



Quarterly Financial Results for the First Quarter, Ended June 30, 2014 (Japanese GAAP, Consolidated)

August 8, 2014

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

Representative: Mamoru Kadokura Title: President, Representative Director

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Scheduled date for submitting financial statements: August 12, 2014 Scheduled date of dividend distribution: —

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

1. Consolidated Business Performance for the First Quarter, Ended June 30, 2014 (from April 1, 2014 to June 30, 2014)

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

	Net sales		Operating income		Ordinary income		Net income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2014 – Jun. 2014	135,941	7.2	4,876	(5.7)	4,879	(14.5)	2,980	(23.7)
Apr. 2013 – Jun. 2013	126,815	7.8	5,173	33.6	5,708	46.6	3,905	112.9

Note: Comprehensive income: ¥3,892 million (-52.8%) three months ended June 30, 2014
¥8,248 million (—%) three months ended June 30, 2013

	Net income per share	Fully diluted net income per share
Apr. 2014 – Jun. 2014	¥ 8.85	¥ 8.84
Apr. 2013 – Jun. 2013	11.59	11.58

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of June 30, 2014	528,572	282,871	51.5
As of March 31, 2014	520,123	285,133	52.8

(Reference) Shareholders' equity: ¥272,114 million as of June 30, 2014
¥274,408 million as of March 31, 2014

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2013 – Mar. 2014	¥ —	¥ 8.00	¥ —	¥ 8.00	¥ 16.00
Apr. 2014 – Mar. 2015	—				
Apr. 2014 – Mar. 2015 (Forecasts)		8.00	—	8.00	16.00

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

3. Forecast for consolidated business performance for the year ending March 31, 2015 (from April 1, 2014 to March 31, 2015)

(Percentage figures represent changes from the corresponding periods of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
First half	270,000	5.0	12,000	5.6	12,000	1.8	7,500	6.1	22.26
Full year	560,000	6.7	30,000	20.9	29,000	11.7	17,000	24.5	50.45

Note: Revisions to consolidated business performance forecasts during the quarter under review: No

4. Other

(1) Changes in principal subsidiaries during the term: No

(2) Application of simplified methods of accounting and specific accounting methods: No

(3) Changes in accounting principles, changes in estimates, or restatements

1. Changes owing to revisions in accounting standards: Yes

2. Changes other than 1. above: No

3. Changes in accounting estimates: No

4. Restatements: No

(Note) Please refer to “(3) Changes in accounting principles, changes in estimates, or restatements” under “2. Other Information” on page 4 for further details.

(4) Number of shares outstanding (common stock)

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

June 30, 2014	350,000,000 shares	March 31, 2014	350,000,000 shares
June 30, 2014	13,040,143 shares	March 31, 2014	13,034,982 shares
June 30, 2014	336,962,833 shares	June 30, 2013	336,948,052 shares

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

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

(Disclosure of Implementation Status of Review Procedures)

As of the date of this report, the review procedures prescribed in the Financial Instruments and Exchange Act were not complete.

(Explanations or other items pertaining to appropriate use of operating results forecasts)

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the company will achieve these forecasts or other forward-looking statements. For cautionary items used in operating results forecasts, please refer to “(3) Consolidated Business Forecasts” under “1. Quarterly Consolidated Business Performance” on page 3.

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

During the first three months under review (April 1, 2014 to June 30, 2014), the Kaneka Group reported consolidated net sales of ¥135,941 million (up 7.2% year on year). Operating income was ¥4,876 million (down 5.7% year on year), and ordinary income decreased 14.5% to ¥4,879 million. Net income decreased to ¥2,980 million, down 23.7% year on year.

By segment, sales declined in the Electronic Products segments year on year; however, sales increased in the Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, and Synthetic Fibers and Others segments year on year. Similarly, while operating income increased in the Chemicals, Functional Plastics, Life Science Products and Synthetic Fibers and Others segments, operating income declined in the Expandable Plastics and Products, Foodstuffs Products and Electronic Products segments.

