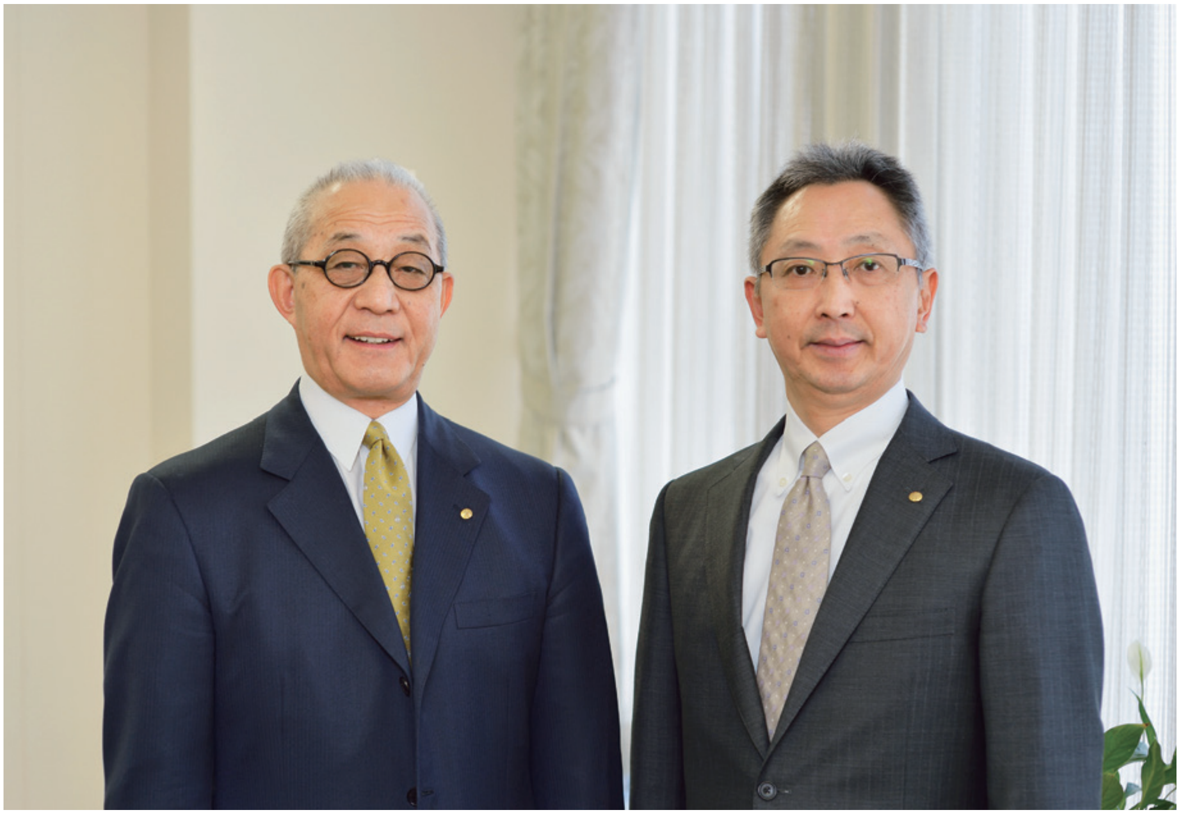
KANEKA

ANNUAL REPORT 2016

Year Ended March 31, 2016

KANEKA CORPORATION

TO OUR SHAREHOLDERS



In September 2009, the Kaneka Group introduced the "Declaration of Kaneka United for the future" as part of its long-term management vision.

The declaration defines Kaneka's corporate philosophy as a "dreamology company," a phrase we coined to express a "highly perceptive and collaborative value-creating group." We will create future-oriented businesses that leap beyond current market needs, as we pursue new product development.

In the process, we will strive to protect the global environment and contribute to people's quality of life, while fostering an even greater presence as a global company, including in the markets of emerging countries.

In closing, we would like to thank you in advance for your continued understanding and confidence in the Kaneka Group.

August 2016

K. Sugawara

Kimikazu Sugawara, *Chairman of the Board* (Left)

M. Kadokura

Mamoru Kadokura, *President* (Right)

Corporate Philosophy

With people and technology growing together into creative fusion, we will break fresh ground for the future and tie in to explore New Values. We are also committed to challenge the environmental issues of our planet and contribute to upgrade the quality of life.

Corporate Ideals

Toward an Even More Impressive and Productive Future

- We want to look at the future from the same perspective as our customers.
- The future that Kaneka visualizes is one that connects us with our customers.

Tie to the future: As a research and development company brimming with creative energy and passion, we will create future-oriented businesses that leap beyond current market needs and back them up with new product development, thus protecting the global environment and contributing to the quality of life.

Tie to the world: We are determined to become a truly global enterprise with diverse human resources working together on a global scale. Our presence will be felt in markets around the world, including newly emerging ones.

Tie with value: We are proud of our unity and identity as the Kaneka Group and will take on the challenges of value creation and business innovation through close collaboration.

Tie for innovation: We will never cease to pursue innovation, fusing wisdom from both internal and external sources without getting caught up in organizational compartmentalization and conventional ways of doing things.

Tie with people: We in the Kaneka Group believe that the wellspring of corporate growth resides in human resources and will continue to seek innovation as we cultivate and nurture our valued employees.

Basic Corporate Social Responsibility Policy

The Kaneka Group will fulfill our corporate social responsibility through the materialization of our corporate philosophy with the earnest and forward-looking efforts of each employee.

1 We will strive to fully understand the cultural backgrounds, manners and customs of the countries and regions where we do business as a means of actively contributing to local societies and communities.

2 We will abide by all relevant laws and regulations and, in undertaking our business activities, conduct ourselves in a fair manner based on free competition.

3 We will place high priority on communicating with all our stockholders and stakeholders, and will disclose all pertinent information.

4 We will respect the personalities and individuality of all our employees to support and encourage the development and utilization of their abilities.

5 We will uphold safety as the top-priority concern of management as we dedicate our best efforts to securing a sound and safe workplace environment, offering safe products, and working to protect the global environment.

BUSINESS PERFORMANCE

Overview of Results for 2016

In the global economy during the fiscal year ended March 31, 2016, the U.S. economy continued to experience a solid recovery. Also, economic conditions in Europe experienced a modest recovery.

However, in the second half of the fiscal year, global economic conditions became more uncertain, because of the effect of the monetary policies in Japan, the U.S. and Europe, the distinct slowdown in the economies of emerging countries centered on China, a drastic decline in resource prices such as crude oil, and growing geopolitical risks among other negative factors. Japanese economic conditions also became uncertain, because of the weakness of consumer spending, the slowdown in the demand of emerging countries, and the rapid yen appreciation that had started to affect corporate earnings, although the Japanese economy continued to experience a modest recovery.

In this business environment, the Kaneka Group reported consolidated net sales of ¥555,227 million (up 0.6% year on year) for the fiscal year ended March 31, 2016, a new record, marking the sixth consecutive year of growth, due to the expansion of overseas business. Operating income was ¥38,220 million (up 55.1% year on year), and net income attributable to owners of parent was ¥20,986 million (up 16.4% year on year), all marking a significant increase. We paid a dividend for the fiscal year ended March 31, 2016 of ¥18 per share.

Performance Forecasts for 2017

Global economic conditions will become more uncertain during the next fiscal year due to the effect of the slowdown of the global economy from the second half of the previous year, although the U.S. economy is forecast to moderately continue recovering. Although the Japanese economy is expected to continue its process of recovering gradually on the back of the Japanese government's economic policies, it will probably remain exposed to downside risks due to the demand-based market conditions, the fluctuation of resource prices and the shifts toward an appreciation of the yen, among other negative factors.

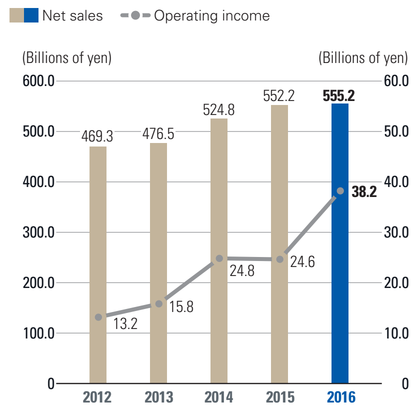
In this business environment, the Kaneka Group will strongly accelerate business expansion by strengthening R&D to create new businesses and by globalizing. We will also transform our business structure by launching new products, and reduce costs to strengthen profitability.

Our performance forecasts for the fiscal year ending March 31, 2017 are as follows:

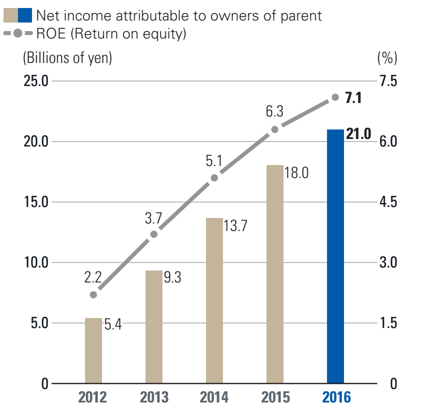
(Billions of yen)	2016 result	2017 forecast	Difference	
Net sales	555.2	600.0	44.8	8.1%
Operating income	38.2	42.0	3.8	9.9%
Net income attributable to owners of parent	21.0	23.0	2.0	9.6%

Note: The forecasts above are based on exchange rates of ¥110 to the U.S. dollar, ¥120 to the euro and a domestic naphtha price of ¥40,000 per kiloliter.

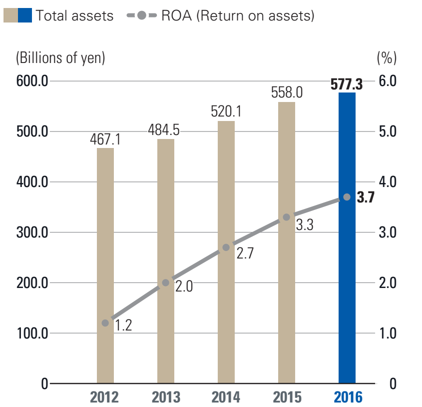
Net sales / Operating income



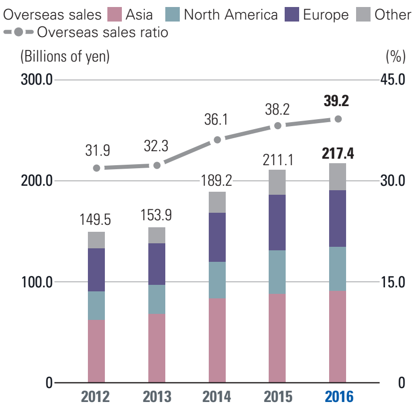
Net income attributable to owners of parent / ROE



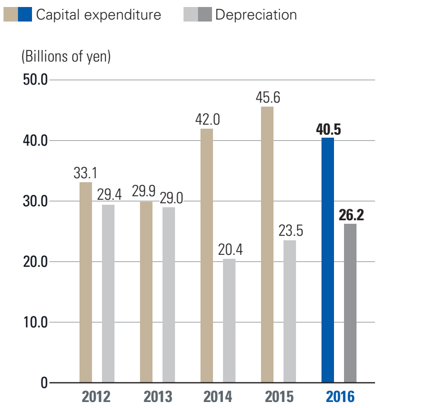
Total assets / ROA



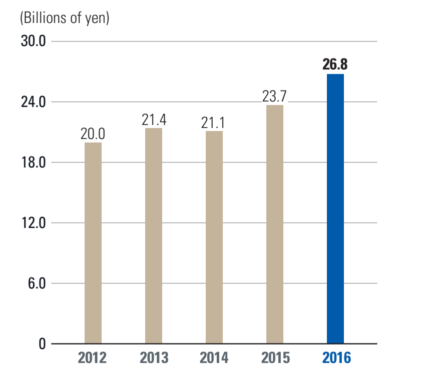
Overseas sales / Overseas sales ratio



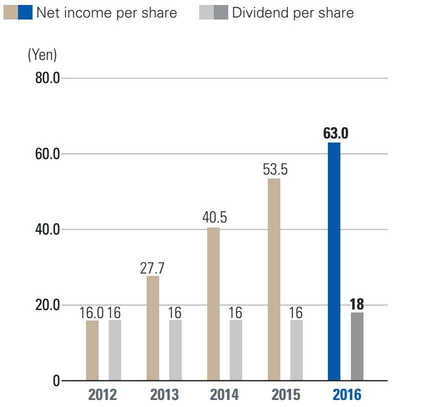
Capital expenditure / Depreciation



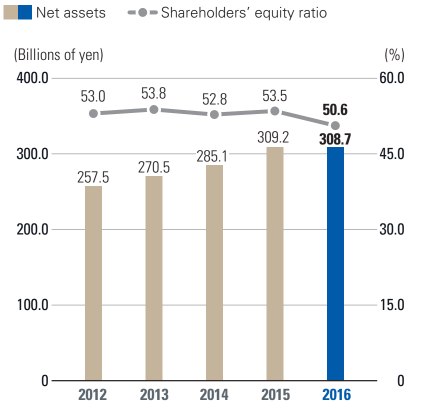
R&D expenses



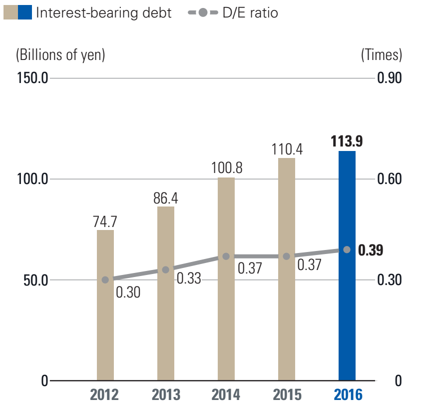
Net income per share / Dividend per share



Net assets / Shareholders' equity ratio



Interest-bearing debt / D/E ratio

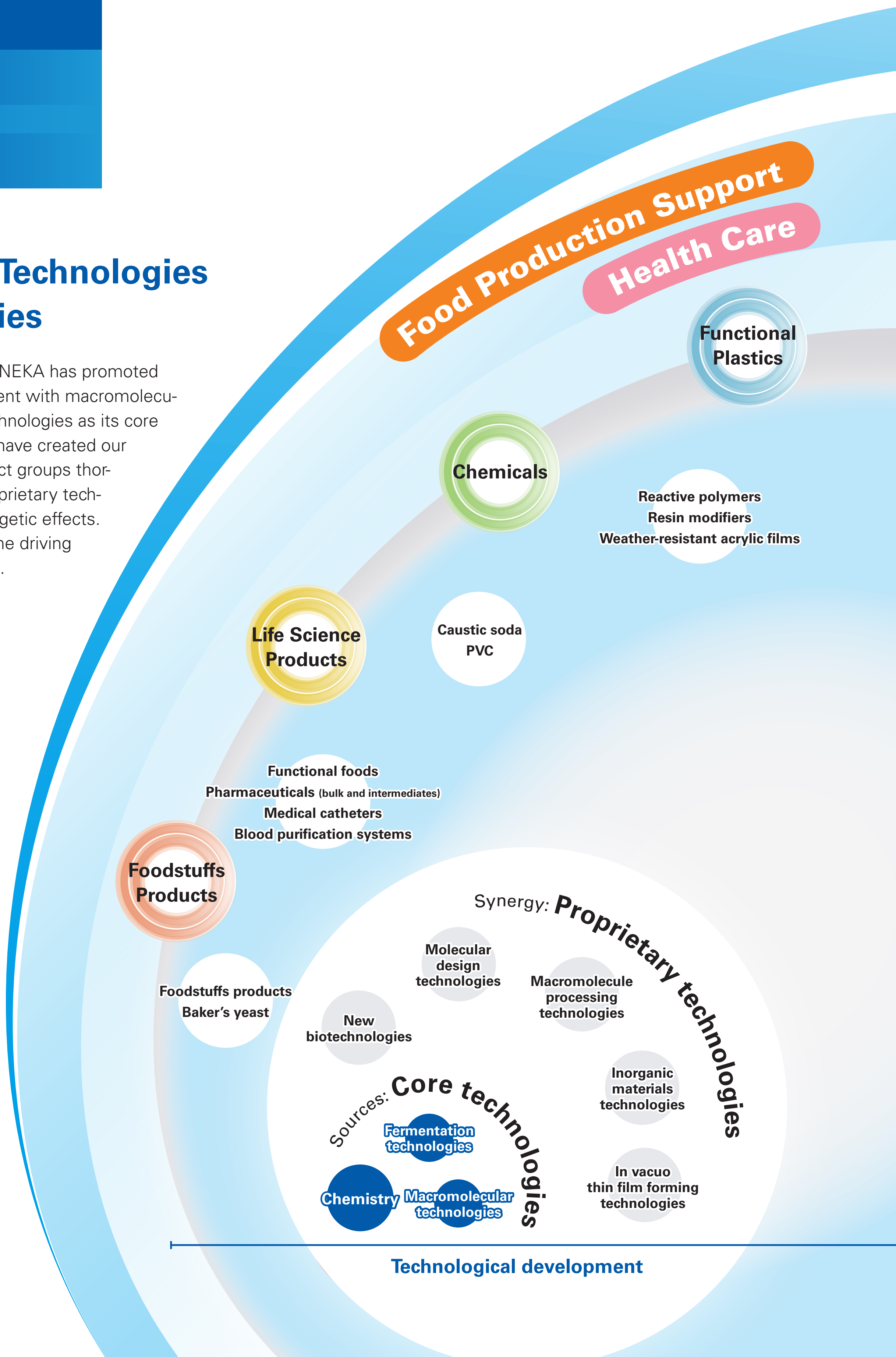


Note: Return on equity is calculated on the basis of the average shareholders' equity at the current and previous fiscal year-ends.

REVIEW OF OPERATIONS

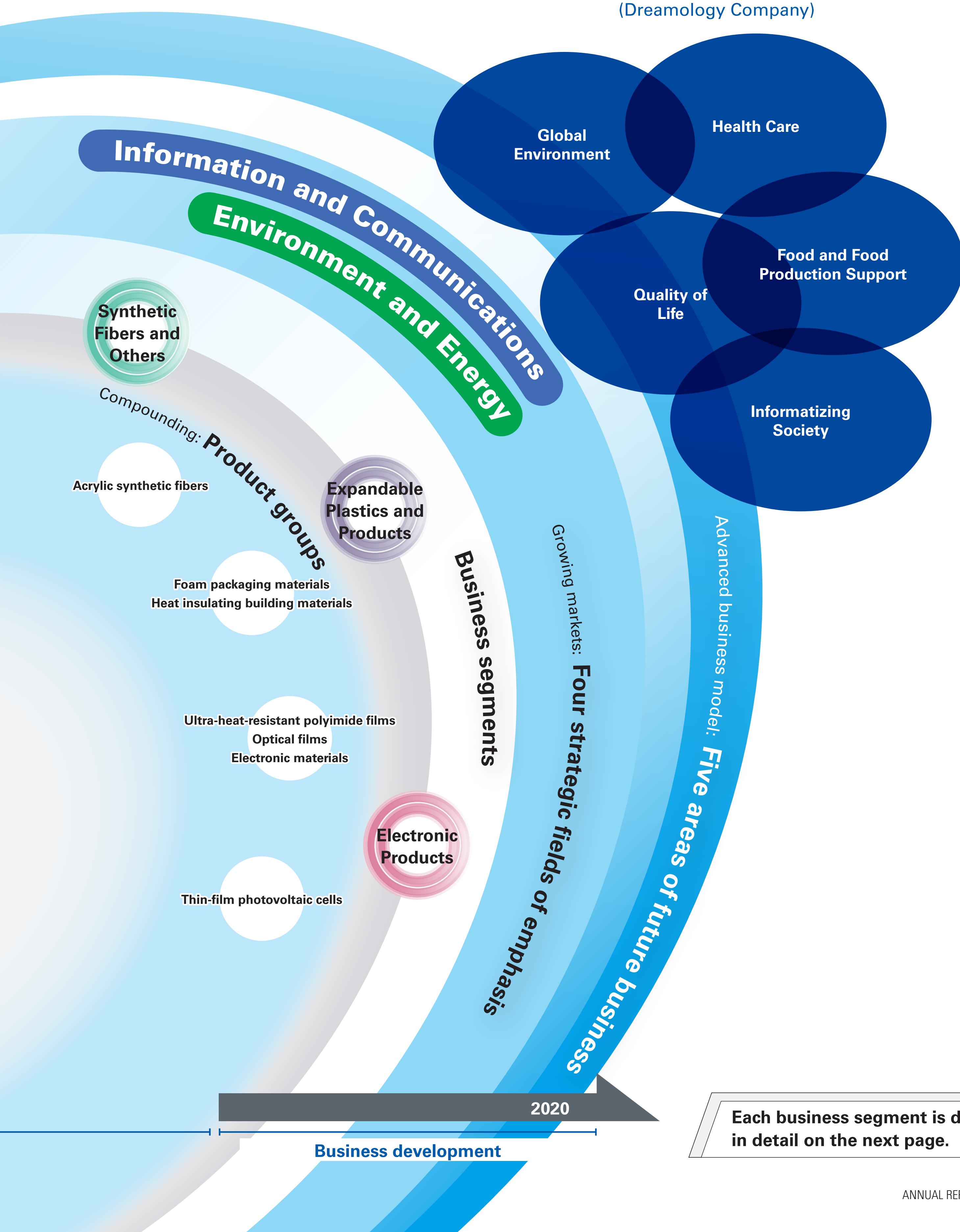
Proprietary Technologies and Synergies

Since its foundation, KANEKA has promoted technological development with macromolecular and fermentation technologies as its core competency fields. We have created our highly specialized product groups thorough these multiple proprietary technologies and their synergetic effects. Such a rich diversity is the driving force behind our growth.



