



Quarterly Financial Results for the Third Quarter, Ended December 31, 2013 (Japanese GAAP, Consolidated)

February 10, 2014

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

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

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

1. Consolidated Business Performance for the Third Quarter, Ended December 31, 2013 (from April 1, 2013 to December 31, 2013)

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

	Net sales		Operating income		Ordinary income		Net income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2013 – Dec. 2013	391,036	10.7	18,572	58.0	19,924	65.4	12,134	83.2
Apr. 2012 – Dec. 2012	353,262	0.4	11,757	24.4	12,049	33.2	6,622	120.3

Note: Comprehensive income: ¥23,853 million (165.1%) nine months ended December 31, 2013
¥8,998 million (—%) nine months ended December 31, 2012

	Net income per share	Fully diluted net income per share
Apr. 2013 – Dec. 2013	¥ 36.01	¥ 35.98
Apr. 2012 – Dec. 2012	¥ 19.65	¥ 19.64

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of December 31, 2013	¥ million 523,623	¥ million 289,176	53.2%
As of March 31, 2013	484,456	270,449	53.8%

(Reference) Shareholders' equity: ¥278,473 million as of December 31, 2013
¥260,594 million as of March 31, 2013

2. Dividends

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

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

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

(% indicates year-on-year change)

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

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

4. Other

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

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

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

1. Changes owing to revisions in accounting standards: No

2. Changes other than 1. above: Yes

3. Changes in accounting estimates: Yes

4. Restatements: No

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

(4) Number of shares outstanding (common stock)

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

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

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

December 31, 2013	350,000,000 shares	March 31, 2013	350,000,000 shares
December 31, 2013	12,967,514 shares	March 31, 2013	13,049,280 shares
December 31, 2013	336,999,541 shares	December 31, 2012	336,954,333 shares

(Disclosure of Implementation Status of Review Procedures)

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

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

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the Company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the company will achieve these forecasts or other forward-looking statements. For cautionary items used in operating results forecasts, please refer to “(3) Consolidated Business Forecasts” under “1. Quarterly Consolidated Business Performance” on page 4.

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

During the first nine months under review (April 1, 2013 to December 31, 2013), the Kaneka Group reported consolidated net sales of ¥391,036 million (up 10.7% year on year). Operating income was ¥18,572 million (up 58.0% year on year), and ordinary income increased 65.4% to ¥19,924 million. Net income increased to ¥12,134 million, up 83.2% year on year.

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

Operating performance by business segment was as follows:

1) Chemicals

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

As a result of the foregoing, segment sales increased ¥6,772 million, or 9.7%, year on year to ¥76,904 million. However, the segment posted operating income of ¥1,797 million, a decrease of ¥1,015 million, or 36.1%, year on year.

2) Functional Plastics

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

As a result of the foregoing, segment sales increased ¥11,016 million, or 21.2%, year on year to ¥62,929 million. The segment posted operating income of ¥6,761 million, up ¥2,300 million, or 51.6%, year on year.

3) Expandable Plastics and Products

Expandable polystyrene resins and products, and extruded polystyrene foam boards saw sales volume increase, but these were affected by a rise in raw materials. Polyolefin foam by the beads method saw higher sales volume mainly in the overseas market; however, in the Japanese market profitability remained under pressure.

As a result of the abovementioned factors, segment sales increased ¥5,462 million, or 12.2%, year on year to ¥50,091 million. The segment posted operating income of ¥3,463 million, a decrease of ¥129 million, or 3.6%, year on year.

4) Foodstuffs Products

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

As a result of the foregoing, segment sales increased ¥3,297 million, or 3.4%, year on year to ¥100,933 million. The segment posted operating income of ¥4,257 million, an increase of ¥460 million, or 12.1%, year on year.

5) Life Science Products

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

As a result of the abovementioned factors, segment sales were ¥34,480 million, up ¥289 million, or 0.8%, year on year. However, the segment posted operating income of ¥5,050 million, representing a year-on-year decrease of ¥1,830 million, or 26.6%.

6) Electronic Products

Sales volume of ultra-heat-resistant polyimide film increased year on year. This was mainly due to

the launch of new product lineups and the new adoption of these materials in the electronic products market where demand is expanding. Moreover, Kaneka commercialized Transparent Conductive Film (ITO film) for the touch panels of smartphones and tablet PCs starting this fiscal year in response to the acutely rising demand for those devices. In solar cells, sales expanded for use in housing in Japan in step with growing recognition of the Kaneka Group's solar cells as a unique construction material product combining both aesthetic and functional value. Efforts were also focused on rigorously cutting costs in the solar cell business. Sales volumes of solar cell-related materials increased from the first nine months of the previous fiscal year.