Operating performance by business segment was as follows:

1) Chemicals

In PVC resins, domestic market conditions remained sluggish and these were strongly affected by the rise in raw materials. In the caustic soda business, domestic market conditions remained firm and the sales volume increased.

As a result of the foregoing, segment sales increased ¥1,803 million, or 6.8%, year on year to ¥28,494 million and the segment posted operating income of ¥891 million, an increase of ¥106 million, or 13.5%, year on year.

2) Functional Plastics

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

As a result of the foregoing, segment sales increased ¥3,673 million, or 18.0%, year on year to ¥24,121 million. The segment posted operating income of ¥2,575 million, up ¥555 million, or 27.5%, year on year.

3) Expandable Plastics and Products

Expandable polystyrene resins and products and extruded polystyrene foam boards saw lackluster demand, partly due to the absence of the rushed demand that had accompanied a rise in the consumption tax, and sales prices were revised in reaction to the increased prices of raw materials. The Group also worked to lower manufacturing costs. Polyolefin foam by beads method, meanwhile, saw an increase in sales volume centered on overseas markets.

As a result of the abovementioned factors, segment sales increased ¥502 million, or 3.3%, year on year to ¥15,760 million. The segment posted operating income of ¥554 million, down 56 million, or 9.3%, year on year.

4) Foodstuffs Products

In this business, the Group worked to expand sales of new products that anticipate consumer needs, in response to the diversification of foodstuffs. However, the business was significantly impacted by rises in prices of raw materials amid sluggish domestic demand and the continuing consumer trend of favoring low prices. Moreover, operating expenses temporarily increased due to the provision of a sales supply framework, including an update of the sales & distribution system.

As a result of the foregoing, segment sales increased ¥871 million, or 2.6%, year on year to ¥33,772 million. The segment posted operating income of ¥90 million, a decrease of ¥1,397 million, or 93.9%, year on year.

5) Life Science Products

In medical devices, sales of both blood purification systems and of the vascular intervention business expanded in Japan and overseas. In pharmaceutical intermediates, the sales volume increased and in active pharmaceutical ingredients (API) market conditions remained firm. Functional foodstuffs saw a steady expansion of demand in the supplement market with the healthcare effects of reduced-form coenzyme Q10 widely passed on as an increase in the sales volume.

As a result of the abovementioned factors, segment sales were about ¥12,553 million, an increase of ¥2,060 million, or 19.6%, year on year. The segment posted operating income of ¥2,089 million, representing a year-on-year increase of ¥1,045 million, or 100.2%.

6) Electronic Products

The robust sales of ultra-heat-resistant polyimide film continued, mainly due to the launch of new product lineups and the new adoption of these materials in the electronic products market where demand is expanding. Sales of optical materials were lackluster as a result of delays in the adoption of new products, despite an increase in sales volume. Furthermore, sales of ultra-thermally conductive graphite sheets were sluggish mainly due to a drop in the sales price as a result of intensified competition. In solar cells, although sales were impacted by the large drop in the number of housing starts after the rise in the consumption tax rate, they benefited from growing recognition of the Kaneka Group's solar cells as a unique construction material product combining both aesthetic and functional value in the Japanese housing market. Profitability improved accompanying the implementation of business structural reforms centered on cutting costs and developing new products.

As a result of the abovementioned factors, segment sales decreased ¥379 million, or 3.3%, to ¥10,948 million. The segment posted operating income of ¥3 million, a decrease of ¥569 million, or 99.4%, year on year.

7) Synthetic Fibers and Others

In synthetic fibers, the Kaneka Group achieved results from its market development efforts over many years, with materials for hair accessory products in the African market at the forefront. The Group sought to ensure profits mainly by expanding sales of high value-added products and cutting costs.