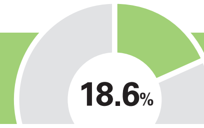
Farseeing and collaboratively value-creating group

(Dreamology Company)

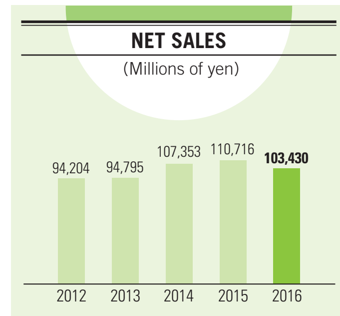


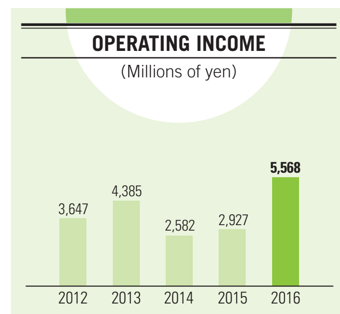
Each business segment is described in detail on the next page.

CHEMICALS



In the PVC resins business, while sales for overseas markets continued to increase amid the yen's depreciation and declines in resource prices, domestic market conditions remained sluggish. In the Paste PVC resins business, sales for overseas markets increased. In the Chlorinated PVC business, enhancement of production capacity in the U.S. contributed to sales. In the caustic soda business, domestic market conditions remained sluggish.





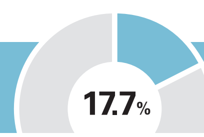
MAJOR PRODUCTS

- Polyvinyl chloride
- PVC compounds
- Caustic soda
- Chlorinated PVC
- Paste PVC

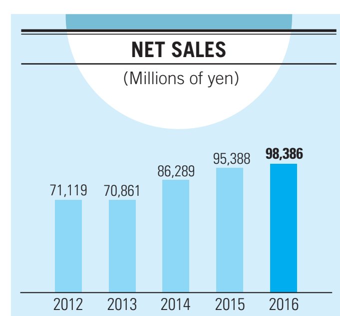
KANEKA CPVC™

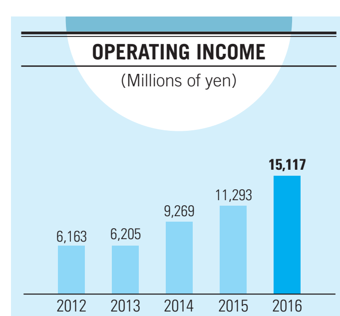
KANEVINYL™ Paste

FUNCTIONAL PLASTICS



In the modifiers business, profitability expanded as the Kaneka Group made progress with extensive steps to enhance product differentiation, to strengthen global initiatives, and to develop markets for new products for application in the non-PVC field. Modified silicone polymers business saw a steady expansion in sales in European, U.S. and Asian markets. This was because the polymers were evaluated highly for their unique quality and had displaced other materials for application in the construction field. In addition, CEMEDINE CO., LTD. became a consolidated subsidiary of the Group from the fourth quarter of the fiscal year ended March 31, 2016. The Group was strengthening the capital relationship in order to be actively engaged in developing products that accurately grasped needs of the markets where high growth is expected in the future.





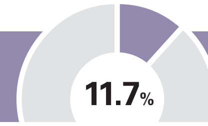
MAJOR PRODUCTS

- Impact modifiers
- Silyl-terminated polyether (Modified silicone polymers)
- Weather-resistant acrylic film

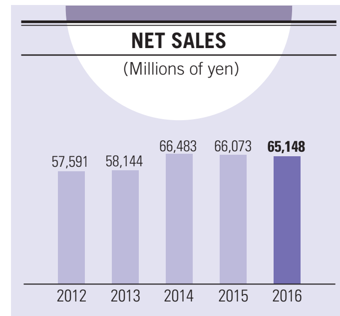
KANEACE™ B, KANEACE™ M

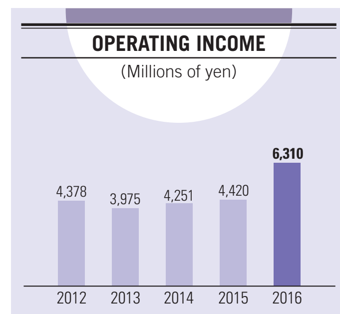
KANEKA MS POLYMER™

EXPANDABLE PLASTICS AND PRODUCTS



Sales in the expandable polystyrene resins and products business remained solid not only in the agriculture and fisheries fields but also in the civil engineering field, and profitability expanded owing to declines in resource prices and reduced costs. The sales volume of the extruded polystyrene foam boards business remained at the same level as in the previous fiscal year due to delays in the recovery of the Japanese housing market. Meanwhile, the segment saw the sales volume of bead-method polyolefin foam increase, particularly in the automotive field in European markets, despite the slowdown in the economy of China.





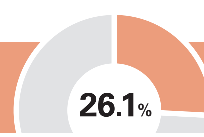
MAJOR PRODUCTS

- Polystyrene foam made with the bead method
- Polystyrene foam boards with the extrusion method
- Polyolefin foam made with the bead method

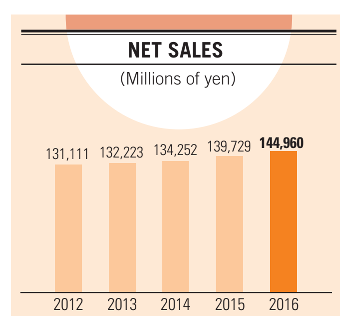
KANEPEARL™

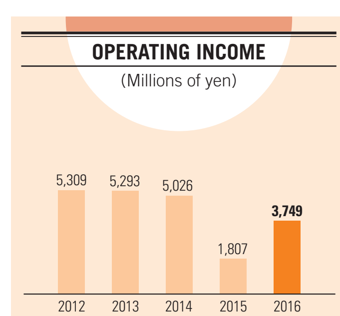
EPERAN-PP™

FOODSTUFFS PRODUCTS



In this business, profitability substantially improved mainly due to the Group actively implementing measures to sell new products that anticipate consumer needs, to expand sales volume, to add the high added-value of product mixes, and to innovate its business structure, thereby countering sluggish domestic demand and the continued preference of consumers for low prices.





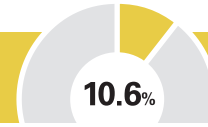
MAJOR PRODUCTS

- Margarine
- Shortening
- Confectionery fats
- Bakery yeast
- Spices

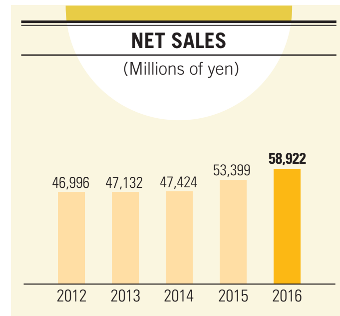
KANEKA Yeast

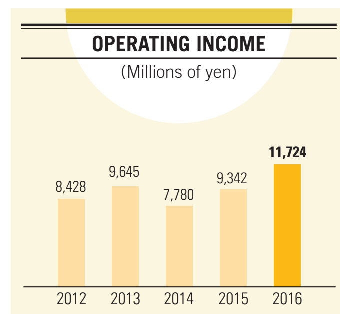
Lachente™ / FRANJE
(Whipping cream / Cooking cream)

LIFE SCIENCE PRODUCTS



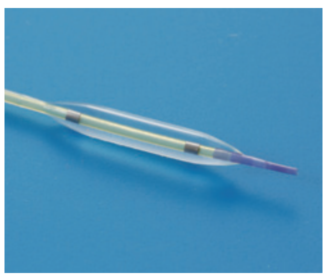
In the medical devices business, sales in the vascular intervention business remained solid in Japan and overseas. The segment also concentrated on expanding the sales of new products in global markets including the U.S. and Europe, on initiatives for expanding business in new domains including the endoscopic treatment of gastrointestinal systems, and on conducting joint businesses with other companies. In the pharmaceutical business, the sales volumes of pharmaceutical intermediates increased while sales expanded steadily in the active pharmaceutical ingredients (API) market and the bio-pharmaceutical market. The functional foodstuffs business saw its sales volume increase steadily in Japan and overseas in step with the steadily growing recognition of the healthcare benefits in the market for nutritional supplements on the back of the system of "Foods with Function Claims" that had been started in the Japanese market.





MAJOR PRODUCTS

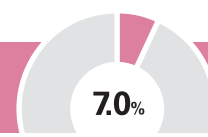
- Medical devices
- Pharmaceutical ingredients (API and intermediates)
- Functional foodstuffs



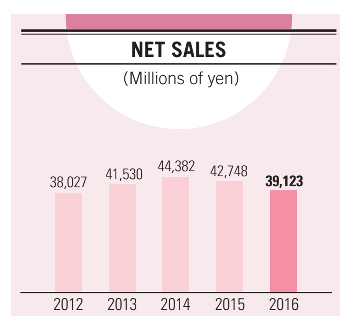
Balloon Catheter for vessel stenosis dilatation

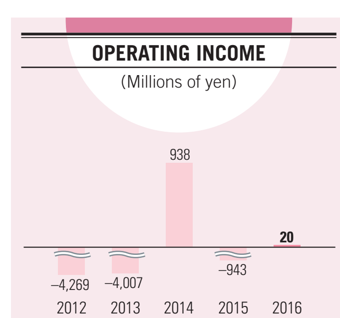
KANEKA QH™

ELECTRONIC PRODUCTS



Sales of ultra-heat-resistant polyimide film and high thermal conductive graphite sheet and optical materials were by and large strongly affected by sluggish demand in the smartphone market. However, the sales volume of high thermal conductive graphite sheet increased due to the increase in the models being adopted by smartphone makers. In the photovoltaic modules business, the segment concentrated on developing technology including the start of sales of a new, technologically innovative photovoltaic module incorporating heterojunction technology and possessing one of the world's highest conversion efficiencies. The profitability of the business improved in tandem with the implementation of business structure reforms.

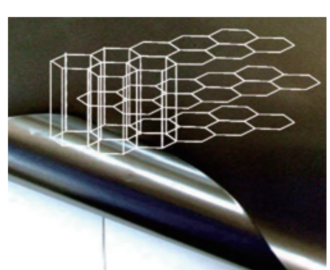




MAJOR PRODUCTS

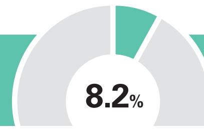
- Ultra-heat-resistant polyimide films
- Optical materials
- High thermal conductive graphite sheet
- Bonded magnets
- Photovoltaic modules

APICAL™, PIXEO™ BP



Graphinity™

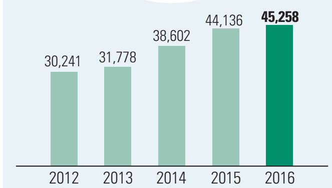
SYNTHETIC FIBERS AND OTHERS



In the synthetic fibers business, amid strong demand for materials for hair accessory products in the African market, the segment leveraged quality and its brand power to continue its firm sales. Profits increased substantially partly due to the continuous yen's depreciation. The segment actively implemented measures to launch operations at a new plant in Malaysia as soon as possible.

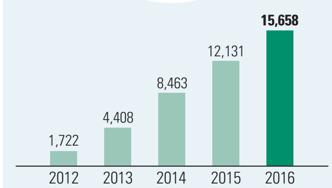
NET SALES

(Millions of yen)



OPERATING INCOME

(Millions of yen)



MAJOR PRODUCTS

- Modacrylic synthetic fibers

Kanekalon™

KANECARON™

Note 1. From the beginning of the fiscal year ended March 31, 2013, the Company has revised part of its R&D framework. Accordingly, the Company has reclassified a portion of R&D expenses, which were previously included in the Electronic Products segment, as expenses for basic R&D under Companywide expenses. Segment information for the fiscal year ended March 31, 2012 in this report has been prepared based on the revised classification method for reporting segments.

2. From the beginning of the fiscal year ended March 31, 2015, the Company has revised its method of disclosing mega solar-related business information as a result of the Company's review of its organizational and management framework. This information, that used to be disclosed in the Synthetic Fibers and Others segment, has now been included in the Electronic Products segment. Furthermore, the Company has changed the divisions of some subsidiaries and as a result, their reporting segment has been revised from Electronic Products to Chemicals. Segment information for the fiscal year ended March 31, 2014 in this report has been prepared based on the revised classification method.

3. From the beginning of the fiscal year ended March 31, 2016, the Company has changed the divisions of some subsidiaries and as a result, their reporting segment has been revised from Electronic Products to Expandable Plastics and Products. Segment information for the fiscal year ended March 31, 2015 in this report has been prepared based on the revised classification method.

NEW BUSINESSES

In order to dramatically grow into a global company, Kaneka will continue to create businesses in growth areas in which we have a competitive edge. We will combine a diversity of technology seeds to challenge ourselves to succeed in new business fields.

Biodegradable polymers

The 100% bio-based polymer with softness and heat resistance
KANEKA Biopolymer AONILEX™

Organic EL Lighting Panels

With the world's first five-color lineup—next-generation lights combining the longest life and thinness in the industry

New High Performance Fertilizer

Taking agriculture beyond current limits to a whole new level
KANEKA PEPTIDE™

URL Please refer to the "New Business Development" section of our website.
http://www.kaneka.co.jp/kaneka-e/branch/nb_development/

TOPICS

TOPIC 1

Enhancing Corporate Value by Making CEMEDINE CO., LTD. a Consolidated Subsidiary

Cemedine's Super-X series adhesives

On January 20, 2016, Kaneka Corporation made CEMEDINE CO., LTD. a consolidated subsidiary. With this move, the two companies will endeavor to enhance corporate value by further solidifying their capital and business alliance, in conjunction with accelerating initiatives aimed at capturing synergies that will spearhead the development of new businesses.

Looking ahead, Kaneka will expand its functional plastics business by making more effective use of Cemedine's brand power and product development capabilities in the sealant and adhesives industry. Moreover, Kaneka and Cemedine plan to explore the possibilities of harnessing the technologies and sales channels of both companies to develop new adhesives-related businesses, especially for industrial use, and to promote collaboration aimed at expanding business overseas, particularly in Europe and the Americas.

TOPIC 2

Accelerating R&D by Opening an R&D Base for Regenerative Medicine and Cell Therapy

R&D base on Kobe Port Island

Kaneka established an R&D base specializing in regenerative medicine and cell therapy within the Kobe MI R&D Center on Kobe Port Island, commencing activities in earnest in November 2015. To advance the clinical implementation of regenerative medicine and cell therapy, Kaneka will accelerate R&D focused on the following three specific themes:

1 Cell processing (formulation)

Kaneka will formulate and supply safe and reliable cells for people undergoing cell therapy for various diseases. (First, we will formulate and supply amniotic mesenchymal stem cells (amniotic MSC)*.)

A researcher replaces cell culture solutions

2 Various devices and equipment

Kaneka will develop and supply devices and equipment that are able to perform simple processing with closed systems (separation, harvesting and collection) of cells used in regenerative medicine and cell therapy, as well as testing, diagnosis and other purposes.

3 Platform technologies

Kaneka will expand the development of cell processing and the development of various devices and equipment by strengthening highly differentiated platform technologies, including technologies related to medical functional materials and drug discovery-related technologies using iPS cells.

* Amniotic MSC are stem cells found in the amniotic membrane, which is a fetal appendage. These stem cells have the ability to differentiate into the cells of various mesenchymal tissues, such as muscle, bone, cartilage and fat, and have an immunosuppressive action.

Cell collection device

Bone marrow MSC separation device

TOPIC 3

Measures to Realize Net Zero Energy Housing (ZEH)

At COP21, held in December 2015, 150 countries adopted a global agreement on the reduction of climate change (the Paris Agreement). One issue faced by Japan is a lack of progress on reducing household CO_2 emissions.

In response, the Japanese government has embraced the goal of making net zero energy housing (hereafter, ZEH) the standard for newly built houses by 2020, and is working to promote widespread adoption of ZEH. ZEH refers to a house that achieves zero annual net energy consumption by generating energy through solar power and other means, along with saving energy.

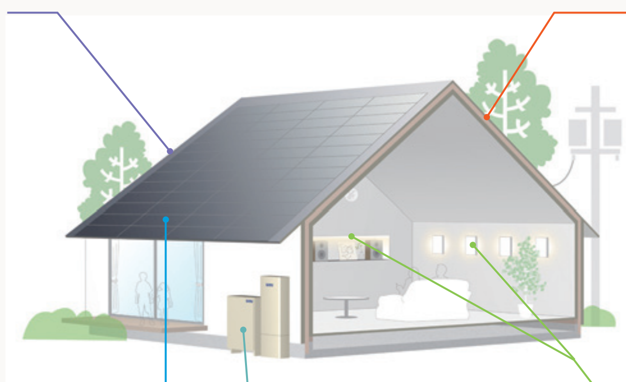
Kaneka has commercialized insulation materials which are crucial for energy savings, organic EL lighting, and photovoltaic modules. Kaneka also has expertise in building houses with excellent environmental performance, such as Solar Circuit™. Moreover, the Company will enter the home energy storage business in the fiscal year ending March 31, 2017.

Although the ZEH market offers strong future growth prospects, ZEH design requires support for energy balance calculations for each home, subsidy applications and so on, in addition to specialized knowledge. Accordingly, Kaneka launched the J-Project in 2015 not only to have a sales structure for each product, but also to propose solutions across the organization. Kaneka aims to expand sales in the ZEH market.

TOPICS

Kaneka's ZEH Solution

External insulation and double ventilation construction method
Solar Circuit™



High-performance non-flurocarbon insulation materials
KANELITE FOAM™ Super EX

VISOLA™

SoltileX™

Photovoltaic modules

VISOLA™
Photovoltaic module integrated with roofing tiles

SoltileX™
Photovoltaic module designed to fit with synthetic slate tiles

Energy storage system
Kaneka home energy storage system

Energy storage unit

Hybrid power station

Organic EL lighting
Kaneka organic EL lighting panel

CORPORATE GOVERNANCE

BASIC APPROACH TO CORPORATE GOVERNANCE

As set forth in our long-term management vision, the "Declaration of Kaneka United for the Future," (comprising the Corporate Philosophy, Corporate Ideals and Basic Corporate Social Responsibility Policy noted on page 2), Kaneka considers the achievement of sustained growth and the medium- to long-term improvement of corporate value to be its top management priorities. Kaneka has enacted a Basic Policy on Corporate Governance under the belief that enhancement of corporate governance is essential to achieving these goals.

Kaneka believes that a working corporate governance function is extremely important to realizing its diverse, global business growth, and to maintaining the optimal allocation of corporate resources to the R&D, production and sales activities that support that growth. It is also essential to realizing sustainable growth together with the medium- to long-term improvement of corporate value. From that perspective, Kaneka is working to enhance corporate governance, both to ensure transparency and fairness in decision-making, and to build more dynamic management through swift, bold decisions. The Company believes the following basic items are particularly important in those efforts.

- Respecting and ensuring the equality of shareholder rights.
- Collaborating with other stakeholders in the value-creation process.
- Ensuring transparency through the timely, appropriate disclosure of information.
- Strengthening the oversight and strategic recommendation functions of the Board of Directors by leveraging the independence and insight of its outside officers.
- Appropriately communicating and encouraging understanding of the Company's corporate philosophy and policies among all stakeholders.
- Conducting a constructive dialogue with shareholders based on an understanding of the Company's corporate policies.

1. CORPORATE GOVERNANCE FRAMEWORK AT KANEKA

(1) Overview of Corporate Governance at Kaneka

Organizational Design under the Companies Act

Corporate governance at Kaneka is underpinned by a Board of Directors and an Audit & Supervisory Board.