As a result of the abovementioned factors, segment sales increased ¥5,595 million, or 18.4%, to ¥35,969 million. The segment restored operating profitability, posting operating income of ¥677 million.

7) Synthetic Fibers and Others

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

As a result of the foregoing, segment sales increased ¥5,338 million, or 21.9%, year on year to ¥29,726 million. The segment posted operating income of ¥6,726 million, a year-on-year increase of ¥3,305 million, or 96.6%.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥523,623 million as of December 31, 2013, up ¥39,167 million compared with March 31, 2013. Interest-bearing debt totaled ¥92,224 million, up ¥5,791 million. Net assets increased ¥18,726 million, to ¥289,176 million, mainly due to increases in retained earnings, valuation difference on available-for-sale securities, and a foreign currency translation adjustment.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first nine months of the year was ¥26,537 million, mainly due to income before income taxes and minority interests, and depreciation and amortization, while net cash used in investing activities amounted to ¥29,381 million, mainly owing to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥2,770 million, used mainly for cash dividends paid. As a result, cash and cash equivalents as of December 31, 2013, totaled ¥27,411 million.

(3) Consolidated Business Forecasts

The global economic outlook remained highly uncertain during the third quarter ended December 31, 2013, due mainly to concerns about slowing growth in China, India and other rising countries, despite a gradual recovery trend in the U.S. economy and signs of recovery in the European economy.

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

In this business environment, the Kaneka Group will continue to invest management resources in key strategic fields, seeking to establish operations in the new areas of business that we expect to drive growth and further strengthening global development. We will also focus on restructuring our businesses. Similarly, in existing businesses we will work to boost sales volumes mainly by launching new products, while striving to enhance competitiveness by lowering manufacturing and overhead costs in a bid to recover profitability.

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

2. Other Information

(1) Changes in Principal Subsidiaries During the Term

There were no changes in the scope of consolidation of specific subsidiaries during the first nine 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 policies that are difficult to distinguish from changes in accounting estimates)

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

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

As a result of this change, in comparison with the previous depreciation method, Kaneka's operating income, ordinary income and income before income taxes and minority interests for the nine months ended December 31, 2013 all increased ¥5,776 million.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2012 Term ended March 31, 2013	FY2013 3rd Quarter Term ended December 31, 2013
Assets		
Current assets		
Cash and deposits	32,038	27,652
Notes and accounts receivable-trade	116,705	126,717
Short-term investment securities	110	110
Merchandise and finished goods	47,409	54,229
Work in process	8,451	8,749
Raw materials and supplies	24,417	26,747
Other	13,847	12,012
Allowance for doubtful accounts	(110)	(100)
Total current assets	242,869	256,117
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	53,484	55,864
Machinery, equipment and vehicles, net	64,185	72,540
Other, net	51,877	58,429
Total property, plant and equipment	169,547	186,833
Intangible assets		
Goodwill	4,014	5,620
Other	4,589	5,980
Total intangible assets	8,603	11,601
Investments and other assets		
Investment securities	46,862	53,558
Other	16,799	15,744
Allowance for doubtful accounts	(226)	(231)
Total investments and other assets	63,435	69,071
Total noncurrent assets	241,586	267,505
Total assets	484,456	523,623

(Millions of yen)

	FY2012 Term ended March 31, 2013	FY2013 3rd Quarter Term ended December 31, 2013
Liabilities		
Current liabilities		
Notes and accounts payable-trade	64,238	75,249
Short-term loans payable	48,226	43,296
Income taxes payable	1,622	2,821
Provision	115	6
Other	34,924	42,068
Total current liabilities	149,128	163,442
Noncurrent liabilities		
Bonds payable	15,000	10,000
Long-term loans payable	25,442	36,190
Provision for retirement benefits	19,497	20,036
Provision	322	237
Negative goodwill	208	52
Other	4,407	4,489
Total noncurrent liabilities	64,878	71,005
Total liabilities	214,006	234,447
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	34,836	34,836
Retained earnings	200,986	207,901
Treasury stock	(10,547)	(10,477)
Total shareholders' equity	258,322	265,308
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,261	12,515
Foreign currency translation adjustment	(5,989)	649
Total accumulated other comprehensive income	2,271	13,165
Subscription rights to shares	159	139
Minority interests	9,695	10,563
Total net assets	270,449	289,176
Total liabilities and net assets	484,456	523,623