As a result of the foregoing, segment sales increased ¥593 million, or 6.1%, year on year to ¥10,289 million. The segment posted operating income of ¥2,471 million, a year-on-year increase of ¥355 million, or 16.8%.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥528,572 million as of June 30, 2014, up ¥8,449 million compared with March 31, 2014. Interest-bearing debt totaled ¥103,779 million, up ¥2,986 million. Net assets decreased ¥2,261 million, to ¥282,871 million, due to a decrease in retained earnings owing to the application of "Accounting Standard for Retirement Benefits" and "Guidance on Accounting Standard for Retirement Benefits," and also a decrease in the foreign currency translation adjustment.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first three months of the year was ¥7,537 million, mainly due to income before income taxes and minority interests and depreciation and amortization, while net cash used in investing activities amounted to ¥9,568 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥616 million, mainly owing to cash provided by proceeds from loans payable. As a result, cash and cash equivalents as of June 30, 2014 totaled ¥32,219 million.

(3) Consolidated Business Forecasts

There continues to be concerns about the downside risks in the global economy during the first quarter ended June 30. Although there is a continued recovery trend in the U.S. economy and a gradual recovery in the European economy, there continues to be slowing growth in some emerging countries and growing geopolitical risks worldwide, among other negative factors.

Although the Japanese economy continues its process of recovering gradually, its future prospects remain uncertain, partly due to reaction after rush demand by the rise in the consumption tax in Japan and the downside risks in the global economy.

In this business environment, the Kaneka Group will invest management resources in important strategic domains, seeking to establish operations in the new areas of business that we expect to drive growth and further strengthening global development by strengthening R&D. We will also focus on transforming business structure. Similarly, in existing businesses we will work to achieve business expansion mainly by launching new products, while striving to strengthen competitiveness by lowering manufacturing and overhead costs in a measure to improve profitability.

The Group has not revised its first-half or full-year consolidated business forecasts for the fiscal year ending March 31, 2015.

2. Other Information

(1) Changes in Principal Subsidiaries During the Term

There were no changes in the scope of consolidation of specific subsidiaries during the first three months under review.

(2) Application of Specific Accounting Methods in Preparation of Financial Statements

Nothing to report

(3) Changes in Accounting Principles, Changes in Estimates, or Restatements

(Changes in accounting principles)

Kaneka has applied the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26 of May 17, 2012), and the "Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 of May 17, 2012) from the first quarter of the fiscal year under review as regards the stipulations set forth in the body text of Article 35 of the "Accounting Standard for Retirement Benefits" and the body text of Article 67 of the "Guidance on Accounting Standard for Retirement Benefits." As a result, Kaneka reviewed its method of calculating retirement benefit obligations and service cost, and changed its attribution method for projected retirement benefits from the straight-line method to the benefit formula method. The Company also changed its method of calculating the discount rate.

As regards the adoption of the "Accounting Standard for Retirement Benefits," the financial statements from the start of the first quarter of the fiscal year under review conform to the transitional treatment as defined in Article 37 of the "Accounting Standard for Retirement Benefits." Accordingly, the amounts corresponding to the impact of the change in the method of calculating retirement benefit obligations and service cost were added to, or deducted from, the starting balance of retained earnings for the first quarter ended June 30, 2014.

As a result, net defined benefit liability at the start of the first quarter of the fiscal year under review increased ¥4,194 million, net defined benefit asset decreased ¥949 million, and retained earnings decreased ¥3,396 million. Moreover, the change had negligible impact on Kaneka's operating income, ordinary income, and income before income taxes and minority interests for the first quarter of the fiscal year under review.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2013 Term ended March 31, 2014	FY2014 1st Quarter Term ended June 30, 2014
Assets		
Current assets		
Cash and deposits	34,042	32,501
Notes and accounts receivable-trade	118,745	119,946
Short-term investment securities	110	110
Merchandise and finished goods	51,333	53,371
Work in process	8,774	9,140
Raw materials and supplies	28,308	28,381
Other	15,215	16,348
Allowance for doubtful accounts	(89)	(91)
Total current assets	256,440	259,707
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	57,400	58,082
Machinery, equipment and vehicles, net	74,247	74,828
Other, net	52,596	55,051
Total property, plant and equipment	184,244	187,961
Intangible assets		
Goodwill	5,387	5,219
Other	6,725	6,741
Total intangible assets	12,112	11,960
Investments and other assets		
Investment securities	48,436	51,015
Other	19,114	18,148
Allowance for doubtful accounts	(224)	(220)
Total investments and other assets	67,326	68,943
Total noncurrent assets	263,683	268,865
Total assets	520,123	528,572