Business Execution

Important management matters pertaining to management of the Kaneka Group are decided by resolution of the Board of Directors following deliberation at a Management Conference, a body consisting of the President and other executives of the Company.

Meetings of the Board of Directors are convened, in principle, at least once a month. The Board of Directors discusses important matters regulated by laws and regulations, the Articles of Incorporation and Board of Directors regulations, and decides on the execution thereof. In tandem, directors report to the Board of Directors on the status of execution of their prescribed duties, with the Board of Directors monitoring the legality and appropriateness of their actions. The number of directors is capped at 13, and in principle 2 of them are independent outside directors appointed to strengthen the oversight function of the Board of Directors. The terms of office of directors are limited to one year in order to clarify management accountability.

Additionally, Kaneka has introduced an executive officer system with the purpose of promoting swift and flexible responsiveness to changes in the business environment, as well as to separate and enhance business execution and oversight functions. While division managers, including executive officers selected by the Board of Directors, are given extensive authority over daily business execution, directors are responsible for or in charge of each division to supervise the execution of operations. Division managers hold monthly meetings to report on the status of operations in their respective divisions directly to all directors and Audit & Supervisory Board Members.

The CSR Committee, chaired by the President, has been established to promote activities that contribute to society's sustainable development, as well as to guide the Company in ensuring legal and regulatory compliance, and fulfilling its accountability to stakeholders.

Audits and Oversight

The Audit & Supervisory Board consists in principle of four Audit & Supervisory Board Members, two of which are independent outside Audit & Supervisory Board Members. Audits are conducted in coordination with the accounting auditor and CSR Division Internal Control Department. The Audit & Supervisory Board Members meet periodically to exchange opinions with the Company's representative directors, and attend meetings of the Board of Directors, Management Conference, division manager meetings and other important meetings where key matters regarding business execution are decided. In this way, the Audit & Supervisory Board Members properly monitor the status of operational execution in the Company.

The Internal Control Department of the CSR Division is responsible for evaluating internal controls and conducting internal audits with regards to the business operations of each division.

(2) Reasons for Adopting a Corporate Governance Structure

As noted above, Kaneka has in place two independent outside directors and two independent outside Audit & Supervisory Board members, providing fully functioning oversight of the execution of business by the Board of Directors and audits by the Audit & Supervisory Board. The Company has thus chosen the "company with an Audit & Supervisory Board" format as our organizational design under the Companies Act.

By adopting an executive officer system, Kaneka has also separated the business execution and oversight functions to promote swift decision-making and clarify each of those roles. While the Board of Directors determines important corporate strategy for the Group as a whole and is responsible for the general oversight of business execution, the executive officers have authority over day-to-day business execution in the respective areas under their charge.

To further ensure that its corporate governance initiatives function effectively, Kaneka has also established a Nomination & Compensation Advisory Committee as an advisory committee to the Board of Directors.

(3) Status of Internal Control System

By resolution of the Board of Directors, the Company has stipulated a basic policy concerning the system to ensure operational appropriateness (internal control system), as outlined below.

This basic policy is confirmed periodically and revised as necessary in an effort to maintain the effectiveness of the internal control system. The policy was resolved for the fiscal year ending March 31, 2017 by the Board of Directors meeting held on March 23, 2016.

1) System to Ensure that Duties Performed by Directors and Employees Comply With Laws, Regulations and the Articles of Incorporation

a. Strengthen the supervisory function of the Board of Directors by naming at least two independent outside directors.
b. Ensure the effective functioning of corporate governance initiatives by establishing a Nomination & Compensation Advisory Committee as an advisory committee to the Board of Directors.
c. Establish an Independent Outside Officers Meeting, comprising the independent outside directors and independent outside Audit & Supervisory Board members, to discuss matters related to the Company's corporate governance and to report to the Chairman of the Board of Directors regarding any issues and measures for improvement.
d. To implement initiatives aimed at fulfilling our corporate social responsibility, we have established the CSR Committee, chaired by the President. The committee will promote responsible care and take overall charge of CSR activities.
e. Regarding corporate ethics and compliance with laws and regulations, the Compliance Committee, which is subordinate to the CSR Committee, supervises the promotion and auditing of essential activities, such as overseeing plans on a Companywide scale, tracking rates of progress, confirming the status of compliance and establishing and maintaining appropriate inquiry and notification functions.
f. Concerning companywide cross-divisional issues, the Company has established organizations with specific missions to oversee the promotion of plans and related matters. Such organizations, which are subordinate to the CSR Committee, include the Global Environment Committee, the Central Committee on Environment, and the Product Safety Examination Committee.
g. The Company develops internal regulations in regards to compliance, and rigorously confirms the dissemination and compliance with these regulations through such activities as education and training programs, self-assessments, and audits.
h. We maintain absolutely no relationships with antisocial forces, and we take a firm Companywide stand to thoroughly counter any illegal or inappropriate demands from such forces. We have also established an internal department to take overall charge of gathering and managing information related to such forces, and communicating and cooperating with police and other outside organizations and foundations. Through these efforts, we are enhancing the in-house structure for eliminating antisocial forces.
i. To ensure the reliability of our financial reporting, we are operating, internal controls related to such financial reporting. These activities are supervised by the Internal Control Department.

2) Regulations and Other Systems to Manage Risk of Loss

a. As regards risk management, fundamentally, individual operating divisions estimate the risks that may be generated in the course of performing their work and take appropriate preventive measures. In the unlikely event of a risk being realized, they will deal with the situation appropriately while obtaining the support of related divisions.
b. Regarding measures to prevent the realization of potential risks, including corporate ethics and compliance with laws and regulations, the Compliance Committee, which is subordinate to the CSR Committee, oversees the formulation and promotion of companywide plans.
c. As regards risks that have been realized and risks that are specifically deemed likely to be realized, the Risk Management Committee works with the division concerned in a timely fashion to mitigate the risks.
d. The Company regularly conducts inspections to confirm that the above three actions have been precisely carried out, and works to prevent the system becoming a mere façade and to maintain and improve its effectiveness.

3) System to Ensure Efficient Performance by Directors

a. Through the introduction of an executive officer system, Kaneka has separated director oversight and business execution functions, with the view to speeding up decision-making and clarifying roles and responsibilities.
b. Dynamic execution is ensured by giving division managers, including executive officers appointed by the Board of Directors, extensive authority over daily business operations, while a director remains in charge of each division and supervises the execution of operations.
c. The Board of Directors convenes a regular meeting once a month, at which important issues are decided and the status of the performance of the directors' duties and related matters are reported.
d. Important issues are first discussed at a Management Conference in accordance with internal proposal and decision-making procedures based on the decision-making standards, and then are resolved and implemented by the Board of Directors.
e. Division managers hold monthly meetings at which management policies, corporate performance and other matters are announced and business plans and status of progress are reported by designated division managers.

4) System to Store and Manage Information on Directors' Performance of Duties

Information on decision-making and execution of operations in the Company is stored and managed pursuant to the provisions of laws, regulations and internal rules.

5) System to Ensure Appropriate Operations Within the Enterprise Group Consisting of the Company and Its Subsidiaries

a. The organization and business operations of domestic and overseas subsidiaries as well as risk management are performed in accordance with the "Guidelines for the Organization Building and Operation of Affiliates."
b. To promote the establishment of a Compliance Committee at subsidiaries and to rigorously prepare and disseminate the basic CSR policy and internal company regulations such as Ethical Behavior Standards, the Company's relevant divisions will provide the necessary support. Furthermore, the Compliance Committee will confirm the status of compliance at each subsidiary.
c. The Company will appoint Audit & Supervisory Board Members at each domestic subsidiary, and the Company's related divisions will instruct and support the Audit & Supervisory Board Members in conducting effective audits. At the same time, the Kaneka Group will ensure operational appropriateness at domestic and overseas subsidiaries by means of the Company's internal control divisions that conduct internal audits and internal control evaluations.
d. The Company will regularly hold meetings and similar assemblies to report about each domestic subsidiary and communicate the Kaneka Group's management policy and other relevant matters. At the same time, each president will submit reports on their management policy, achievement status, and relevant matters. At the global plant manager

meeting, which includes overseas subsidiaries, we strive to raise functional business efficiency through such means as sharing plant safety measures.

6) System for Directors and Employees of Kaneka and Its Subsidiaries to Report to the Audit & Supervisory Board Members, Other Systems to Report to the Audit & Supervisory Board Members, and System to Ensure That They Do Not Receive Unfavorable Treatment Because They Made the Report

a. Persons who have received reports from directors and employees of Kaneka and its subsidiaries, and from directors and employees of subsidiaries, shall report the following items without delay to the Audit & Supervisory Board Members.
   (i) Items that could cause considerable damage or potential damage to the Company or its subsidiaries.
   (ii) The execution status of internal audits and internal control assessments.
   (iii) Important items of compliance.
   (iv) Other important items related to management.
b. Important decision-related documents are passed on to the Audit & Supervisory Board.
c. Kaneka shall ensure that persons who reported a. above do not receive unfavorable treatment because they made the report.

7) Matters Concerning Employees Assigned to Aid Audit & Supervisory Board Members in Performing Their Duties, Matters Concerning the Independence of These Employees From Directors, and Matters Concerning Ensuring the Execution of Instructions for These Employees

a. A secretariat will be established within the Audit & Supervisory Board to allocate assistants to aid Audit & Supervisory Board Members in performing their duties.
b. The appointment, transfer and evaluation of such assistants are decided with the approval of the Audit & Supervisory Board Members to ensure the independence of such assistants from the directors.
c. Candidates for Audit & Supervisory Board Members shall follow the directions and orders of Audit & Supervisory Board Members.

8) Other Systems to Ensure That Audits Are Conducted Effectively by the Audit & Supervisory Board Members

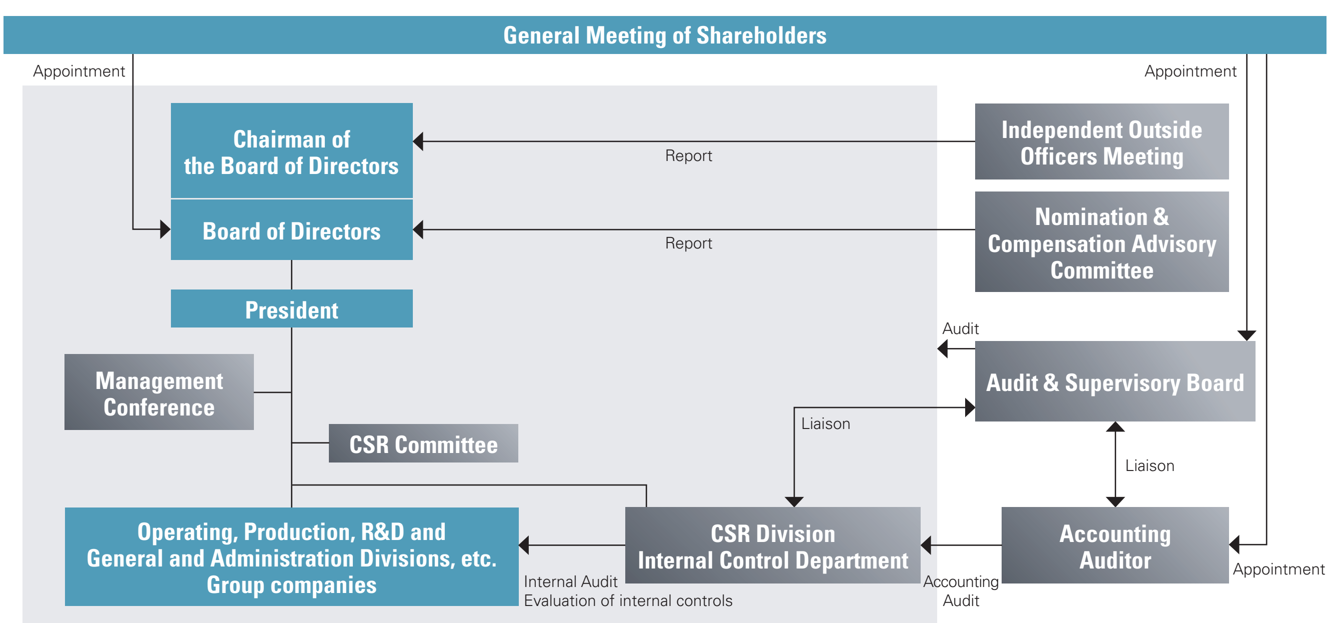
a. The representative directors and the Audit & Supervisory Board Members periodically meet to exchange opinions.
b. The Audit & Supervisory Board Members interview directors about the execution status of operations whenever necessary.
c. The Audit & Supervisory Board Members attend meetings of the Board of Directors, division manager meetings, Management Conferences and other important meetings.
d. The Audit & Supervisory Board Members periodically receive reports, such as the results of accounting audits, from and exchange opinions with the accounting auditor.
e. The Audit & Supervisory Board Members investigate the execution status of operations and the asset management status whenever necessary at Kaneka's places of business, including its head office and plants, as well as at its subsidiaries.
f. The Audit & Supervisory Board Members may, if necessary, consult with a certified public accountant, an attorney or other expert and the cost shall be borne by the Company.

A diagram of Kaneka's business execution, audit and supervisory structure and the status of its internal control system is as shown below.

(4) Basic Approach to Rejection of Antisocial Forces and Status of Preparedness

The Group has established a Basic Policy on Corporate Activities and Ethical Behavior Standards that provide the basic standards the Company's officers and employees are to adhere to in conducting business activities. These policies require absolutely no relationships with antisocial forces, that demands from antisocial forces are dealt with resolutely, and that unlawful or unjust demands are opposed on an individual level as well. The executive directors and others in top management discipline themselves to set an example in upholding these standards of behavior, working to develop internal structures and increase awareness within the Company.

To address this issue, the Company has established a division to collect and manage information on a daily basis and coordinate with law enforcement and other outside entities and related organizations. The Company is developing and reinforcing its internal structure for eliminating antisocial forces.



(5) Overview of Contracts for Limitation of Liability

The Company enters into contracts with each of its two outside directors and two outside Audit & Supervisory Board members in order to limit their responsibility as regards the liabilities stipulated in Article 423, Paragraph 1 of the Companies Act.

2. INTERNAL AUDITS AND AUDIT & SUPERVISORY BOARD MEMBERS' AUDITS

The Kaneka Group has established an Internal Control Department, staffed by 15 employees, under the CSR Division to develop an internal control system, evaluate the system's operating status and conduct audits of the Company's business operations.

There are four Audit & Supervisory Board members, of whom two are outside members. The standing Audit & Supervisory Board Members are elected based on their years of experience with the Company's accounting and auditing divisions, as well as their formidable insight with respect to financial and accounting matters. A secretariat is established within the Audit & Supervisory Board and staffed by assistants who aid the Audit & Supervisory Board Members in the performance of their duties. One replacement Audit & Supervisory Board Member is also appointed to assume audit duties in cases in which the number of Audit & Supervisory Board Members falls below the minimum number required by law.

The Audit & Supervisory Board periodically requests meetings to receive reports from the CSR Division Internal Control Department regarding the status of internal audits. Similarly, the Audit & Supervisory Board holds meetings to receive regular audit reports from and exchange opinions with the accounting auditor, in an effort to perform audits in mutual cooperation with all audit-related entities.

3. RELATIONSHIP WITH OUTSIDE DIRECTORS AND AUDIT & SUPERVISORY BOARD MEMBERS

Kaneka has two outside directors, Takeo Inokuchi and Mamoru Mohri, and two outside Audit & Supervisory Board Members, Hiroshi Fujiwara and Yasuhiro Uozumi. The outside directors and outside Audit & Supervisory Board Members have no noteworthy special interest relationships with the Company in terms of personnel, capital, business or other relationships.

Outside Director Takeo Inokuchi has many years of experience in the post of representative director of Mitsui Sumitomo Insurance Co., Ltd., which is a shareholder of Kaneka and has business relationships with the Company. Currently, Mr. Inokuchi is a senior advisor for Mitsui Sumitomo Insurance Co., Ltd. However, given the size and nature of the business transactions between Kaneka and Mitsui Sumitomo Insurance Co., Ltd., there are no material factors that would give rise to any special interest relationship between the two companies.

Outside Director Mamoru Mohri is a director of the Japan Science and Technology Agency of the National Museum of Emerging Science and Innovation. However, there are no material business transactions between this agency and the Company.

Outside Audit & Supervisory Board Members Hiroshi Fujiwara and Yasuhiro Uozumi are attorneys with Hashimoto Law Office and Oh-Ebashi LPC & Partners, respectively, neither of which has any noteworthy special interest relationship with the Company.

Mr. Inokuchi and Mr. Fujiwara are sitting members of the special committee for determining basic policies to prevent any attempted large-scale acquisitions of Kaneka shares.

At Kaneka, the primary role of the outside directors is to express constructive opinions from the viewpoint of the common interests of the Company's shareholders regarding management results and the performance of corporate management, and to provide effective advice in light of their deep expertise regarding decisions by the Board involving corporate strategies and corporate plans. The outside directors attend meetings of the Board of Directors and offer input as necessary, based on their abundant professional knowledge and experience. They also receive business reports from the directors every month, and exchange opinions with them as necessary. The outside directors also regularly meet with the representative directors to exchange opinions.

In addition to attending meetings of the Board of Directors and the Audit & Supervisory Board and commenting as appropriate, the outside Audit & Supervisory Board members also regularly meet with the representative director to exchange opinions, and receive and comment on audit reports from the Company's statutory corporate auditors.

The Independent Outside Officers Meeting, comprising the Company's independent outside directors and independent outside Audit & Supervisory Board members, meets at least once a year to discuss matters regarding the Company's corporate governance.

Kaneka has established the following criteria regarding the independence of its outside officers.

a. Business executives of the Company and its Group companies (hereinafter, "the Group") and their close relatives, etc.
b. Any entity that considers the Group to be a principal business partner or any business executives thereof, etc.
c. Any principal business partner of the Group or any business executive thereof, etc.
d. Major shareholders of the Company (entities that directly or indirectly hold a voting interest of 10% or more) or business executives thereof, etc.
e. Directors and other business executives of organizations that have received a certain amount or more of donations or subsidies from the Group.
f. Business executives of companies with which there is a mutual secondment of directors and Audit & Supervisory Board Members between the Group, etc.
g. Persons belonging or who have belonged in the past to auditing firms conducting a statutory audit of the Company.
h. Consultants, certified public accountants and other accounting professionals, and lawyers and other legal professionals who have received a substantial amount of monetary compensation or other consideration other than corporate officer compensation from the Group (In case the entity receiving such consideration is a corporation, association or other group, persons belonging to the said group or persons who have belonged to the said group in the past).

Notes:
1. A business executive is someone who executes business such as a director (excluding outside director), an executive officer or an employee, and is someone who has worked for the Company in the past.
2. A close relative refers to a relative within the second degree or a relative living together with the person who executes important business for a director (excluding outside director), an executive officer, division manager or others.
3. A person who is a principal business partner of the Kaneka Group refers to a business partner group (a company that belongs to a consolidated group to which the direct business partner belongs; the same applies below) that provides products or services to the Kaneka Group, and the transaction amount of this business partner group with the Kaneka Group exceeded 2% of consolidated net sales of the business partner group in the immediately preceding fiscal year.
4. A principal business partner of the Kaneka Group refers to a person who falls under any of the following:
   (i) A business partner group to which the Kaneka Group is providing products or services and the transaction amount that this business partner group had with the Kaneka Group exceeded 2% of consolidated net sales of the business partner group in the immediately preceding fiscal year.
   (ii) A financial institution group (a company that belongs to a consolidated group that the direct lender belongs to) that the Kaneka Group borrows from and the total borrowings of the Kaneka Group from the financial institution group exceeded 2% of the consolidated total assets of the Kaneka Group at the end of the immediately preceding fiscal year.

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5. An organization that has received donations or subsidies of a certain amount or more from the Kaneka Group refers to an organization such as a public interest incorporated foundation, a public interest incorporated association, or a non-profit corporation that has received donations or subsidies in excess of ¥10 million annually.
6. A consultant, an accounting professional such as a certified public accountant, and a legal expert such as an attorney who has obtained a large sum of money or other assets, excluding director compensation, from the Kaneka Group refers to a person who has obtained assets in excess of ¥10 million, excluding director compensation, from the Kaneka Group, or a person who belongs to an organization that has obtained assets in excess of 2% of that organization's consolidated net sales or total income from the Kaneka Group in the immediately preceding fiscal year.

4. STATUS OF ACCOUNTING AUDITS

The certified public accountants who provided the Company with accounting audit services during the year are Takashi Yoshida, Teruo Watanuma, and Tsuyoshi Ikeda, all belonging to KPMG AZSA LLC. Other personnel who assisted in accounting audit tasks include 12 certified public accountants and 21 junior certified public accountants.

