,568)
Proceeds from sales of treasury stock	201	232
Proceeds from stock issuance to noncontrolling shareholders	53	-
Cash dividends paid	(3,330)	(2,979)
Dividends paid to noncontrolling interests	(245)	(227)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(2,626)	(71)
Net cash provided by (used in) financing activities	(8,748)	(4,443)
Effect of exchange rate change on cash and cash equivalents	(1,116)	235
Net increase (decrease) in cash and cash equivalents	(3,973)	(2,076)
Cash and cash equivalents at beginning of period	43,161	41,018
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	600
Cash and cash equivalents at end of period	39,188	39,542

(4) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

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

Not applicable

(Segment Information)

I Term from April 1, 2016 to September 30, 2016

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	99,543	69,083	22,932	78,137	269,697	485	270,182	—	270,182
Intersegment	612	6	1	13	632	764	1,396	(1,396)	—
Total	100,156	69,089	22,933	78,150	270,330	1,249	271,579	(1,396)	270,182
Segment profit	10,506	8,376	5,472	2,143	26,498	207	26,706	(10,245)	16,460

(Note) 1 "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2 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	26,498
Segment profit of Others	207
Elimination of intersegment transactions	(18)
Companywide expenses (Note)	(10,214)
Other adjustments	(12)
Operating income in the quarterly consolidated statements of income	16,460

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

II Term from April 1, 2017 to September 30, 2017

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	115,472	74,623	21,675	79,857	291,629	628	292,258	—	292,258
Intersegment	646	17	0	23	688	583	1,271	(1,271)	—
Total	116,119	74,641	21,675	79,881	292,317	1,212	293,529	(1,271)	292,258
Segment profit	12,248	6,853	4,228	2,549	25,880	339	26,220	(10,340)	15,879

(Note) 1 "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2 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	25,880
Segment profit of Others	339
Elimination of intersegment transactions	(0)
Companywide expenses (Note)	(10,367)
Other adjustments	28
Operating income in the quarterly consolidated statements of income	15,879

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

3) Concerning Changes in Reporting Segments, etc.

In the Kaneka Group's mid-term management vision newly started in fiscal 2017, we radically reformed our management system in order to accelerate contribution to development of society through creating new value by technological innovation, including "IoT" and "AI," and solving various problems facing society: issues of global environmental protection, population growth, food supply, and improving public health in an ageing society.

Our business divisions have been renamed "Solutions Vehicle" that aim to become organizations implementing growth strategy from the perspective of achieving solutions. In addition, we reorganized our business structure so as to make these nine "Solutions Vehicle" be consistent with four new business domains known as "Solutions Unit."

As a result of this reform of management system, the conventional reporting segments of Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others have reclassified into new reporting segments which reflected the new business domains from the first quarter of the fiscal year.

Segment information for the second quarter of the fiscal year ended March 31, 2017 has been prepared based on the segment classification after the change.

The Solutions Vehicles and main products that belong to each reporting segment are as follows.

Solutions Unit (Reporting Segments)	Solutions Vehicle	Main products
Material Solutions Unit	Vinyls and Chlor-Alkali	General PVC resins, Caustic soda, Specialty PVC resins
	Performance Polymers	Modifiers, Modified silicone polymers, Biopolymers
Quality of Life Solutions Unit	Foam & Residential Techs	Expandable polystyrene resins and products, Extruded polystyrene foam boards, Bead-method polyolefin foam, Solar circuit construction method (external insulation and double ventilation construction) products
	E & I Technology	Ultra-heat-resistant polyimide films, Optical materials, High thermal conductive graphite sheets
	PV & Energy management	Photovoltaic modules, Energy storage batteries for residences
	Performance Fibers	Acrylic synthetic fibers
Health Care Solutions Unit	Medical Devices	Medical devices
	Pharma & Supplemental Nutrition (Pharma)	Low-molecular pharmaceutical materials, API, Biopharmaceuticals
Nutrition Solutions Unit	Pharma & Supplemental Nutrition (Supplemental Nutrition)	Functional foodstuffs
	Foods & Agris	Margarine, Shortening, Bakery yeast, Spices, Antifreeze proteins, Functional fertilizers, Feeds

4) Impairment Loss on Fixed Assets or Goodwill by Reporting Segment (Significant changes in Goodwill)

In the second quarter of the fiscal year ended March 31, 2018, the Company recorded goodwill of ¥827 million in conjunction with the acquisition of shares of Applied Poleramic Inc. (currently Kaneka Aerospace LLC) in September 2017. This goodwill was not allocated to any reporting segment.