(Millions of yen)

	FY2013 Term ended March 31, 2014	FY2014 1st Quarter Term ended June 30, 2014
Liabilities		
Current liabilities		
Notes and accounts payable-trade	66,461	67,424
Short-term loans payable	49,610	51,197
Income taxes payable	3,841	1,526
Provision	115	11
Other	42,166	48,011
Total current liabilities	162,194	168,171
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	38,445	39,844
Provision	247	251
Net defined benefit liability	21,362	24,678
Other	2,739	2,756
Total noncurrent liabilities	72,795	77,529
Total liabilities	234,990	245,701
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,836	34,836
Retained earnings	209,449	206,343
Treasury stock	(10,520)	(10,523)
Total shareholders' equity	266,812	263,703
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,534	12,270
Foreign currency translation adjustment	353	(732)
Remeasurements of defined benefit plans	(3,293)	(3,126)
Total accumulated other comprehensive income	7,595	8,411
Subscription rights to shares	139	139
Minority interests	10,586	10,617
Total net assets	285,133	282,871
Total liabilities and net assets	520,123	528,572

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income	(Millions of yen)	
	FY2013 1st Quarter From April 1, 2013 to June 30, 2013	FY2014 1st Quarter From April 1, 2014 to June 30, 2014
Net sales	126,815	135,941
Cost of sales	95,270	102,862
Gross profit	31,545	33,079
Selling, general and administrative expenses	26,372	28,202
Operating income	5,173	4,876
Non-operating income		
Dividends income	577	577
Foreign exchange gains	556	261
Equity in earnings of affiliates	113	52
Other	318	153
Total non-operating income	1,565	1,044
Non-operating expenses		
Interest expenses	237	308
Loss on retirement of noncurrent assets	423	302
Other	369	431
Total non-operating expenses	1,030	1,041
Ordinary income	5,708	4,879
Extraordinary loss		
Patent protection court cost	178	236
Total extraordinary losses	178	236
Income before income taxes and minority interests	5,530	4,643
Income taxes-current	1,572	1,291
Income taxes-deferred	(166)	236
Total income taxes	1,405	1,528
Income before minority interests	4,124	3,114
Minority interests in income	219	134
Net income	3,905	2,980

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2013 1st Quarter From April 1, 2013 to June 30, 2013	FY2014 1st Quarter From April 1, 2014 to June 30, 2014
Income before minority interests	4,124	3,114
Other comprehensive income		
Valuation difference on available-for-sale securities	1,620	1,746
Foreign currency translation adjustment	2,490	(1,140)
Remeasurements of defined benefit plans, net of tax	-	145
Share of other comprehensive income of associates accounted for using equity method	12	27
Total other comprehensive income	4,123	778
Comprehensive income	8,248	3,892
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	7,924	3,796
Comprehensive income attributable to minority interests	323	96