5. BREAKDOWN OF CORPORATE OFFICER COMPENSATION

Corporate officer compensation for the fiscal year under review was as follows:

Position	Total Compensation (Millions of yen)	Breakdown of Compensation by Type (Millions of yen)			Persons Compensated
		Monthly (fixed) Compensation	Stock Option Equity Compensation	Bonuses	
Directors (excluding outside directors)	610	430	70	110	11
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	48	48	–	–	3
Outside directors	64	64	–	–	5

Notes:
1. Amounts less than the specified unit have been rounded off.
2. Persons compensated and monthly (fixed) compensation for directors include compensation paid to a director who retired from their positions at the close of the 91st Ordinary General Meeting of Shareholders on June 26, 2015.
3. Persons compensated and monthly (fixed) compensation include compensation paid to two Audit & Supervisory Board Members who retired from their positions at the close of the 91st Ordinary General Meeting of Shareholders on June 26, 2015.
4. Maximum compensation to directors is ¥46 million per month (fixed salary) (resolved at the 76th Ordinary General Meeting of Shareholders on June 29, 2000), and annual stock option equity compensation is ¥75 million (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).
5. Maximum compensation to Audit & Supervisory Board Members is ¥7.8 million per month (resolved at the 83rd Ordinary General Meeting of Shareholders on June 28, 2007).

Total Amount of Consolidated Compensation per Corporate Officer Paid by the Company

Not applicable, since no one receives consolidated compensation or other compensation totaling ¥100 million or more.

Policy for Determining Corporate Officer Compensation

Compensation for directors is linked to the medium- to long-term interests of the Company's shareholders and is intended to enhance directors' motivation for maximizing corporate value through a system that is appropriate, fair and balanced. Compensation for directors is comprised of fixed monthly compensation, together with bonuses linked to operating results and stock option equity compensation. Compensation for outside directors comprises fixed compensation. Each of these components is maintained within caps approved by the General Meeting of Shareholders, and is decided after consideration of the Company's operating environment, business results and other factors.

Compensation for individual directors is determined by the authorized representative directors who are delegated by the Board of Directors, following discussion by the Nomination & Compensation Advisory Committee.

Compensation for Audit & Supervisory Board Members consists of fixed compensation maintained within a cap approved by the General Meeting of Shareholders. Compensation for individual Audit & Supervisory Board Members is decided after conferring with the Audit & Supervisory Board Members based on the duties and responsibilities of each individual Audit & Supervisory Board Member.

6. STATUS OF STOCKHOLDING

Investment Stocks Held for Other Than Purely Investment Purposes

137 different stocks
Total reported balance sheet value: ¥47,939 million

Investment Stocks Held for Other Than Purely Investment Purposes by Classification, Stock Name, Number of Shares, Reported Value on the Balance Sheet, and Holding Purpose

(Fiscal year under review)
(Specific investment securities)

Stock Name	No. of Shares	Reported Balance Sheet Value (Millions of yen)	Holding Purpose
Shionogi & Co., Ltd.	672,000	3,559	Stock held to maintain and enhance business relationships.
Kubota Corporation	1,952,966	3,000	Same as above
Nippon Shokubai Co., Ltd.	480,000	2,750	Same as above
Sumitomo Mitsui Financial Group	803,112	2,740	Same as above
Daiwa House Industry Co., Ltd.	767,000	2,428	Same as above
Nitto Denko Corporation	300,000	1,877	Same as above
Mitsubishi UFJ Financial Group, Inc.	3,297,700	1,719	Same as above
FVC Co., Ltd.	1,102,400	1,719	Same as above
NOK Corporation	760,000	1,460	Same as above
JMS Co., Ltd.	4,947,000	1,459	Stock held for business and capital alliance purposes.
Mitsui & Co., Ltd.	1,031,093	1,335	Stock held to maintain and enhance business relationships.
MS&AD Insurance Group Holdings, Inc.	401,990	1,260	Same as above
Nissin Foods Holdings Co., Ltd.	227,074	1,201	Same as above
Ezaki Glico Co., Ltd.	207,258	1,195	Same as above
Morinaga & Co., Ltd.	2,082,528	1,193	Same as above
Konishi Co., Ltd.	684,000	960	Same as above
Mitsubishi Chemical Holdings Corporation	1,384,171	813	Same as above
Mitsui Chemicals, Inc.	2,053,000	769	Same as above
Takiron Co., Ltd.	1,318,201	735	Same as above
Duskin Co., Ltd.	350,000	707	Same as above
Yamazaki Baking Co., Ltd.	296,432	702	Same as above
Ibiden Co., Ltd.	500,000	688	Same as above
Mitsubishi Corporation	259,251	494	Same as above
Ihara Chemical Industry Co., Ltd.	308,000	447	Same as above
Terumo Corporation	99,750	402	Same as above
Okamoto Industries, Inc.	415,000	394	Same as above
Dainichiseika Color & Chemicals Mfg. Co., Ltd.	809,000	364	Same as above
Okaya & Co., Ltd.	52,600	360	Same as above
MEGMILK SNOW BRAND Co., Ltd.	124,000	350	Same as above
Onamba Co., Ltd.	829,212	294	Same as above

7. NUMBER OF DIRECTORS

The number of directors is limited to 13, as stipulated by the Company's Articles of Incorporation.

8. REQUIREMENTS FOR DETERMINATION OF DIRECTOR APPOINTMENTS

The Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable at the General Meeting of Shareholders shall attend the meeting and determine the appointment of directors based on a majority vote. The Articles of Incorporation further specify that the appointment of directors shall not be resolved by cumulative voting.

9. RESOLUTIONS OF THE GENERAL MEETING OF SHAREHOLDERS THAT MAY BE DETERMINED BY THE BOARD OF DIRECTORS

In order to ensure an expeditious capital and profit redistribution policy, the Company has established in its Articles of Incorporation that any of the items provided in Article 459, Paragraph 1 (each item) of the Companies Act, including those concerning payment of dividends from retained earnings, may be determined by a resolution of the Board of Directors and that none of the items provided in Paragraph 1 of the same Article are to be determined by a resolution of the General Meeting of Shareholders.

10. REQUIREMENTS FOR SPECIAL RESOLUTIONS AT THE GENERAL MEETING OF SHAREHOLDERS

To ensure a smooth General Meeting of Shareholders, the Company's Articles of Incorporation stipulate that shareholders possessing at least one-third of the shareholder voting rights exercisable shall attend the meeting and determine by a two-thirds majority vote the "requirements for special resolutions at general meetings of shareholders" provided in Article 309, Paragraph 2 of the Companies Act.

11. COMPENSATION FOR AUDITS

1) Compensation for Audits and Other Activities by Certified Public Accountants

The certified public accountants who provided the Company with accounting audit services during the current fiscal year belonged to KPMG AZSA LLC. Compensation paid by the Company and its consolidated subsidiaries to KPMG AZSA LLC was as follows:

	Fiscal Year Ended March 31, 2015		Fiscal Year Ended March 31, 2016	
	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)	Compensation based on audit certification activities (Millions of yen)	Compensation based on non-audit activities (Millions of yen)
Kaneka	78	2	79	2
Consolidated Subsidiaries	16	0	16	0
Total	94	3	95	2

2) Other Significant Compensation

Previous fiscal year

The Company's consolidated overseas subsidiaries paid audit compensation of ¥155 million to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

Current fiscal year

The Company's consolidated overseas subsidiaries paid audit compensation of ¥236 million to KPMG, which belongs to the same network as the certified public accountants who provide auditing services for the Company.

3) Compensation for Activities Other Than Audits by Certified Public Accountants

Previous fiscal year

Compensation for non-audit services to the certified public accountants consisted of payment for services related to the confirmation procedures required when applying for certification under the Act on Special Measures concerning the Procurement of Renewable Electric Energy by Operators of Electric Utilities, and the procedures requested for obtaining a tax incentive for investment in productivity improving assets.

Current fiscal year

Compensation for non-audit services to the certified public accountants consisted of payment for services related to the confirmation procedures required when applying for certification under the Act on Special Measures concerning the Procurement of Renewable Electric Energy by Operators of Electric Utilities.

4) Method of Determining Compensation for Audits

Nothing to report.

TAKEOVER DEFENSE MEASURES

At its Board of Directors meeting held on April 6, 2007, the Company introduced the Policy Regarding Countermeasures to Large-Scale Acquisitions of Kaneka Shares (hereinafter the "Policy"), and the Policy was approved by the shareholders at the 83rd Ordinary General Meeting of Shareholders held on June 28, 2007. With the aim of protecting and enhancing the corporate value of the Company and the collective interests of its shareholders over the medium- to long-term, the retention of the Policy was approved by the shareholders at the 86th Ordinary General Meeting of Shareholders held on June 25, 2010, the 89th Ordinary General Meeting of Shareholders held on June 27, 2013, and the 92nd Ordinary General Meeting of Shareholders held on June 29, 2016.

An overview is provided as follows:

1. BASIC APPROACH OF THE POLICY (THE BASIC POLICY REGARDING PERSONS WHO CONTROL THE COMPANY'S DECISIONS ON FINANCIAL MATTERS AND BUSINESS POLICIES)

As a publicly held corporation, the Company recognizes that its shares should be freely traded. Thus, even in the event of a hostile takeover without the consent of the Board of Directors, the Company will not necessarily resist such an action, provided the takeover promises to enhance the corporate value of the Company and the collective interests of its shareholders. However, we consider it necessary to ensure that adequate information is provided to shareholders when attempts are made to acquire a large number of the Company's shares. We also believe that necessary and proper measures must be taken to protect the corporate value of the Company and the collective interests of its shareholders in the event that the Company is subject to a hostile and abusive takeover bid that threatens to harm corporate value and collective shareholder interests, such as any takeover bid that is intended solely to advance the personal gain of the bidder.

2. MEASURES TO EFFECTIVELY UTILIZE THE COMPANY'S RESOURCES, FORM AN APPROPRIATE CORPORATE GROUP AND REALIZE OTHER FUNDAMENTAL POLICIES

(1) Long-Term Vision of the KANEKA UNITED declaration

To commemorate its 60th anniversary in 2009, the Company formulated a Long-term management Vision for the fiscal year ending March 31, 2021 called "Declaration of Kaneka United for the Future." Sweeping reform of the Kaneka Group and its continuous growth are key objectives. To this end, the Company is now giving priority to the important strategic domains of "Environment and Energy," "Health Care," "Information and Communications," and "Food Production Support." As key management initiatives, the Company is (1) Moving toward an "R&D-type" company, (2) Growing in a global market, (3) Developing Group strategies, (4) Pursuing alliances, and (5) Prioritizing CSR.

(2) Medium-Term Performance Targets

In the fiscal year ending March 31, 2017, the Kaneka Group has entered a new stage of growth, and has formulated a new three-year medium-term plan focusing on its objectives of reform and growth as it works to achieve its long-term management vision.

Key points of the plan are as follows:

1) Accelerate the transformation of the Group's business portfolio with R&D and the shift to global markets serving as drivers of growth.

a. Promote open innovation, and work to expand business in both new and existing fields in the areas of functional plastics, electronic and life sciences.
b. Focus on the launch of large-scale new businesses in organic EL lighting, biopolymers, opto-electrochemicals, regenerative medicine and cell therapy, biomedicine and other areas, expanding sales of new products.
c. Strengthen the headquarter functions of the Company's regional umbrella companies in the U.S., Europe and Asia, carrying out regional strategies from a local viewpoint in order to accelerate development of new markets and the utilization of outside resources, and grow overseas sales.

2) Work to become a solution provider by pushing ahead with the development of advanced technology and materials.

a. Kaneka will move aggressively to promote the development of products and technologies that protect the environment and save energy. By providing systems and solutions that contribute to zero-energy houses through differentiation in solar cells and other housing-related materials and construction methods, the Company will contribute to the creation of a market for high-quality, sustainable homes.
b. By expanding globally in medical devices and pharmaceutical intermediates, and by expanding its lineup of functional foodstuffs, Kaneka will contribute to the health of people around the world.

3) An important management issue at Kaneka is the development of globally capable human resources who can exert leadership in the Company's efforts at reform and growth, and the Company will work to expand its educational programs.

3. THE COMPANY IS IMPLEMENTING THE FOLLOWING TAKEOVER DEFENSE MEASURES TO PREVENT ITS DECISIONS ON FINANCIAL AND BUSINESS POLICIES FROM BEING CONTROLLED BY ENTITIES REGARDED AS INAPPROPRIATE ACCORDING TO THE BASIC POLICY

a. The Company shall stipulate in advance procedures to be observed in case of an attempted large-scale purchase of the Company's shares and other securities (hereinafter, "Large-Scale Purchase Rules"), demanding disclosure of necessary and adequate information regarding such a purchase, collecting and examining information related to the purchase and securing the opportunity and necessary time for the Board of Directors of the Company to present its opinion and alternative plans to shareholders or to negotiate with the purchaser.
b. Whether or not the large-scale purchaser observes the Large-Scale Purchase Rules, provisions to protect the corporate value of the Company and the collective interests of its shareholders may be taken against such large-scale purchases if they are deemed to cause irreparable damage to the Company or otherwise significantly harm the corporate value of the Company or the collective interests of its shareholders.

4. COMPLIANCE WITH REQUIREMENTS, JUDGMENT AND REASONING OF THE BOARD OF DIRECTORS

The Board of Directors of the Company judges that the measures in the preceding item comply with the following three requirements: they are in line with this Basic Policy, they do not harm the common interests of the Company's shareholders and they do not maintain the positions of the corporate officers of the Company. The reasoning behind this judgment is as follows:

a. The measures satisfy the requirements of the policies of the Ministry of Economy, Trade and Industry and the Ministry of Justice concerning takeover defense measures.
b. The measures will be implemented with the aim of securing and improving the common interests of the shareholders.
c. The measures place emphasis on the will of the shareholders.
d. The measures place emphasis on the judgment of highly independent external parties.
e. The measures provide rational and objective requirements.
f. The measures allow for the procurement of opinions from third-party experts.
g. The measures are not "dead-hand" or "slow-hand" takeover defense measures.

BOARD OF DIRECTORS, AUDIT & SUPERVISORY BOARD MEMBERS AND EXECUTIVE OFFICERS

BOARD OF DIRECTORS

Chairman of the Board

Kimikazu Sugawara*

President

Mamoru Kadokura*

Executive Vice Presidents

Hirosaku Nagano
Minoru Tanaka

Member of the Board, Senior Managing Executive Officer

Toshio Nakamura

Members of the Board, Managing Executive Officers

Akira Iwazawa
Hidesuke Amachi
Shinichirou Kametaka
Shinobu Ishihara
Kazuhiko Fujii

Independent Members of the Board

Takeo Inokuchi
Mamoru Mohri

AUDIT & SUPERVISORY BOARD MEMBERS

Standing Audit & Supervisory Board Members

Hideyuki Matsui
Masami Kishine

Outside Audit & Supervisory Board Members

Hiroshi Fujiwara
Yasuhiro Uozumi

EXECUTIVE OFFICERS

Managing Executive Officers

Shinji Mizusawa
Atsushi Kawakatsu
Ikuo Aoi
Yasuaki Nuri
Kazuo Ochiai
Fuminori Hoya
Masaaki Kimura

Executive Officers

Yasuyoshi Ueda
Yoshiki Takeoka
Minetoshi Marufuji
Yasuhiro Sumi
Haruhiko Maki
Jun Enoki
Katsunobu Doro
Riichi Nishimura
Kan Okabe
Toshio Komori
Takamune Yasuda

* Representative Directors (As of June 29, 2016)

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

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

OPERATING EXPENSES AND OPERATING INCOME

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

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

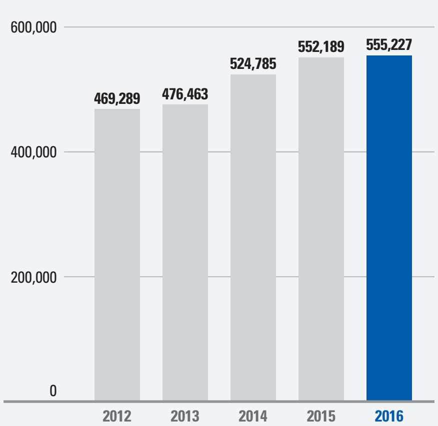
NET INCOME

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

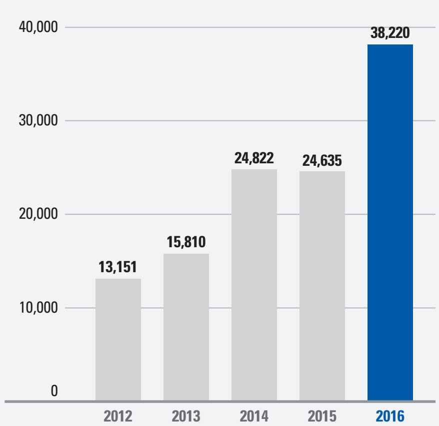
FINANCIAL CONDITION

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

Net sales
(Millions of yen)



Operating income
(Millions of yen)



CASH FLOWS

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

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

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

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

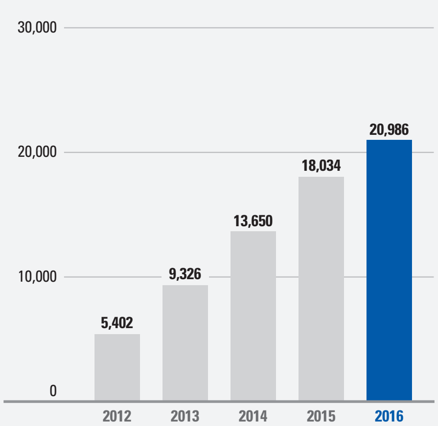
Financial Index Trends

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

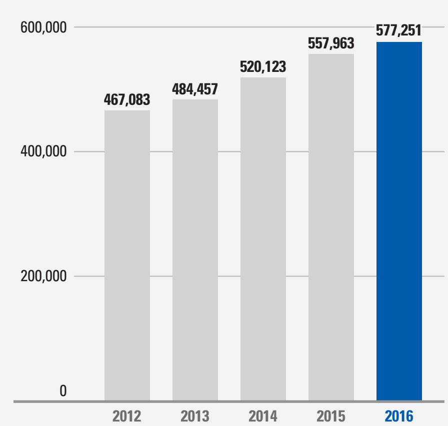
Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:
1. All items were calculated according to financial figures on a consolidated basis.
2. The calculation of the total market value of stock was based on the total number of shares outstanding, excluding treasury stock.
3. "Operating cash flows" refers to cash flows from operations.
4. The scope of interest-bearing debt is all liabilities in the Consolidated Balance Sheets for which interest is payable.
5. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.

FINANCIAL SECTION

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



Total assets
(Millions of yen)



BUSINESS RISKS AND UNCERTAINTIES

Factors that may significantly affect the performance and the financial position of the Kaneka Group include those described below. Please note that the matters described are only those that we considered risks as of March 31, 2016 and that this is not an exhaustive list of risks borne by the Group.

(1) Risks related to the Group's ability to maintain operational advantages and trends in the Japanese and overseas economic environments

The Kaneka Group maintains its operational advantages by developing and commercializing high value-added products in a host of fields and by consistently cultivating new markets and leveraging its ability to integrate and combine its expertise in core polymer and fermentation technologies. The Kaneka Group is working to ensure a corporate structure that is not affected by the entry of competitors into these markets, which could otherwise result in increased price competition and reduced profitability. Moreover, because the growth of generic products could cause a decrease in the demand for the Group's products and cause the Group to withdraw from or restructure certain operations, we are working to mitigate the potential effects of changes in the economic environment. However, such measures may not be sufficient to withstand a sudden downturn in the economic environment, obsolescence of the Company's technologies or an unexpected drop-off in demand for the Company's products. Such circumstances could seriously affect the Group's financial position and performance.

(2) Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)

For the Kaneka Group, globalization is a key element of its management strategy. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems, including transfer price taxation, and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. In addition, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments could seriously affect the performance and financial position of the Group.

(3) Risks of price fluctuations of raw materials and fuels

Through the combination of medium- to long-term forward contracts and spot market purchases, the Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels. However, since most of these commodities are subject to price fluctuations in the international market, there are still some risks involved. For example, there may be sharp fluctuations in prices which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect the production of PVC/caustic soda, modifier, expandable plastics and products and foodstuffs could significantly impact the Group's financial position and performance.

(4) Risks associated with product liability, industrial accidents and large scale disasters

The Kaneka Group implements comprehensive strategies to ensure the safe distribution of products that are safe to use. We maintain liability insurance covering the whole Group in the event of a product related accident. However, the possibility remains that unexpected problems with product quality could cause a large-scale product related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. A major disaster such as an industrial accident or an earthquake could destroy manufacturing facilities and result in losses beyond the coverage of property insurance. In such circumstances, it is possible that the Group's financial position and performance could be significantly affected.

(5) Risks associated with the protection of intellectual property rights

To maintain its business advantages, the Kaneka Group attaches strategic importance to the protection of its patents on newly developed technologies. However, with globalization and the development of IT technologies, it is not possible for us to completely avoid the risk of external leaks of our proprietary technologies and expertise. Nor is it possible to avoid all disputes with other parties in connection with the conveyance of our intellectual property rights to others or our use of other companies' intellectual property. In such circumstances, it is possible that the Group's competitiveness could be undermined and its financial position and performance significantly affected.

(6) Impact of environment related regulations

To minimize the impact of its business activities on the global environment and the world's ecosystem, the Kaneka Group puts forth its best efforts to reduce its environmental footprint and to save resources and energy throughout the lifecycle of its products. Nevertheless, environmental regulations are tightened every year, and depending on the nature of the regulations, expenses may be incurred in connection with the manufacture, storage and disposal of products that could significantly impact the Group's financial position and performance.

(7) Risks associated with legal action

The Group attaches great importance to compliance management regarding the observance of social rules, including the laws and regulations of the societies in which it conducts business. There are risks, however, of the Group becoming the subject of litigation or administrative measures in connection with operations in Japan or abroad. If a significant action is filed against the Group, it is possible that the Group's financial position and performance could be significantly affected.

(8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and certain financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Financial Instruments. With regard to fixed assets, a substantial worsening in the operating environment could cause further decline in the market value of idle land held by the Group. Consequently, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Impairment of Fixed Assets.

For retirement benefit obligations and retirement benefit expenses, actuarial calculations are used each year to determine the discount rate and other core ratios, incorporating the expected rate of investment return on core assets. However, a downturn in the discount rate or a decrease in investment yields on pension assets could affect the Kaneka Group's financial position and performance. Moreover, deferred tax assets are posted against future temporary differences with the assumption that they can be recovered by offsetting future taxable income. However, if future taxable income differs from expectations, the liquidation of deferred tax assets could affect the Group's financial position and performance. The Group's financial position and performance could also be significantly affected by factors such as fluctuations in the markets for its products, changes in laws and regulations, delays in research and development and technical innovations.

CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2016**	2015	**2016**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 43,162**	¥ 28,020	**$ 383,049**
Notes and accounts receivable—trade (Note 4)			
Unconsolidated subsidiaries and affiliates	**773**	743	**6,860**
Other	**120,910**	121,341	**1,073,039**
Inventories (Note 7)	**93,701**	91,185	**831,567**
Short-term loans receivable from unconsolidated subsidiaries and affiliates	**1,527**	714	**13,552**
Deferred tax assets (Note 11)	**5,952**	6,368	**52,822**
Other current assets	**8,029**	8,378	**71,256**
Allowance for doubtful accounts (Note 4)	**(345)**	(101)	**(3,062)**
Total current assets	**273,709**	256,648	**2,429,083**
Property, plant and equipment (Note 12)**:**			
Land	**31,112**	28,411	**276,109**
Buildings and structures	**181,187**	172,913	**1,607,978**
Machinery, equipment and vehicles	**532,447**	527,451	**4,725,302**
Construction in progress	**23,633**	16,222	**209,736**
Other	**4,109**	3,889	**36,466**
	772,488	748,886	**6,855,591**
Less accumulated depreciation	**552,773**	541,297	**4,905,689**
Property, plant and equipment, net	**219,715**	207,589	**1,949,902**
Intangible assets (Note 12)**:**	**12,198**	11,714	**108,253**
Investments and other assets:			
Investment securities (Notes 4, 5 and 12):			
Unconsolidated subsidiaries and affiliates	**3,932**	6,151	**34,895**
Other	**52,152**	55,564	**462,833**
Long-term loans receivable (Note 4)	**1,308**	1,413	**11,608**
Net defined benefit asset (Note 13)	**—**	8,132	**—**
Deferred tax assets (Note 11)	**4,802**	1,683	**42,616**
Other	**9,651**	9,289	**85,650**
Allowance for doubtful accounts (Note 4)	**(216)**	(220)	**(1,917)**
Total investments and other assets	**71,629**	82,012	**635,685**
	¥ 577,251	¥ 557,963	**$ 5,122,923**

See accompanying notes.

Liabilities and net assets	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Short-term loans payable (Notes 4 and 12)	¥ 46,865	¥ 45,951	$ 415,912
Current portion of long-term loans payable (Notes 4 and 12)	5,831	9,685	51,748
Notes and accounts payable (Note 4):			
Trade	64,820	63,072	575,257
Construction	8,162	8,241	72,435
Other	16,663	16,787	147,879
Income taxes payable	3,709	2,324	32,916
Accrued expenses	11,758	11,325	104,349
Other current liabilities	5,743	4,329	50,968
Total current liabilities	163,551	161,714	1,451,464
Noncurrent liabilities:			
Bonds payable (Notes 4 and 12)	10,000	10,000	88,747
Long-term loans payable (Notes 4 and 12)	53,773	47,274	477,219
Net defined benefit liability (Note 13)	36,668	25,338	325,417
Provision for directors' retirement benefits	304	280	2,698
Deferred tax liabilities (Note 11)	1,674	2,244	14,856
Other noncurrent liabilities	2,559	1,886	22,710
Total noncurrent liabilities	104,978	87,022	931,647
Contingent liabilities (Note 14)			
Net assets (Note 15):			
Shareholders' equity:			
Capital stock			
Authorized—750,000,000 shares Issued —350,000,000 shares	33,047	33,047	293,282
Capital surplus	34,936	34,837	310,046
Retained earnings	234,378	218,746	2,080,032
Less treasury stock, at cost—18,356,481 shares in 2016 14,987,342 shares in 2015	(15,559)	(12,072)	(138,081)
Total shareholders' equity	286,802	274,558	2,545,279
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	17,451	19,660	154,872
Deferred gains or losses on hedges	(52)	(105)	(461)
Foreign currency translation adjustments	(1,082)	2,975	(9,602)
Remeasurements of defined benefit plans	(10,910)	1,172	(96,823)
Total accumulated other comprehensive income	5,407	23,702	47,986
Subscription rights to shares (Note 16)	228	137	2,023
Non-controlling interests	16,285	10,830	144,524
Total net assets	308,722	309,227	2,739,812
	¥ 577,251	¥ 557,963	$ 5,122,923

See accompanying notes.

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2016, 2015 and 2014

			Millions of yen	Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Net sales	**¥ 555,227**	¥ 552,189	¥ 524,785	**$ 4,927,467**
Cost of sales	**394,021**	413,390	391,987	**3,496,814**
Gross profit	**161,206**	138,799	132,798	**1,430,653**
Selling, general and administrative expenses	**122,986**	114,164	107,976	**1,091,462**
Operating income	**38,220**	24,635	24,822	**339,191**
Other income (expenses):				
Interest and dividend income	**1,483**	1,576	1,895	**13,161**
Interest expenses	**(1,199)**	(1,224)	(1,013)	**(10,641)**
Gain on sales of investment securities	**121**	493	783	**1,074**
Gain (loss) on sales of property, plant and equipment, net	**—**	2,910	(331)	**—**
Loss on disposal of property, plant and equipment	**(3,485)**	(2,062)	(1,800)	**(30,928)**
Foreign exchange gains, net	**(302)**	2,432	1,842	**(2,680)**
Equity in earnings of affiliates, net	**281**	212	335	**2,494**
Gain on negative goodwill	**1,313**	—	338	**11,652**
Compensation expenses	**(668)**	—	—	**(5,928)**
Litigation expenses	**(1,177)**	(940)	(1,275)	**(10,446)**
Retirement benefit expenses (Notes 8 and 13)	**—**	—	(363)	**—**
Restructuring charges (Note 9)	**—**	—	(9,121)	**—**
Gain on step acquisitions	**230**	—	—	**2,041**
Impairment loss (Note 10)	**(1,536)**	—	—	**(13,632)**
Environmental expenses	**(598)**	—	—	**(5,307)**
Subsidy income	**—**	1,617	—	**—**
Other, net	**(2,081)**	(1,474)	(511)	**(18,468)**
Income before income taxes and non-controlling interests	**30,602**	28,175	15,601	**271,583**
Income taxes (Note 11)				
Current	**6,599**	5,312	6,062	**58,564**
Deferred	**2,992**	4,283	(4,711)	**26,553**
Net income	**21,011**	18,580	14,250	**186,466**
Net income attributable to non-controlling interests	**25**	546	600	**222**
Net income attributable to owners of parent	**¥ 20,986**	¥ 18,034	¥ 13,650	**$ 186,244**

			Yen	U.S. dollars (Note 1)
Net income per share—basic	**¥ 62.98**	¥ 53.52	¥ 40.50	**$ 0.56**
Net income per share—diluted	**62.92**	53.48	40.47	**0.56**
Cash dividends applicable to the year	**18.00**	16.00	16.00	**0.16**

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Net income	**¥ 21,011**	¥ 18,580	¥ 14,250	**$ 186,466**
Other comprehensive income:				
Valuation difference on available-for-sale securities	**(2,239)**	9,271	2,307	**(19,870)**
Deferred gains or losses on hedges	**53**	(105)	—	**470**
Foreign currency translation adjustments	**(4,049)**	2,395	6,632	**(35,933)**
Remeasurements of defined benefit plans	**(12,098)**	4,371	—	**(107,366)**
Share of other comprehensive income of associates accounted for using equity method	**(18)**	117	16	**(160)**
Total other comprehensive income (Note 3)	**(18,351)**	16,049	8,955	**(162,859)**
Comprehensive income	**¥ 2,660**	¥ 34,629	¥ 23,205	**$ 23,607**
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	**¥ 2,690**	¥ 34,141	¥ 22,267	**$ 23,873**
Comprehensive income attributable to non-controlling interests	**(30)**	488	938	**(266)**

See accompanying notes.

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Shareholders' equity				
Capital stock				
Balance at the beginning of year	¥ 33,047	¥ 33,047	¥ 33,047	$ 293,282
Changes of items during the period				
Total changes of items during the period	—	—	—	—
Balance at the end of current period	33,047	33,047	33,047	293,282
Capital surplus				
Balance at beginning of year	34,837	34,837	34,837	309,168
Changes of items during the period				
Disposal of treasury stock	(6)	—	—	(53)
Change in treasury shares of parent arising from transactions with non-controlling shareholders	105	—	—	931
Total changes of items during the period	99	—	—	878
Balance at the end of current period	34,936	34,837	34,837	310,046
Retained earnings				
Balance at beginning of year	218,746	209,450	200,987	1,941,303
Cumulative effects of changes in accounting policies	—	(3,396)	—	—
Restated balance	218,746	206,054	200,987	1,941,303
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,345)	(5,392)	(5,392)	(47,435)
Change of scope of consolidation	—	138	201	—
Net income attributable to owners of parent	20,986	18,034	13,650	186,244
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	—	—	32	—
Change in retained earnings based on International Financial Reporting Standards used for foreign subsidiaries	—	(63)	—	—
Disposal of treasury stock	(9)	(25)	(28)	(80)
Total changes of items during the period	15,632	12,692	8,463	138,729
Balance at the end of current period	234,378	218,746	209,450	2,080,032
Treasury stock				
Balance at beginning of year	(12,072)	(10,521)	(10,548)	(107,135)
Changes of items during the period				
Purchase of treasury stock	(3,585)	(1,615)	(60)	(31,816)
Disposal of treasury stock	98	64	87	870
Total changes of items during the period	(3,487)	(1,551)	27	(30,946)
Balance at the end of current period	(15,559)	(12,072)	(10,521)	(138,081)
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	19,660	10,535	8,262	174,476
Changes of items during the period				
Net changes of items other than shareholders' equity	(2,209)	9,125	2,273	(19,604)
Total changes of items during the period	(2,209)	9,125	2,273	(19,604)
Balance at the end of current period	17,451	19,660	10,535	154,872
Deferred gains or losses on hedges				
Balance at beginning of year	(105)	—	—	(931)
Changes of items during the period				
Net changes of items other than shareholders' equity	53	(105)	—	470
Total changes of items during the period	53	(105)	—	470
Balance at the end of current period	(52)	(105)	—	(461)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Foreign currency translation adjustments				
Balance at beginning of year	2,975	353	(5,990)	26,402
Changes of items during the period				
Net changes of items other than shareholders' equity	(4,057)	2,622	6,343	(36,004)
Total changes of items during the period	(4,057)	2,622	6,343	(36,004)
Balance at the end of current period	(1,082)	2,975	353	(9,602)
Remeasurements of defined benefit plans				
Balance at beginning of year	1,172	(3,293)	—	10,401
Changes of items during the period				
Net changes of items other than shareholders' equity	(12,082)	4,465	(3,293)	(107,224)
Total changes of items during the period	(12,082)	4,465	(3,293)	(107,224)
Balance at the end of current period	(10,910)	1,172	(3,293)	(96,823)
Subscription rights to shares				
Balance at beginning of year	137	139	159	1,215
Changes of items during the period				
Net changes of items other than shareholders' equity	91	(2)	(20)	808
Total changes of items during the period	91	(2)	(20)	808
Balance at the end of current period	228	137	139	2,023
Non-controlling interests				
Balance at beginning of year	10,830	10,586	9,696	96,113
Changes of items during the period				
Net changes of items other than shareholders' equity	5,455	244	890	48,411
Total changes of items during the period	5,455	244	890	48,411
Balance at the end of current period	16,285	10,830	10,586	144,524
Total net assets				
Balance at beginning of year	309,227	285,133	270,450	2,744,294
Cumulative effects of changes in accounting policies	—	(3,396)	—	—
Restated balance	309,227	281,737	270,450	2,744,294
Changes of items during the period				
Dividends from surplus—¥16.00 per share	(5,345)	(5,392)	(5,392)	(47,435)
Change of scope of consolidation	—	138	201	—
Net income attributable to owners of parent	20,986	18,034	13,650	186,244
Change in retained earnings based on generally accepted accounting procedures in the United States used for U.S. subsidiaries	—	—	32	—
Change in retained earnings based on International Financial Reporting Standards used for foreign subsidiaries	—	(63)	—	—
Purchase of treasury stock	(3,585)	(1,615)	(60)	(31,816)
Disposal of treasury stock	83	39	59	737
Change in treasury shares of parent arising from transactions with non-controlling shareholders	105	—	—	931
Net changes of items other than shareholders' equity	(12,749)	16,349	6,193	(113,143)
Total changes of items during the period	(505)	27,490	14,683	(4,482)
Balance at the end of current period	¥ 308,722	¥ 309,227	¥ 285,133	$ 2,739,812

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2016, 2015 and 2014

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Cash flows from operating activities				
Income before income taxes and non-controlling interests	¥ 30,602	¥ 28,175	¥ 15,601	$ 271,583
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:				
Depreciation and amortization	26,438	23,739	20,629	234,629
Impairment loss	1,536	—	—	13,632
Gain on negative goodwill	(1,313)	—	—	(11,652)
Restructuring charges	—	—	9,121	—
Increase (decrease) in provision for retirement benefits	—	—	(19,654)	—
Increase (decrease) in net defined benefit liability	429	640	20,389	3,807
Decrease (increase) in net defined benefit asset	425	(2,450)	(4,972)	3,772
Increase (decrease) in allowance for doubtful accounts	14	6	(26)	124
Interest and dividends income	(1,483)	(1,576)	(1,895)	(13,161)
Interest expenses	1,199	1,224	1,013	10,641
Loss on disposal of property, plant and equipment	824	(2,009)	1,706	7,313
Subsidy income	—	(1,617)	—	—
Gain on sales of investment securities	—	—	(728)	—
Gain on step acquisitions	(230)	—	—	(2,041)
Equity in earnings of affiliates, net	(281)	(212)	(335)	(2,494)
Decrease (increase) in notes and accounts receivable—trade	6,933	(2,500)	173	61,528
Decrease (increase) in inventories	(1,596)	(1,448)	(9,371)	(14,164)
Increase (decrease) in notes and accounts payable—trade	(4,566)	(3,863)	1,227	(40,522)
Others	5,733	2,128	2,915	50,877
Subtotal	64,664	40,237	35,793	573,872
Interest and dividends income received	1,600	1,684	1,968	14,200
Interest expenses paid	(1,172)	(1,207)	(1,010)	(10,401)
Income taxes paid	(5,387)	(7,111)	(2,826)	(47,808)
Net cash provided by operating activities	59,705	33,603	33,925	529,863
Cash flows from investing activities				
Purchase of property, plant and equipment	(38,552)	(41,720)	(34,926)	(342,137)
Proceeds from sales of property, plant and equipment	466	3,656	538	4,136
Purchase of intangible assets	(2,880)	(2,075)	(2,712)	(25,559)
Proceeds from subsidy income	—	1,465	—	—
Purchase of investment securities	(70)	(455)	(79)	(621)
Proceeds from sales and distributions of investment securities	386	1,073	1,823	3,426
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	1,538	—	—	13,649
Purchase of stocks of subsidiaries and affiliates	—	(105)	(1,058)	—
Payments for transfer of business	—	—	(697)	—
Payments of loans receivable	(1,462)	(862)	(765)	(12,975)
Collection of loans receivable	930	602	758	8,253
Others	(1,108)	207	(1,599)	(9,833)
Net cash used in investing activities	(40,752)	(38,214)	(38,717)	(361,661)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	1,359	122	4,184	12,061
Proceeds from long-term loans payable	13,326	16,673	17,083	118,264
Repayment of long-term loans payable	(9,301)	(5,192)	(9,707)	(82,543)
Redemption of bonds payable	—	(5,000)	—	—
Proceeds from sales and leasebacks	280	—	—	2,485
Repayments of lease obligations	(101)	(195)	(333)	(896)
Proceeds from share issuance to non-controlling shareholders	—	—	225	—
Cash dividends paid	(5,345)	(5,392)	(5,392)	(47,435)
Cash dividends paid to non-controlling interests	(243)	(205)	(143)	(2,157)
Purchase of treasury stock	(3,585)	(1,615)	(60)	(31,816)
Proceeds from sales of treasury stock	74	0	1	657
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(16)	—	—	(143)
Net cash provided by (used in) financing activities	(3,552)	(804)	5,858	(31,523)
Effect of exchange rate change on cash and cash equivalents	(259)	(388)	815	(2,299)
Net increase (decrease) in cash and cash equivalents	15,142	(5,803)	1,881	134,380
Cash and cash equivalents at beginning of period	28,020	33,804	31,748	248,669
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	19	175	—
Cash and cash equivalents at the end of period	¥ 43,162	¥ 28,020	¥ 33,804	$ 383,049

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kaneka Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Financial Instruments and Exchange Law in Japan and its related accounting regulations and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of major consolidated overseas subsidiaries after the year ended March 31, 2009 were prepared for consolidation purposes in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements."

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2016 which was ¥112.68 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control (together, the "Companies"). Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, except for insignificant investments which are recorded at cost.

The Company has 75 consolidated subsidiaries (62 in FY2015 and 60 in FY2014) and 3 affiliates accounted for by the equity method (3 in FY2015 and 3 in FY2014). For the year ended March 31, 2016, the accounts of 15 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between their fiscal year end and that of the Company, the transactions are included in consolidation. Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment
Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss are deducted from acquisition costs. Depreciation is computed over the estimated useful life of the asset mainly by the straight-line method. Repairs, maintenance and minor renewals are charged to expenses as incurred. Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life as measured by the lease term of the respective asset by the straight-line method. The residual value is zero or the guaranteed residual value.

Goodwill
Goodwill, except for minor goodwill, is amortized by the straight-line method within 20 years. Minor goodwill is expensed as incurred.

Liability (asset) for retirement benefits
The Company has an unfunded lump-sum benefit plan generally covering all employees. Under the terms of the plan, eligible employees are entitled upon mandatory retirement at age 60 or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service.

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provide employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets. The estimated benefit is attributed to each period based on the plan's benefit formula. Prior service costs are recognized as expense using the straight-line method over mainly 5 years, a term within the average of the estimated remaining service years of the current employees. Actuarial gains and losses are recognized using the straight-line method over mainly 10 years, a term also within the average of the estimated remaining service years of employees, commencing with the following period.

Provision for directors' retirement benefits
Directors and statutory auditors terminating their service with certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

Research and development expenses
Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2016, 2015 and 2014 were ¥26,768 million ($237,558 thousand), ¥23,319 million and ¥21,096 million, respectively.