(3) Quarterly Consolidated Statements of Cash Flows

	(Millions of yen)	
	FY2013 1st Quarter From April 1, 2013 to June 30, 2013	FY2014 1st Quarter From April 1, 2014 to June 30, 2014
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	5,530	4,643
Depreciation and amortization	4,800	5,510
Increase (decrease) in provision for retirement benefits	(413)	-
Increase (decrease) in net defined benefit liability	-	(34)
Increase (decrease) in net defined benefit asset	-	(605)
Increase (decrease) in allowance for doubtful accounts	(31)	(1)
Interest and dividends income	(591)	(593)
Interest expenses	237	308
Equity in (earnings) losses of affiliates	(113)	(52)
Loss (gain) on disposal of noncurrent assets	240	196
Decrease (increase) in notes and accounts receivable-trade	(1,447)	(1,491)
Decrease (increase) in inventories	(1,872)	(2,718)
Increase (decrease) in notes and accounts payable-trade	1,795	1,065
Other, net	3,486	4,444
Subtotal	11,619	10,670
Interest and dividends income received	631	625
Interest expenses paid	(159)	(205)
Income taxes paid	(1,828)	(3,553)
Net cash provided by (used in) operating activities	10,264	7,537
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(6,382)	(9,139)
Purchase of intangible assets	(969)	(541)
Purchase of investment securities	(10)	(109)
Proceeds from sales of investment securities	-	362
Purchase of stocks of subsidiaries and affiliates	(23)	(70)
Payments of loans receivable	(451)	(140)
Collection of loans receivable	35	63
Other, net	47	6
Net cash provided by (used in) investing activities	(7,754)	(9,568)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	1,835	3,457
Proceeds from long-term loans payable	26	1,834
Repayment of long-term loans payable	(641)	(1,861)
Repayments of lease obligations	(93)	(58)
Cash dividends paid	(2,695)	(2,695)
Cash dividends paid to minority shareholders	(54)	(56)
Purchase of treasury stock	(4)	(3)
Net cash provided by (used in) financing activities	(1,627)	616
Effect of exchange rate change on cash and cash equivalents	342	(174)
Net increase (decrease) in cash and cash equivalents	1,224	(1,589)
Cash and cash equivalents at beginning of period	31,747	33,803
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	3	4
Cash and cash equivalents at end of period	32,976	32,219

(4) Notes on Consolidated Financial Statements
 (Notes on the Premise of a Going Concern)
 No corresponding transactions

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)
 No corresponding transactions

(Segment Information)

Term from April 1, 2013 to June 30, 2013

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	26,691	20,447	15,258	32,901	10,493	11,327	9,696	126,815	—	126,815
Intersegment	794	175	50	0	0	112	507	1,640	(1,640)	—
Total	27,485	20,622	15,308	32,901	10,494	11,439	10,203	128,456	(1,640)	126,815
Segment income	785	2,019	611	1,487	1,043	572	2,115	8,636	(3,463)	5,173

(Note) Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)
 (Millions of yen)

Income	Amount
Segment total	8,636
Elimination of intersegment transactions	(6)
Companywide expenses (Note)	(3,477)
Other adjustments	21
Operating income in the quarterly consolidated statements of income	5,173

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

Term from April 1, 2014 to June 30, 2014

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	28,494	24,121	15,760	33,772	12,553	10,948	10,289	135,941	—	135,941
Intersegment	367	152	61	0	10	112	311	1,016	(1,016)	—
Total	28,862	24,273	15,822	33,772	12,564	11,060	10,601	136,958	(1,016)	135,941
Segment income	891	2,575	554	90	2,089	3	2,471	8,676	(3,799)	4,876

(Note) Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	8,676
Elimination of intersegment transactions	(1)
Companywide expenses (Note)	(3,785)
Other adjustments	(12)
Operating income in the quarterly consolidated statements of income	4,876

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

3) Notes Concerning Changes in Reporting Segments

As a result of the Company's review of its organizational and management framework, from the first quarter of the fiscal year ending March 31, 2015, the Company has revised its method of displaying mega solar-related business information. This information, that used to be displayed in the Synthetic Fibers and Others segment, has now been included in the Electronics Products segment. Furthermore, the Company has changed the divisions of some subsidiaries and as a result, their reporting segment has been revised from Electronics Products to Chemicals.

Segment information for the first quarter of the fiscal year ending March 31, 2015 has been prepared based on the revised classification method. This information is shown under "1) Sales and Income (Loss) by Segments" for the first quarter of the fiscal year ending March 31, 2015.