Income taxes
The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Net income per share
The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Application of consolidated taxation system
The Company and certain domestic consolidated subsidiaries apply a consolidated taxation system.

Reclassifications
Certain prior year amounts have been reclassified to conform to the 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Additional information
(Transfer of Company shares to the employees through an employee stock ownership trust)
The Company has introduced a plan to transfer Company shares to the employees' share holding association through a trust in order to provide the Company group's employees to promote the benefit and welfare of the employees of the Company and to provide incentives to increase the enterprise value of the Company.
(1) Outline of the transactions
The Board of Directors approved a resolution on October 9, 2015 to introduce the "Employee Stock Ownership Plan (ESOP) Trust"(the "Plan") to provide employees an incentive toward achieving medium- to long-term growth in corporate value.

The Plan is an incentive plan in which all employees of the Company who are members of the "Kaneka Share Holding Association" ("Share Holding Association") may participate. According to the plan, The Company creates a trust with employee members of the Share Holding Association who meet certain requirements as beneficiaries, and during a predetermined period, the trust acquires a number of the Company's shares that the Association is then expected to acquire over the next five years.

Afterwards, the trust sells the shares to the Share Holding Association in accordance with the plan. The remaining funds will be distributed according to each employee's contribution ratio when there are the trust earnings resulting from an upward swing in stock price when the trust ends. There is no additional risk of loss to the employee when a loss is incurred as a result of a decrease in the stock price as the Company will pay back the loan based on a guarantee clause in the loan agreement.
(2) Stocks remaining in the trust
The book value (excluding incidental expenses) of stock remaining in the trust is included as "treasury stock" in net assets in the consolidated balance sheets. As of March 31, 2016, the trust held 1,422,000 shares of Company stock with a book value of ¥1,689 million ($14,989 thousand).
(3) Book value of loans recorded using the gross price method
¥1,706 million ($15,140 thousand) as of March 31, 2016.

Changes in accounting policies

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

The depreciation method used for property, plant and equipment, excluding some categories, for the Company, consolidated domestic subsidiaries and some consolidated overseas subsidiaries, was changed from the declining balance method to the straight-line method starting from the year ended March 31, 2014.

The Kaneka Group is striving to globalize in accordance with its targets for fiscal 2020 set forth in its long-term management vision, "Declaration of Kaneka United for the Future," formulated by the Company in 2009. From the year ended March 31, 2014, the Company will begin making significant foreign investments mainly to establish new manufacturing and marketing bases overseas and bolstering manufacturing capacity. Kaneka has decided to unify the Group's depreciation method for calculating depreciation under the straight-line method. Depreciation of the Group's property, plant and equipment is commensurate with the straight-line method given that those assets can all be used over a relative long term and because economic realities conform with that 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. Overall, the Kaneka Group sees this change in depreciation method as a step toward the globalization of the Kaneka Group.

As a result of this change, in comparison with the former calculation method, Kaneka's operating income, income before income taxes and minority interests for the year ended March 31, 2014 increased by ¥8,368 million.

(Application of Accounting Standard for Retirement Benefits)

The Company and its consolidated domestic subsidiaries adopted Article 35 of Statement No. 26 and Article 67 of Guidance No. 25 (amended March 26, 2015) from the current fiscal year and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefits to periods from a straight-line basis to a benefit formula basis and changed the method used for determining the discount rates.

In accordance with Article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the current fiscal year.

As a result, net defined benefit liability increased by ¥4,194 million, net defined benefit asset decreased by ¥950 million and retained earnings decreased by ¥3,396 million in the beginning balance of the fiscal year ended March 31, 2015. The impact on operating income, and income before income taxes and minority interests for the fiscal year ended March 31, 2015 was immaterial.

(Application of accounting standard for business combinations)

The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in prior years comparative information were reclassified to conform to such changes in the current year presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities," and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

These changes had no material effect on operating income, income before income taxes and non-controlling interests and earnings per share for the fiscal year ended March 31, 2016, and on the capital surplus amount at the end of the fiscal year ended March 31, 2016.

New accounting pronouncements

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26"))

(1) Overview

Following the framework in Auditing Committee Report No. 66, "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets," which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

(3) Effects of application of the Guidance

The impact of the revision on the consolidated financial statements is currently being evaluated.

3. COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
Valuation difference on available-for-sale securities				
Decrease during the year	¥ (3,666)	¥ 13,134	¥ 3,475	$ (32,535)
Reclassification adjustments	112	(480)	(625)	994
Subtotal, before tax	(3,554)	12,654	2,850	(31,541)
Tax expense	1,315	(3,383)	(543)	11,671
Subtotal, net of tax	(2,239)	9,271	2,307	(19,870)
Deferred gains or losses on hedges				
Decrease during the year	242	(43)	—	2,148
Reclassification adjustments	(173)	(94)	—	(1,536)
Subtotal, before tax	69	(137)	—	612
Tax expense	(16)	32	—	(142)
Subtotal, net of tax	53	(105)	—	470
Foreign currency translation adjustments				
Decrease during the year	(4,049)	2,395	6,632	(35,933)
Reclassification adjustments	—	—	—	—
Subtotal, before tax	(4,049)	2,395	6,632	(35,933)
Tax expense	—	—	—	—
Subtotal, net of tax	(4,049)	2,395	6,632	(35,933)
Remeasurements of defined benefit plans, net of tax				
Decrease during the year	(17,811)	5,783	—	(158,067)
Reclassification adjustments	344	902	—	3,053
Subtotal, before tax	(17,467)	6,685	—	(155,014)
Tax expense	5,369	(2,314)	—	47,648
Subtotal, net of tax	(12,098)	4,371	—	(107,366)
Share of other comprehensive income of associates accounted for using equity method				
Decrease during the year	8	48	25	71
Reclassification adjustments	(26)	69	(9)	(231)
Subtotal, net of tax	(18)	117	16	(160)
Total other comprehensive income	¥ (18,351)	¥ 16,049	¥ 8,955	$ (162,859)

4. FINANCIAL INSTRUMENTS

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

The Companies procure funds necessary for the manufacturing and sales business primarily through borrowings from financial institutions or by issuing corporate bonds based upon the plan and budget for capital investments. In principle, temporary surplus funds are centralized by the Cash Management System (CMS) and invested in highly safe financial assets. In addition, the Companies procure short-term operating capital from financial institutions. Derivative transactions are used to hedge against risks described below, but never for speculative purposes.

(2) Description of financial instruments and inherent risks

Notes and accounts receivable—trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities, primarily shares of companies with which the Companies maintain business relations, are exposed to the risk of market price fluctuations.

Notes and accounts payable, which are operating payables, are basically settled in the short-term with a deadline set within a year. Operating payables include payables denominated in foreign currencies for importing materials and are exposed to foreign exchange fluctuation risk. However, they remain within the range of the balance of operating receivables denominated in the same foreign currencies. Short-term borrowings are primarily for procuring operating capital and long-term debt, and bonds are issued to obtain necessary funds mainly for capital expenditures. A portion of the short-term debt and the long-term debt are exposed to interest rate fluctuation risk, but the effect is limited.

Derivative transactions such as foreign exchange forward contracts, currency swaps and interest rate swaps are used to hedge against the foreign currency fluctuation risk associated with operating receivables and payables denominated in foreign currencies, investment assets, loans receivable, etc. Since all derivative transactions correspond to assets and liabilities on the balance sheets, foreign exchange fluctuation risk is hedged and the fluctuation risk of market interest rates is rendered insignificant.

(3) Risk management system related to financial instruments

(a) Credit risk management (risk pertaining to breach of contract on the part of business partners)

The Company aims to mitigate credit risk by quickly identifying any concerns about the collection of operating receivables resulting from the deterioration of a business partner's financial position or other factors. Also, each business division periodically reviews the status of our main business partners and regularly monitors deadlines, balances and credit status for each partner. The consolidated subsidiaries also manage operating receivables in accordance with the practices of the Company.

As for debt securities, the credit risk is insignificant since the Company only handles those with high ratings or issued by companies with existing business relations with the Company and whose creditability is verifiable. Further, the Company periodically verifies the financial position of issuers to mitigate risk. Since the counterparties to the derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2016.

(b) Market risk management (foreign exchange and interest rate fluctuation risk)

The Company and some consolidated subsidiaries identify foreign exchange fluctuation risk associated with operating receivables and payables denominated in foreign currencies by currency and by month. Such risk is hedged by using foreign exchange forward contracts, principally up to the amounts to be settled after netting operating payables denominated in foreign currencies. Note that the Company defines the monthly execution limit and the operating standard based upon its Procedures for Foreign Exchange Management and enters into foreign exchange forward contracts within the scope provided by the procedures. Also, the Companies utilize interest rate swaps mainly to hedge against the fluctuation risk of market interest rates.

For marketable securities and investment securities, the Company periodically identifies fair values and the financial positions of the issuers (business partner companies). For securities other than held-to-maturity bonds, the Company continuously revises the holding status taking into consideration the business relationship with the business partner companies.

The Financial Department of the Company executes derivative transactions based upon its Transaction Regulations for Derivative Financial Products, which defines the basic policy, the scope of operations, the personnel responsible for execution, the basis for decision making and the management system. Consolidated subsidiaries enter into derivative transactions based upon resolutions passed by their respective bodies upon the Company's approval. The Company ensures an effective internal checking system by segregating the execution function from the monitoring and managing function. Also, the Director of the Company's Financial Department performs evaluations for hedge effectiveness of all derivative transactions entered into by the Companies and reports the results together with a description of the underlying assets and liabilities to the President and the CFO on a monthly basis and periodically to the Board of Directors.

(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments by deadlines)

The Company manages liquidity risk by timely preparing and updating cash flow plans by the Financial Department and by maintaining a liquidity facility, which is the sum of liquidity on hand and commitment lines, in the approximate amount of one month's consolidated net sales. In addition, the Companies mitigate liquidity risk in principle by centralizing the Companies' funds using CMS. Accordingly, the Companies consider that no significant liquidity risk exists.

(4) Supplementary explanation for matters regarding fair value of financial instruments

The fair value of financial instruments is based on market price. If a market price is not available, another valuation method is used. Such methods include variable factors and assumptions, and the results of a valuation may differ depending on which factors and assumptions are used.

The contract amounts related to the derivative transactions shown in "Derivative Transactions" do not indicate the market risks associated with the derivative transactions themselves.

2. Matters regarding the fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2016 (the consolidated accounts settlement date of the year ending March 31, 2016), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 43,162	¥ 43,162	¥ —
(2) Notes and accounts receivable—trade	121,683	121,683	—
(3) Marketable and investment securities			
Available-for-sale securities	45,772	45,772	—
(4) Long-term loans receivable	1,308		
Allowance for doubtful receivables (*1)	(0)		
	1,308	1,313	5
Total assets	211,925	211,930	5
(1) Notes and accounts payable—trade	64,820	64,820	—
(2) Short-term loans payable	52,696	52,696	—
(3) Accounts payable—other	24,609	24,609	—
(4) Bonds payable	10,000	10,550	550
(5) Long-term loans payable	53,773	54,427	654
Total liabilities	205,898	207,102	1,204
Derivative transactions (*2)			
– Hedge accounting applied	9	9	—
– Hedge accounting not applied	233	233	—

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2015 (the consolidated accounts settlement date for the year ending March 31, 2015), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 28,020	¥ 28,020	¥ —
(2) Notes and accounts receivable—trade	122,084	122,084	—
(3) Marketable and investment securities			
Available-for-sale securities	51,415	51,398	(17)
(4) Long-term loans receivable	1,413		
Allowance for doubtful receivables (*1)	(0)		
	1,413	1,379	(34)
Total assets	202,932	202,881	(51)
(1) Notes and accounts payable—trade	63,072	63,072	—
(2) Short-term loans payable	55,636	55,636	—
(3) Accounts payable - other	24,912	24,912	—
(4) Bonds payable	10,000	10,634	634
(5) Long-term loans payable	47,274	47,196	(78)
Total liabilities	200,894	201,450	556
Derivative transactions (*2)			
– Hedge accounting applied	(44)	(44)	—
– Hedge accounting not applied	(99)	(99)	—

The table below shows the amounts as of March 31, 2016 calculated into U.S. dollars.

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	$ 383,049	$ 383,049	$ —
(2) Notes and accounts receivable—trade	1,079,899	1,079,899	—
(3) Marketable and investment securities			
Available-for-sale securities	406,212	406,212	—
(4) Long-term loans receivable	11,608		
Allowance for doubtful receivables (*1)	(0)		
	11,608	11,652	44
Total assets	1,880,768	1,880,812	44
(1) Notes and accounts payable—trade	575,257	575,257	—
(2) Short-term loans payable	467,660	467,660	—
(3) Accounts payable - other	218,397	218,397	—
(4) Bonds payable	88,747	93,628	4,881
(5) Long-term loans payable	477,219	483,023	5,804
Total liabilities	1,827,280	1,837,965	10,685
Derivative transactions (*2)			
– Hedge accounting applied	80	80	—
– Hedge accounting not applied	2,068	2,068	—

(*1) The amount of allowance for doubtful accounts, which is recorded for each long-term loan receivable, is excluded.

(*2) Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

Note 1.
Matters regarding the determination of fair value for financial instruments, marketable securities and derivative transactions

Assets

(1) Cash and cash equivalents
The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

(2) Notes and accounts receivable—trade
The fair value of notes and accounts receivable—trade settled in a short period of time approximates book value. Therefore, the book value is used as the fair value. The fair value of long-term notes and accounts receivable—trade is based on the present value calculated by discounting receivable amounts classified by certain periods at a rate that takes into account the time to maturity and credit risk.

(3) Marketable and investment securities
The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is based on market prices on exchanges or by prices obtained from financial institutions. Debt securities without available market prices are measured at present value by discounting future cash flows generated by the financial assets. Refer to "Securities" for matters regarding securities classified by the purpose for which they are held.

(4) Long-term loans receivable
The fair value of long-term loans receivable is measured at the present value of future cash flows classified by the length of term and by risk category, according to the Company's credit risk management, at a rate with credit spread added to appropriate indices such as JGB yields. The fair value of borrowings with special concern is measured at the amounts deemed collectable because of the existence of collateral and/or guarantees.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (3) Accounts payable—other

The fair value of notes and accounts payable—trade, short-term loans payable and accounts payable—other approximate book value because they are mostly settled in a short period of time. As a result, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by a certain period at a rate that takes into account the time to maturity and credit risk.

(4) Bonds payable

The fair value of bonds payable issued by the Company is measured based on the market price.

(5) Long-term loans payable

The fair value of long-term loans payable is measured at the present value calculated by discounting the total amount of principle and interest at an interest rate for similar new borrowings.

Derivative transactions

Refer to Note 6, "Derivative financial instruments and hedging transactions."

Note 2.

Financial instruments whose fair values are deemed extremely difficult to assess

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Unlisted equity securities	¥ 10,312	¥ 10,300	$ 91,516

The financial instruments shown above are not included in the tables in "(3) Marketable securities and investment securities" because their market prices were not available and their fair values were deemed extremely difficult to assess.

Note 3.

Redemption schedules after the consolidated balance sheet date for monetary receivables and securities with maturity dates

	Millions of yen			
	2016			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 43,162	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	121,683	—	—	—
Long-term loans receivable	53	505	460	290
Total	¥ 164,898	¥ 505	¥ 460	¥ 290

	Millions of yen			
	2015			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 28,020	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	122,084	—	—	—
Long-term loans receivable	43	527	462	381
Total	¥ 150,147	¥ 527	¥ 462	¥ 381

	Thousands of U.S. dollars (Note 1)			
	2016			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	$ 383,049	$ —	$ —	$ —
Notes and accounts receivable—trade	1,079,899	—	—	—
Long-term loans receivable	470	4,482	4,082	2,574
Total	$ 1,463,418	$ 4,482	$ 4,082	$ 2,574

Note 4.

Maturity schedules after the consolidated balance sheet date for bonds and long-term debt

Refer to Note 12, "Short-term loans payable and long-term debt."

5. SECURITIES

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2016:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2016			2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 17,322	¥ 43,054	¥ 25,732	$ 153,727	$ 382,091	$ 228,364
Bonds	—	—	—	—	—	—
	¥ 17,322	¥ 43,054	¥ 25,732	$ 153,727	$ 382,091	$ 228,364

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2016			2016		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 3,331	¥ 2,718	¥ (613)	$ 29,562	$ 24,121	$ (5,441)
Bonds	—	—	—	—	—	—
	¥ 3,331	¥ 2,718	¥ (613)	$ 29,562	$ 24,121	$ (5,441)

The following table summarizes sales of available-for-sale securities as of March 31, 2016:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2016			2016		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	¥ 386	¥ 77	¥ —	$ 3,426	$ 683	$ —
Bonds	—	—	—	—	—	—
	¥ 386	¥ 77	¥ —	$ 3,426	$ 683	$ —

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2015:

Securities with book value exceeding acquisition cost:

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ 18,065	¥ 47,236	¥ 29,171
Bonds	—	—	—
	¥ 18,065	¥ 47,236	¥ 29,171

Securities with book value not exceeding acquisition cost:

	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,539	¥ 1,931	¥ (608)
Bonds	—	—	—
	¥ 2,539	¥ 1,931	¥ (608)

The following table summarizes sales of available-for-sale securities as of March 31, 2015:

	Millions of yen		
	2015		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 719	¥ 493	¥ —
Bonds	—	—	—
	¥ 719	¥ 493	¥ —

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Foreign exchange forward contracts				
Sell contract				
U.S. dollar	**¥ 1,353**	**¥ 4**	**$ 12,007**	**$ 35**
Currency swap contracts				
Pay JPY and receive U.S. dollar	**2,421**	**22**	**21,486**	**195**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay fixed and receive floating	**¥ 2,254**	**¥ (17)**	**$ 20,004**	**$ (151)**

Derivative transactions to which hedge accounting was applied as of March 31, 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Currency swaps contracts				
Pay U.S. dollars and receive ringgit Malaysia	**¥ 3,606**	**¥ 233**	**$ 32,002**	**$ 2,068**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay floating and receive fixed	**¥ 500**	(*)	**$ 4,437**	(*)

Derivative transactions to which hedge accounting was not applied as of March 31, 2015 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign exchange forward contracts		
Sell contract		
U.S. dollar	¥ 1,555	¥ (6)
Pound sterling	87	(1)
Currency swap contract		
Pay JPY and receive U.S. dollar	2,662	(65)

	Millions of yen	
	Contract amount	Fair value
Interest rate swaps		
Pay fixed and receive floating	¥ 2,403	¥ (27)

Derivative transactions to which hedge accounting was applied as of March 31, 2015 were as follows:

	Millions of yen	
	Contract amount	Fair value
Currency swaps		
Pay euro and receive ringgit Malaysia	¥ 940	¥ (46)
Pay U.S. dollars and receive ringgit Malaysia	3,845	2

	Millions of yen	
	Contract amount	Fair value
Interest rate swaps		
Pay floating and receive fixed	¥ 3,000	(*)
Pay fixed and receive floating	18	(*)

(*) Because interest rate swaps are processed with loans payable, the fair value is included in the fair value of the loans payable (Note 4).

7. INVENTORIES

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Merchandise and finished goods	**¥ 51,746**	¥ 51,610	**$ 459,230**
Work-in-process	**10,126**	30,058	**89,865**
Raw materials and supplies	**31,829**	9,517	**282,472**
	¥ 93,701	¥ 91,185	**$ 831,567**

8. RETIREMENT BENEFIT EXPENSES

Since the number of employees exceeded 300 after the merger between consolidated subsidiaries, the newly formed consolidated subsidiary changed its calculation method for retirement benefit obligations to the principle method from the simplified method. The Companies recognized the difference resulting from the change in calculation method as retirement benefit expense for the year ended March 31, 2014.

9. RESTRUCTURING CHARGES

The Companies recognized restructuring charges in other expenses for the year ended March 31, 2014.

(1) ¥3,194 million of loss on valuation of inventories.

(2) ¥5,927 million of impairment loss on noncurrent assets.

Location	Use	Type
Toyooka, Hyogo	Business assets (production facility for thin-film silicon solar panel)	Machinery, equipment and vehicles, etc.

The Companies groups its assets mainly according to business units.

Because profitability worsened, the book value of the production facilities for thin-film silicon solar panel was written down to its recoverable value, and the Companies posted an impairment loss of ¥5,927 million. Of this amount, machinery, equipment and vehicles accounted for ¥5,690 million.

The recoverable value of the above asset groups were estimated by net sales values based mainly on appraisal values determined by real property appraisers.

10. IMPAIRMENT LOSS

The Companies recognized impairment loss in other expenses for the year ended March 31, 2016.

Location	Use	Type
SANVIC Inc. (Hamamatsu, Shizuoka)	Business assets (production facility for molding polyvinyl chloride)	Machinery, equipment and vehicles, etc.

The Companies groups its assets mainly according to business units. For the business run mainly by subsidiaries, the Companies group assets according to subsidiary units.

Because profitability worsened, the book value of the production facilities for molding polyvinyl chloride of SANVIC Inc. was written down to its recoverable value, and the Companies posted an impairment loss of ¥1,536 million ($13,632 thousand). Of this amount, machinery, equipment and vehicles accounted for ¥1,485 million ($13,179 thousand).

The recoverable value of the above asset groups were estimated by net sales values based mainly on appraisal values determined by real property appraisers.

11. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 33.02% for the year ended March 31, 2016, approximately 35.59% for the year ended March 31, 2015 and approximately 37.96% for the years ended March 31, 2014.

The significant differences between the statutory and effective tax rate for the years ended March 31, 2016, 2015 and 2014 were as follows:

	2016	2015	2014
Statutory tax rate	**33.02%**	This information is not required as the differences between the statutory tax rates and the Companies' effective tax rates are not more than 5% of the statutory tax rates.	37.96%
Change in valuation allowance	**1.59%**		(16.20%)
Permanently non-taxable income	**(5.06%)**		(12.16%)
Elimination of dividends on consolidation	**4.61%**		9.62%
Tax credits primarily for research and development expenses	**(2.74%)**		(15.11%)
Adjustment of deferred tax assets by the changes of tax rate	**1.33%**		2.87%
Other	**(1.41%)**		1.68%
Effective tax rate	**31.34%**		8.66%

Significant components of deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Deferred tax assets:			
Net defined benefit liability	¥ 11,092	¥ 5,559	$ 98,438
Tax loss carryforwards	3,921	5,029	34,798
Loss on valuation of investment securities	856	895	7,597
Excess bonuses accrued	1,666	1,645	14,785
Impairment loss on noncurrent assets	4,083	4,349	36,235
Unrealized gain	1,539	1,703	13,658
Other	5,620	7,067	49,876
Subtotal	28,777	26,247	255,387
Valuation allowance	(6,138)	(6,243)	(54,473)
Total deferred tax assets	22,639	20,004	200,914
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	7,456	8,758	66,170
Depreciation of overseas subsidiaries	4,186	4,273	37,149
Other	1,917	1,220	17,013
Total deferred tax liabilities	13,559	14,251	120,332
Net deferred tax assets (liabilities)	¥ 9,080	¥ 5,753	$ 80,582

"Valuation difference on available-for-sale securities" reported separately in the previous fiscal year is included in "Other" of deferred tax assets in the current fiscal year due to a decrease in materiality. In addition, "Unrealized gain" included in "Other" of deferred tax assets and "Depreciation of overseas subsidiaries" included in "Other" of deferred tax liabilities are reported separately in the current fiscal year in order to improve the clarity of the disclosure. To reflect this change in presentation, the amount for the previous fiscal year was reclassified. As a result, ¥213 million in "Valuation difference on available-for-sale securities" and ¥8,557 million in "Other" of deferred tax assets in the previous fiscal year were reclassified as ¥1,703 million in "Unrealized gain" and ¥7,067 million in "Other." In addition, ¥5,493 million in "Other" of deferred tax liabilities in the previous fiscal year was reclassified as ¥4,273 million in "Depreciation of overseas subsidiaries" and ¥1,220 million in "Other."

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates:
On March 31, 2014, amendments to the Japanese tax regulations were enacted. As a result of these amendments, the statutory income tax rate for the Company will be reduced from 37.96% to 35.59% for years beginning on or after April 1, 2014. Due to this change in the statutory income tax rate, net deferred tax assets decreased and deferred income tax expense increased by ¥448 million.

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 were changed for the fiscal year ended March 31, 2015 from 35.59% to 33.02% and 32.22%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting deferred tax liabilities) increased by ¥21 million as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥935 million, evaluation differences of other securities increased by ¥892 million and accumulated adjustments for employee retirement benefits increased by ¥64 million.

On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed for the fiscal year ended March 31, 2016 from 33.22% to 30.81% and 30.58%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥271 million ($2,405 thousand) as of March 31, 2016 and accumulated adjustments for employee retirement benefits decreased by ¥255 million ($2,263 thousand), deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥407 million ($3,612 thousand) and evaluation differences of other securities increased by ¥391 million ($3,470 thousand).

12. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 1.00% and 0.70% at March 31, 2016 and 2015, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.00% to 5.42% in 2016 and 2015, maturing serially through 2024	**¥ 1,777**	¥ 2,278	**$ 15,770**
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 4.75% in 2016 and 2015, maturing serially through 2033	**57,827**	54,682	**513,197**
Bonds at interest rate of 1.67%, due September 13, 2019	**10,000**	10,000	**88,747**
	69,604	66,960	**617,714**
Less amounts due within one year	**5,831**	9,685	**51,748**
	¥ 63,773	¥ 57,275	**$ 565,966**

At March 31, 2016, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥765 million ($6,789 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	**¥ 5,759**	**$ 51,109**
Land	**1,244**	**11,040**
Investment securities	**1,815**	**16,108**
Intangible assets	**16**	**142**
	¥ 8,834	**$ 78,399**

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2017	¥ 5,831	$ 51,748
2018	9,637	85,525
2019	9,246	82,055
2020	11,408	101,242
2021	6,797	60,321
2022 and thereafter	26,685	236,823
	¥ 69,604	$ 617,714

13. PROVISION FOR RETIREMENT BENEFITS

Defined benefit plans

(1) Movement in retirement benefit obligations, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥ 92,723**	¥ 85,343	**$ 822,888**
Cumulative effects of changes in accounting policies	**—**	5,144	**—**
Restated balance	**92,723**	90,487	**822,888**
Service cost	**2,974**	2,963	**26,393**
Interest cost	**1,526**	1,514	**13,543**
Actuarial loss (gain)	**16,544**	(573)	**146,823**
Increase from newly consolidated subsidiary	**3,118**	—	**27,671**
Benefits paid	**(3,100)**	(3,158)	**(27,512)**
Other	**(43)**	1,490	**(381)**
Balance at the end of year	**¥ 113,742**	¥ 92,723	**$ 1,009,425**

(2) Movements in plan assets, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥ 78,171**	¥ 68,875	**$ 693,743**
Expected return on plan asset	**1,331**	1,157	**11,812**
Actuarial loss (gain)	**(1,267)**	5,210	**(11,244)**
Contributions paid by the employer	**1,622**	5,217	**14,395**
Benefits paid	**(2,387)**	(2,288)	**(21,184)**
Increase from newly consolidated subsidiary	**2,553**	—	**22,657**
Balance at the end of year	**¥ 80,023**	¥ 78,171	**$ 710,179**

(3) Movement in liability for retirement benefits of defined benefit plan applying the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Balance at beginning of year	**¥ 2,654**	¥ 3,945	**$ 23,553**
Retirement benefit cost	**300**	346	**2,662**
Benefits paid	**(249)**	(253)	**(2,210)**
Increase from newly consolidated subsidiary	**244**	—	**2,166**
Other	**(0)**	(1,384)	**(0)**
Balance at the end of year	**¥ 2,949**	¥ 2,654	**$ 26,171**

(4) Reconciliation from retirement benefit obligations and plan assets to liability and asset for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Funded retirement benefit obligation	**¥ 88,056**	¥ 70,039	**$ 781,469**
Plan asset	**(80,030)**	(78,171)	**(710,241)**
	8,026	(8,132)	**71,228**
Unfunded retirement benefit obligations	**28,642**	25,338	**254,189**
Total net liability (asset) for retirement benefits	**36,668**	17,206	**325,417**
Liability for retirement benefits	**36,668**	25,338	**325,417**
Asset for retirement benefits	**—**	(8,132)	**—**
Total net liability (asset) for retirement benefits	**¥ 36,668**	¥ 17,206	**$ 325,417**

(5) Retirement benefit costs

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Service cost	**¥ 2,974**	¥ 2,963	¥ 2,885	**$ 26,393**
Interest cost	**1,526**	1,514	1,277	**13,543**
Expected return on plan assets	**(1,331)**	(1,157)	(919)	**(11,812)**
Net actuarial loss amortization	**344**	902	1,573	**3,053**
Other	**300**	344	942	**2,662**
	¥ 3,813	¥ 4,566	¥ 5,758	**$ 33,839**

(6) Remeasurements for retirement benefits

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	**2016**
Actuarial gains and losses	**¥ (17,467)**	¥ 6,685	¥ —	**$ (155,014)**

(7) Accumulated remeasurements for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Actuarial gains and losses that are yet to be recognized	**¥ 15,779**	¥ (1,688)	**$ 140,034**

(8) Plan assets

1. Plan assets comprise:

	2016	2015
Bonds	56%	52%
Equity securities	25%	29%
General account	15%	15%
Other	4%	4%
	100%	100%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions

	2016	2015	2014
Discount rate	0.7% – 3.83%	1.28% – 3.64%	1.5%
Long-term expected rate of return	1.68% – 2.5.%	1.68%	1.5%

Defined contribution plans

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2015	2014	2016
The amount of contributions to the defined contribution plan	¥ 601	¥ 500	¥ 433	$ 5,334

14. CONTINGENT LIABILITIES

At March 31, 2016 and 2015, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Notes endorsed	¥ 3	¥ —	$ 27
Notes discounted	50	242	444
Guarantees	510	281	4,526
Letters of awareness	168	257	1,490
	¥ 731	¥ 780	$ 6,487

15. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

On May 12, 2016, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2016 on the shares of stock then outstanding at the rate of ¥10.0 ($0.09) per share or a total of ¥3,331 million ($29,562 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

16. STOCK OPTIONS

(1) The Company

The Company has implemented a stock option plan by which subscription rights to shares were granted to directors of the Company.

The following table summarizes the Company's stock option plan.

	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Category and number of people granted stock options	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 12	Company directors, 12	Company directors, 13	Company directors, 12	Company directors, 13	Company directors, 13
Number of stock options granted by category of stock	74,000 shares of common stock	75,000 shares of common stock	65,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	57,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 12, 2015 through August 11, 2040 (*)	From August 12, 2014 through August 11, 2039 (*)	From August 10, 2013 through August 9, 2038 (*)	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)	From August 11, 2010 through August 10, 2035 (*)	From August 12, 2009 through August 11, 2034 (*)	From August 12, 2008 through August 11, 2033 (*)	From September 11, 2007 through September 10, 2032 (*)

(*) If a holder of subscription rights to shares loses his/her position as Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Unvested stock options									
Beginning of term	—	—	—	—	—	—	—	—	—
Granted	74,000	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—
Vested	74,000	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—
Vested stock options									
Beginning of term	—	75,000	50,000	39,000	37,000	29,000	22,000	20,000	3,000
Vested	74,000	—	—	—	—	—	—	—	—
Exercised	—	5,000	6,000	4,000	5,000	4,000	3,000	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—
Unexercised balance	74,000	70,000	44,000	35,000	32,000	25,000	19,000	20,000	3,000
Exercise price (yen)	1	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	890	890	890	890	890	890	—	—
Fair value per stock at the date granted (yen)	947	502	558	363	412	456	622	600	883
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	7.90	7.90	7.90	7.90	7.90	7.90	—	—
Fair value per stock at the date granted (USD)	8.40	4.46	4.95	3.22	3.66	4.05	5.52	5.32	7.84

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥70 million ($621 thousand), ¥38 million and ¥36 million for the years ended March 31, 2016, 2015 and 2014, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014
Expected volatility	24.04%	29.71%
Expected holding period	6 years	6 years
Expected dividend	16 yen	16 yen
Risk free interest rate	0.121%	0.179%

(2) Cemedine Co., Ltd.

Cemedine Co., Ltd. has implemented a stock option plan by which subscription rights to shares were granted to directors of the company.

The following table summarizes the company's stock option plan.

	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Category and number of people granted stock options	Company directors, 4	Company directors, 6	Company directors, 7	Company directors, 8	Company directors, 8	Company directors, 8	Company directors, 7	Company directors, 7
Number of stock options granted by category of stock	26,000 shares of common stock	38,000 shares of common stock	53,000 shares of common stock	58,000 shares of common stock	64,000 shares of common stock	67,000 shares of common stock	58,000 shares of common stock	58,000 shares of common stock
Date granted	August 10, 2010	August 10, 2010	August 10, 2010	August 10, 2010	August 10, 2010	August 11, 2009	August 11, 2008	September 10, 2007
Vesting conditions	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.
Exercise period	From July 10, 2015 through July 9, 2035 (*)	From July 11, 2014 through July 10, 2034 (*)	From July 10, 2013 through July 9, 2033 (*)	From July 13, 2012 through July 12, 2032 (*)	From July 15, 2011 through July 14, 2031 (*)	From July 27, 2010 through July 26, 2030 (*)	From August 12, 2009 through August 11, 2029 (*)	From October 21, 2008 through October 20, 2028 (*)

(*) If a holder of subscription rights to shares loses his/her position as Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Unvested stock options								
Beginning of term	26,000	22,000	14,000	12,000	7,000	8,000	8,000	8,000
Granted	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—
Unvested balance	26,000	22,000	14,000	12,000	7,000	8,000	8,000	8,000
Vested stock options								
Beginning of term	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—
Unexercised balance	—	—	—	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—	—	—	—	—
Fair value per stock at the date granted (yen)	415	388	388	352	342	293	273	163
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	—	—	—	—	—	—
Fair value per stock at the date granted (USD)	3.68	3.44	3.44	3.12	3.04	2.60	2.42	1.45

(*) Amounts in "Beginning of term" are due to the consolidation of Cemedine Co., Ltd. by the Company during fiscal year ended March 31, 2016.

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥2 million ($18 thousand) for the year ended March 31, 2016.

No stock option was granted for the period from the consolidation of the company to March 31, 2016.

17. BUSINESS COMBINATION DUE TO ACQUISITION

At a meeting held on December 8, 2015, the Company's Board of Directors resolved to consolidate equity method affiliate CEMEDINE CO., LTD. as a subsidiary by conducting a tender offer to acquire the affiliate's common shares in accordance with the Financial Instruments and Exchange Act of Japan. The tender offer, which began on the day following the resolution on December 9, was completed on January 13, 2016. The following is an overview.

1. Summary of business combination

(1) Name of acquired company and its business

Name of acquired company

CEMEDINE CO., LTD.

Business

Manufacture and sale of adhesives, sealer, special paints, adhesive tapes

(2) Reasons for executing business combination

Since first accepting a third-party allotment of shares for recapitalizing CEMEDINE CO., LTD. in April 1990, Kaneka had strengthened its capital relationship with the affiliate in stages, cooperating in a mutual effort to expand business. However, Kaneka's Board reached a unanimous agreement that making CEMEDINE into a consolidated subsidiary would be an extremely effective means of raising the Kaneka Group's corporate value by promoting the mutual provision and effective use of management resources in areas encompassing the assets, technologies, expertise and overseas networks of the two companies. As a result, the two companies each held a Board of Directors meeting on December 8, 2015, and resolved to conduct a tender offer for Kaneka to consolidate CEMEDINE as a subsidiary.

(3) Date of business combination

January 20, 2016

(4) Legal form of business combination

Share acquisition in exchange for cash

(5) Name of company after combination

There was no change in the company name.

(6) Share of voting rights acquired

Share of voting rights held immediately before the date of business combination

29.61%

Share of voting rights additionally acquired on the date of business combination

21.39%

Share of voting rights held after acquisition

51.00%

(Note) Kaneka's ratio of voting rights in CEMEDINE CO., LTD. was calculated based on a denominator of 150,129 individual voting rights attached to 15,012,901 shares of outstanding CEMEDINE stock adjusted for dilution. This figure was calculated by adjusting the 15,167,000 nominal shares of outstanding stock as of September 30, 2015, recorded in CEMEDINE's "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015," by adding 105,000 shares of unissued stock underlying 105 stock acquisition rights that had remained unexercised as of September 30, 2015 and subtracting a balance of 259,099 shares of treasury stock that CEMEDINE had recorded as of September 30, 2015. CEMEDINE had recorded the issuance of 26 new stock issuance rights in its "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015" and had reported a balance of 176 outstanding stock acquisition rights as of March 31, 2015 in the securities report it filed on June 19, 2015 for the year ended March 31, 2015. From this total of 202 stock acquisition rights, the exercise of 97 stock acquisition rights as of January 14, 2016 was subtracted to arrive at the net figure of 105 outstanding stock acquisition rights.

(7) Rational behind determining the company to be acquired

The Company acquired a majority of the voting rights and clearly has control over the decisionmaking body of the acquiree.

2. Period of results of the acquired company included in the consolidated financial statements

The acquired company's financial results from January 1, 2016 to March 31, 2016 are included in the consolidated statement of income for the year ended March 31, 2016 as the acquisition date is regarded as January 1, 2016.

FINANCIAL SECTION

3. Additional acquisition of shares in acquired company

Acquisition cost and consideration paid

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration paid for the acquisition		
Fair value of common stock of CEMEDINE held before the business combination	¥ 2,560	$ 22,719
Cash paid by additional common stock acquired as of the business combination	1,850	16,418
Acquisition cost	¥ 4,410	$ 39,137

4. Main acquisition related costs

Advisory fees: ¥101 million ($896 thousand)

5. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions until the business combination

Gain on step acquisition: ¥230 million ($2,041 thousand)

6. Amount of gain on negative goodwill recognized and reason for recognition

(1) Amount of gain on negative goodwill recognized

¥1,313 million ($11,652 thousand)

(2) Reason for recognition

The acquisition cost was more than the net asset value at the date of business combination.

7. Value of assets and liabilities assumed as of business combination

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 14,052	$ 124,707
Non-current assets	8,159	72,409
Total assets	¥ 22,211	$ 197,116
Current liabilities	¥ 8,770	$ 77,831
Non-current liabilities	1,836	16,294
Total liabilities	¥ 10,606	$ 94,125

8. Estimated effect on consolidated statement of operations assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and methods for calculation

	Millions of yen	Thousands of U.S. dollars
Net sales	¥ 17,371	$ 154,162
Operating income	903	8,014
Income before income taxes and non-controlling interests	634	5,627
Net income attributable to owners of parent	30	266
	Yen	U.S. dollars
Net income per share	¥ 0.09	$ 0.00

(Methods for Calculating Estimated Amounts)

The difference between net sales and profit and loss accounts calculated assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and the corresponding figures in the accompanying consolidated statement of operations were used.

The amounts shown above have not been audited.

18. SEGMENT INFORMATION

1. Overview of Reporting Segments

Kaneka's reporting segments aim to gather financial information from the Company's separate business units to facilitate decisions by the Board of Directors on the allocation of management resources and allow for the Board's regular review of business performance.

Technology is the common foundation of all the Company's operations. These operations are divided into segments by product and service type, application and market similarity. Each segment develops its operations in accordance with a global group strategy for the Company's products and services that has unified subsidiaries in Japan and overseas.

Accordingly, the Company has categorized its operations by products and services, based on its business divisions. The corresponding seven reporting segments are Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others. The Company establishes or abolishes business divisions as needed in order to facilitate a swift and flexible response to changes in the business environment. Accordingly, when determining reporting segments, the Company gives emphasis to continuity over a considerable period.

In the Chemicals segment, the Kaneka Group manufactures and sells products with a broad range of applications, from daily-use products to industrial materials, such as high-value-added specialty PVC resins and other PVC resins. In the Functional Plastics segment, the Group manufactures polymers that have been functionally modified for such qualities as superior heat resistance, weather resistance, flame resistance and elasticity. The resins it produces with these augmented functions are sold to the construction, automotive, home electronics and communication equipment industries. In the Expandable Plastics and Products segment, the Group manufactures and sells cushioning materials for electrical products, shock-absorbing materials for automotive and fishery applications, and expandable plastics and products used in housing insulation. In the Foodstuffs Products segment, the Group produces mainly bakery yeast and margarine for sale to commercial confectioneries, bakeries and others in the food products industry. In Life Science Products, the Group has leveraged its expertise in fermentation and high-polymer technologies into pharmaceutical intermediates (API and intermediate pharmaceuticals), functional foodstuffs, and catheters and other medical devices, which it manufactures and sells to medical product manufacturers and medical institutions. In the Electronic Products segment, the Group manufactures and sells highly functional films for electronic equipment manufacturers, as well as solar cells. In the Synthetic Fibers and Others segment, the Group is mainly involved in the production and sale of synthetic fibers used in wigs, apparel and other applications.

2. Basis of Calculation of Monetary Amounts for Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reporting Segment

Accounting treatment and procedures for reported business segments are the same as those shown in the "Notes to the Consolidated Financial Statements." Intersegment sales and transfer prices are calculated based on market value.

From the beginning of the fiscal year ended March 31, 2016, the Company has changed the divisions of some subsidiaries and as a result, their reporting segment has been revised from Electronics Products to Expandable Plastics and Products.

Segment information for the fiscal year ended March 31, 2015 in this report has been prepared based on the revised classification method.

3. Segment Information by Business Category

Millions of yen

	Segment Information									
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
Sales										
Customers	**¥ 103,430**	**¥ 98,386**	**¥ 65,148**	**¥ 144,960**	**¥ 58,922**	**¥ 39,123**	**¥ 45,258**	**¥ 555,227**	**¥ —**	**¥ 555,227**
Intersegment	**940**	**759**	**61**	**9**	**26**	**261**	**1,251**	**3,307**	**(3,307)**	**—**
Total	**104,370**	**99,145**	**65,209**	**144,969**	**58,948**	**39,384**	**46,509**	**558,534**	**(3,307)**	**555,227**
Segment profit/loss	**5,568**	**15,117**	**6,310**	**3,749**	**11,724**	**20**	**15,658**	**58,146**	**(19,926)**	**38,220**
Segment assets	**102,106**	**94,575**	**52,444**	**82,362**	**66,625**	**68,514**	**31,713**	**498,339**	**78,912**	**577,251**
Other Items										
Depreciation	**5,310**	**3,364**	**2,339**	**2,512**	**3,150**	**4,456**	**2,421**	**23,552**	**2,687**	**26,239**
Amortization of goodwill	**—**	**36**	**—**	**—**	**468**	**—**	**—**	**504**	**—**	**504**
Investment in equity method affiliates	**—**	**76**	**1,843**	**—**	**—**	**—**	**—**	**1,919**	**—**	**1,919**
Increase in assets	**4,855**	**15,760**	**4,469**	**3,178**	**3,085**	**4,710**	**9,097**	**45,154**	**2,177**	**47,331**

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

Millions of yen

	Segment Information									
2015	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
Sales										
Customers	¥ 110,716	¥ 95,388	¥ 66,073	¥ 139,729	¥ 53,399	¥ 42,748	¥ 44,136	¥ 552,189	¥ —	¥ 552,189
Intersegment	1,267	626	106	1	62	332	1,212	3,606	(3,606)	—
Total	111,983	96,014	66,179	139,730	53,461	43,080	45,348	555,795	(3,606)	552,189
Segment profit/loss	2,927	11,293	4,420	1,807	9,342	(943)	12,131	40,977	(16,342)	24,635
Segment assets	108,198	74,369	50,489	79,991	67,692	73,229	28,906	482,874	75,089	557,963
Other Items										
Depreciation	4,421	2,939	2,065	2,302	2,912	4,359	2,420	21,418	2,091	23,509
Amortization of goodwill	—	37	—	—	473	—	—	510	—	510
Investment in equity method affiliates	—	2,247	1,702	—	—	—	—	3,949	—	3,949
Increase in assets	10,577	3,350	3,008	2,817	3,255	5,666	13,903	42,576	3,002	45,578

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

Millions of yen

2014	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
Sales										
Customers	¥ 107,353	¥ 86,289	¥ 66,483	¥ 134,252	¥ 47,424	¥ 44,382	¥ 38,602	¥ 524,785	¥ —	¥ 524,785
Intersegment	1,801	749	243	1	3	569	1,881	5,247	(5,247)	—
Total	109,154	87,038	66,726	134,253	47,427	44,951	40,483	530,032	(5,247)	524,785
Segment profit/loss	2,582	9,269	4,251	5,026	7,780	938	8,463	38,309	(13,487)	24,822
Segment assets	98,066	70,482	49,641	73,202	65,254	70,737	22,570	449,952	70,171	520,123
Other Items										
Depreciation	3,528	2,659	1,740	1,989	2,585	4,457	2,070	19,028	1,401	20,429
Amortization of goodwill	—	36	—	—	428	—	—	464	—	464
Investment in equity method affiliates	—	2,211	1,547	—	—	—	—	3,758	—	3,758
Increase in assets	8,160	3,502	2,917	3,059	2,544	16,112	4,050	40,344	1,627	41,971

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

Thousands of U.S. dollars (Note 1)

2016	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
Sales										
Customers	**$ 917,909**	**$ 873,145**	**$ 578,168**	**$1,286,475**	**$ 522,914**	**$ 347,205**	**$ 401,651**	**$4,927,467**	**$ —**	**$4,927,467**
Intersegment	**8,342**	**6,736**	**542**	**80**	**231**	**2,316**	**11,102**	**29,349**	**(29,349)**	**—**
Total	**926,251**	**879,881**	**578,710**	**1,286,555**	**523,145**	**349,521**	**412,753**	**4,956,816**	**(29,349)**	**4,927,467**
Segment profit/loss	**49,414**	**134,160**	**55,999**	**33,271**	**104,047**	**177**	**138,960**	**516,028**	**(176,837)**	**339,191**
Segment assets	**906,159**	**839,325**	**465,424**	**730,937**	**591,276**	**608,040**	**281,443**	**4,422,604**	**700,319**	**5,122,923**
Other Items										
Depreciation	**47,125**	**29,854**	**20,758**	**22,293**	**27,955**	**39,546**	**21,486**	**209,017**	**23,846**	**232,863**
Amortization of goodwill	**—**	**320**	**—**	**—**	**4,153**	**—**	**—**	**4,473**	**—**	**4,473**
Investment in equity method affiliates	**—**	**675**	**16,356**	**—**	**—**	**—**	**—**	**17,031**	**—**	**17,031**
Increase in assets	**43,087**	**139,865**	**39,661**	**28,204**	**27,378**	**41,800**	**80,733**	**400,728**	**19,320**	**420,048**

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

4. Reconciliation Between Segment Total and Consolidated Statements of Income (Adjustments)

	Millions of yen: **2016**	2015	2014	Thousands of U.S. dollars (Note 1): **2016**
Income				
Segment total	**¥ 58,146**	¥ 40,977	¥ 38,309	**$ 516,028**
Elimination of intersegment transactions	**12**	(1)	6	**106**
Companywide expenses (Note)	**(19,932)**	(16,336)	(13,559)	**(176,890)**
Other adjustments	**(6)**	(5)	66	**(53)**
Operating income in the quarterly consolidated statements of income	**¥ 38,220**	¥ 24,635	¥ 24,822	**$ 339,191**

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

	Millions of yen: **2016**	2015	2014	Thousands of U.S. dollars (Note 1): **2016**
Assets				
Segment total	**¥ 498,339**	¥ 482,874	¥ 449,952	**$ 4,422,604**
Elimination of intersegment transactions	**(12,993)**	(12,367)	(10,301)	**(115,309)**
Companywide assets (Note)	**91,484**	87,306	79,584	**811,892**
Other adjustments	**421**	150	888	**3,736**
Total assets in the quarterly consolidated statements of income	**¥ 577,251**	¥ 557,963	¥ 520,123	**$ 5,122,923**

Note: Companywide assets are working capital, investment securities and land that are not allocable to any reporting segment.

Millions of yen

	Segment total			Other			Adjustments			Consolidated		
	2016	2015	2014	**2016**	2015	2014	**2016**	2015	2014	**2016**	2015	2014
Other Items												
Depreciation	**¥ 23,552**	¥ 21,418	¥ 19,028	**¥ 2,687**	¥ 2,091	¥ 1,401	**¥ —**	¥ —	¥ —	**¥ 26,239**	¥ 23,509	¥ 20,429
Increase in assets	**45,154**	42,576	40,344	**2,177**	3,002	1,627	**—**	—	—	**47,331**	45,578	41,971

Note: Other is primarily expenses for basic R&D that are not allocable to any reporting segment.

Thousands of U.S. dollars (Note 1)

	Segment total	Other	Adjustments	Consolidated
	2016	**2016**	**2016**	**2016**
Other Items				
Depreciation	**$ 209,017**	**$ 23,846**	**$ —**	**$ 232,863**
Increase in assets	**400,728**	**19,320**	**—**	**420,048**

Note: Other is primarily expenses for basic R&D that are not allocable to any reporting segment.

(Related Information)

Related information at March 31, 2016, 2015 and 2014 consisted of the following.

1. Information by Product and Service

No information is reported because product and service classifications are the same as the reporting segment classifications.

2. Geographic Area

(1) Sales

2016 Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 337,814	**¥ 91,012**	**¥ 43,628**	**¥ 55,667**	**¥ 27,106**	**¥ 555,227**

2015 Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 341,124	¥ 87,822	¥ 43,478	¥ 54,628	¥ 25,137	¥ 552,189

2014 Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 335,554	¥ 83,744	¥ 35,939	¥ 48,346	¥ 21,202	¥ 524,785

2016 Thousands of U.S. dollars (Note 1)

Japan	Asia	North America	Europe	Other areas	Total
$ 2,997,994	**$ 807,703**	**$ 387,185**	**$ 494,027**	**$ 240,558**	**$ 4,927,467**

Note: Sales are classified into countries or regions based on the geographic location of customers.

(2) Property, plant and equipment

2016 Millions of yen

Japan	Malaysia	Asia-Other	North America	Europe	Total
¥ 156,035	**¥ 25,551**	**¥ 8,172**	**¥ 21,578**	**¥ 8,379**	**¥ 219,715**

2015 Millions of yen

Japan	Malaysia	Asia-Other	North America	Europe	Total
¥ 147,415	¥ 22,148	¥ 8,873	¥ 21,572	¥ 7,581	¥ 207,589

2016 Thousands of U.S. dollars (Note 1)

Japan	Malaysia	Asia-Other	North America	Europe	Total
$ 1,384,762	**$ 226,757**	**$ 72,524**	**$ 191,498**	**$ 74,361**	**$ 1,949,902**

3. Information on Major Customers

No information is reported because no sales to any external customer represented more than 10% of net sales on the consolidated statements of income.

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2016, 2015 and 2014 consisted of the following.

Millions of yen

	Segment Information									
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	**¥ 1,536**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ 1,536**	**¥ —**	**¥ 1,536**

Millions of yen

	Segment Information									
2015	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

Millions of yen

	Segment Information									
2014	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 5,927	¥ —	¥ 5,927	¥ —	¥ 5,927

Thousands of U.S. dollars (Note 1)

	Segment Information									
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	**$ 13,632**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 13,632**	**$ —**	**$ 13,632**

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2016 and 2015 consisted of the following.

Millions of yen

	Segment Information									
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	**¥ —**	**¥ 36**	**¥ —**	**¥ —**	**¥ 468**	**¥ —**	**¥ —**	**¥ 504**	**¥ —**	**¥ 504**
Balance	**—**	**194**	**—**	**—**	**3,929**	**—**	**—**	**4,123**	**—**	**4,123**

Millions of yen

	Segment Information									
2015	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	¥ —	¥ 37	¥ —	¥ —	¥ 473	¥ —	¥ —	¥ 510	¥ —	¥ 510
Balance	—	224	—	—	4,478	—	—	4,702	—	4,702

Thousands of U.S. dollars (Note 1)

	Segment Information									
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	**$ —**	**$ 320**	**$ —**	**$ —**	**$ 4,153**	**$ —**	**$ —**	**$ 4,473**	**$ —**	**$ 4,473**
Balance	**—**	**1,721**	**—**	**—**	**34,869**	**—**	**—**	**36,590**	**—**	**36,590**

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Functional Plastics segment, the Company recorded gain on negative goodwill of ¥1,313 million ($11,652 thousand) in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2016.

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Kaneka Corporation:

We have audited the accompanying consolidated financial statements of Kaneka Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2016 , and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaneka Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for each of the three years in the period ended March 31, 2016, in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 2 to the consolidated financial statements. From the year ended March 31, 2014, the Company, consolidated domestic subsidiaries and some consolidated overseas subsidiaries, changed the depreciation method of property, plant and equipment, excluding some categories.

Convenience Translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August, 9, 2016
Osaka, Japan

CORPORATE DATA

KANEKA CORPORATION

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Facsimile: +81-6-6226-5037

Tokyo Head Office:

1-12-32, Akasaka, Minato-ku, Tokyo 107-6028, Japan
Telephone: +81-3-5574-8000
Facsimile: +81-3-5574-8121

DATE OF ESTABLISHMENT

September 1, 1949

NUMBER OF EMPLOYEES (As of March 31, 2016)

3,400 (Kaneka Corporation)
9,376 (including consolidated subsidiaries)

PLANTS

Takasago: Takasago, Hyogo
Osaka: Settsu, Osaka
Shiga: Otsu, Shiga
Kashima: Kamisu, Ibaraki

RESEARCH INSTITUTES

Frontier Materials Development Laboratories
Medical Device Development Laboratories
Biotechnology Development Laboratories
Photovoltaic & Thin Film Device Research Laboratories
Molding & Processing Development Center
Thin Film Process Technology Development Center
Process Technology Laboratories

Please refer to the Kaneka Group CSR report 2016 for information on Kaneka's CSR activities.
http://www.kaneka.co.jp/kaneka-e/csr/index.html

INVESTOR INFORMATION (As of March 31, 2016)

COMMON STOCK TRADED

Tokyo, Nagoya

TRANSFER AGENT

Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch

3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502, Japan

ACCOUNTING AUDITOR

KPMG AZSA LLC

Ginsen Bingomachi Bldg., 3-6-5, Kawaramachi,
Chuo-ku, Osaka 541-0048, Japan

AUTHORIZED CAPITAL

750,000,000 shares

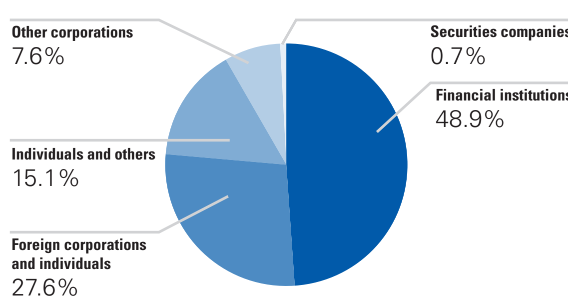
ISSUED SHARES

350,000,000 shares

NUMBER OF SHAREHOLDERS

15,860

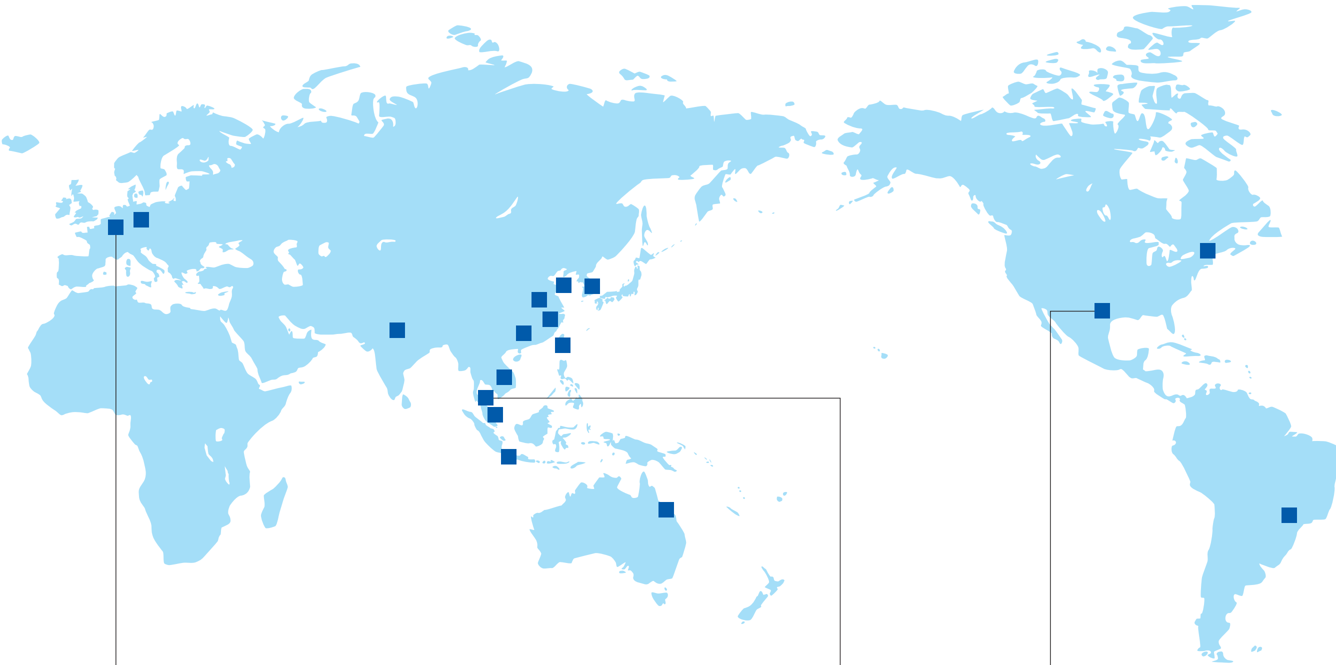
DISTRIBUTION OF SHAREHOLDERS



COMMON STOCK PRICE RANGE (Tokyo Stock Exchange; Yen)

Fiscal Year	2012	2013	2014	2015	**2016**
High	601	567	710	898	**1,278**
Low	397	370	495	558	**810**

GLOBAL NETWORK (As of March 31, 2016)



Belgium

Kaneka Europe Holding Company N.V.
Kaneka Belgium N.V.
Kaneka Pharma Europe N.V.

Eurogentec S.A.

Malaysia

Kaneka (Malaysia) Sdn. Bhd.
Kaneka Eperan Sdn. Bhd.
Kaneka Paste Polymers Sdn. Bhd.
Kaneka Innovative Fibers Sdn. Bhd.
Kaneka Apical Malaysia Sdn. Bhd.
Kaneka MS Malaysia Sdn. Bhd.

America

Kaneka Americas Holding, Inc.
Kaneka North America LLC

EUROPE

- ■**Kaneka Europe Holding Company N.V. <Belgium>**
- ■**Kaneka Belgium N.V. <Belgium>**
- ■**Kaneka Pharma Europe N.V. <Belgium>**
- ■**Eurogentec S.A. <Belgium>**
- ■**Kaneka Modifiers Deutschland GmbH <Germany>**

AMERICAS

- ■**Kaneka Americas Holding, Inc. <Texas>**
- ■**Kaneka North America LLC <Texas>**
- ■**Kaneka Pharma America LLC <New York>**
- □**Kaneka South America Representative Ltd. <Brazil>**

ASIA OUTSIDE OF JAPAN / OCEANIA

- ■**Kaneka Singapore Co. (Pte) Ltd. <Singapore>**
- ■**Kaneka Asia Co., Ltd. <China>**
- ■**Kaneka Trading (Shanghai) Co., Ltd. <China>**
- ■**Kaneka Eperan (Suzhou) Co., Ltd. <China>**
- ■**HiHua Fiber Co., Ltd. <China>**
- ■**Kaneka (Foshan) High Performance Materials Co., Ltd. <China>**
- ■**Kaneka (Malaysia) Sdn. Bhd. <Malaysia>**
- ■**Kaneka Eperan Sdn. Bhd. <Malaysia>**
- ■**Kaneka Paste Polymers Sdn. Bhd. <Malaysia>**
- ■**Kaneka Innovative Fibers Sdn. Bhd. <Malaysia>**
- ■**Kaneka Apical Malaysia Sdn. Bhd. <Malaysia>**
- ■**Kaneka MS Malaysia Sdn. Bhd. <Malaysia>**
- ■**PT. Kaneka Foods Indonesia <Indonesia>**
- ■**Kaneka (Thailand) Co., Ltd. <Thailand>**
- □**Kaneka Pharma Vietnam Co., Ltd. <Vietnam>**
- □**TGA Pastry Company Pty. Ltd. <Australia>**
- □**Kaneka India Pvt. Ltd. <India>**
- □**Kaneka Taiwan Corporation <Taiwan>**
- □**Kaneka Korea Corporation <South Korea>**

■Major overseas Consolidated Subsidiaries
□Major overseas Nonconsolidated Subsidiaries

URL Please refer to the "Global Network" section of our website for information on domestic consolidated subsidiaries.
http://www.kaneka.co.jp/kaneka-e/network/domestic/

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Disclaimer

This report contains the Company's views regarding the business environment and its own future performance, in addition to current and historical facts about the Company, its subsidiaries and affiliates (the "Kaneka Group"). These views represent the expectations and judgments of the Company's management, based on the best knowledge at the time they were made. However, unknown risks and uncertainties may arise, and future business performance may differ materially from what is stated herein. Therefore, the Kaneka Group assumes no liability or responsibility for any losses, damages or problems that may be incurred by relying on any view stated herein.