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income	(Millions of yen)	
	FY2012 3rd Quarter From April 1, 2012 to December 31, 2012	FY2013 3rd Quarter From April 1, 2013 to December 31, 2013
Net sales	353,262	391,036
Cost of sales	266,735	292,095
Gross profit	86,526	98,940
Selling, general and administrative expenses	74,769	80,368
Operating income	11,757	18,572
Non-operating income		
Dividends income	951	1,110
Foreign exchange gains	1,145	1,686
Equity in earnings of affiliates	—	272
Other	999	1,272
Total non-operating income	3,096	4,341
Non-operating expenses		
Interest expenses	652	728
Loss on retirement of noncurrent assets	863	1,261
Equity in losses of affiliates	21	—
Other	1,267	998
Total non-operating expenses	2,804	2,989
Ordinary income	12,049	19,924
Extraordinary income		
Gain on sales of investment securities	277	—
Total extraordinary income	277	—
Extraordinary loss		
Loss on sales of noncurrent assets	—	298
Compensation expenses	931	—
Patent protection court cost	464	814
Retirement benefit expenses	—	363
Total extraordinary losses	1,395	1,476
Income before income taxes and minority interests	10,931	18,448
Income taxes-current	1,918	4,059
Income taxes-deferred	2,403	1,802
Total income taxes	4,321	5,862
Income before minority interests	6,609	12,585
Minority interests in income (loss)	(13)	451
Net income	6,622	12,134

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2012 3rd Quarter From April 1, 2012 to December 31, 2012	FY2013 3rd Quarter From April 1, 2013 to December 31, 2013
Income before minority interests	6,609	12,585
Other comprehensive income		
Valuation difference on available-for-sale securities	214	4,278
Foreign currency translation adjustment	2,167	6,956
Share of other comprehensive income of associates accounted for using equity method	7	32
Total other comprehensive income	2,388	11,267
Comprehensive income	8,998	23,853
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	8,949	23,027
Comprehensive income attributable to minority interests	49	825

(3) Quarterly Consolidated Statement of Cash Flows

	(Millions of yen)	
	FY2012 3rd Quarter From April 1, 2012 to December 31, 2012	FY2013 3rd Quarter From April 1, 2013 to December 31, 2013
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	10,931	18,448
Depreciation and amortization	21,101	14,987
Increase (decrease) in provision for retirement benefits	(58)	324
Increase (decrease) in allowance for doubtful accounts	(94)	(7)
Interest and dividends income	(1,001)	(1,147)
Interest expenses	652	728
Equity in (earnings) losses of affiliates	21	(272)
Loss (gain) on disposal of noncurrent assets	449	1,128
Decrease (increase) in notes and accounts receivable-trade	3,101	(7,767)
Decrease (increase) in inventories	(3,636)	(7,449)
Increase (decrease) in notes and accounts payable-trade	(416)	10,015
Other, net	(7,300)	(1,139)
Subtotal	23,750	27,847
Interest and dividends income received	1,039	1,206
Interest expenses paid	(596)	(629)
Income taxes paid	(4,361)	(1,886)
Net cash provided by (used in) operating activities	19,832	26,537
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(24,903)	(26,407)
Proceeds from sales of property, plant and equipment	470	105
Purchase of intangible assets	(1,504)	(1,931)
Purchase of investment securities	(139)	(49)
Proceeds from sales of investment securities	338	309
Purchase of stocks of subsidiaries and affiliates	(18)	(1,056)
Payments of loans receivable	(524)	(662)
Collection of loans receivable	574	210
Other, net	(243)	100
Net cash provided by (used in) investing activities	(25,949)	(29,381)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	6,750	(1,303)
Proceeds from long-term loans payable	7,066	12,454
Repayment of long-term loans payable	(7,143)	(8,397)
Repayments of lease obligations	(312)	(253)
Proceeds from stock issuance to minority shareholders	—	224
Cash dividends paid	(5,391)	(5,392)
Cash dividends paid to minority shareholders	(61)	(89)
Purchase of treasury stock	(3)	(14)
Proceeds from sales of treasury stock	0	0
Net cash provided by (used in) financing activities	905	(2,770)
Effect of exchange rate change on cash and cash equivalents	471	1,102
Net increase (decrease) in cash and cash equivalents	(4,739)	(4,511)
Cash and cash equivalents at beginning of period	27,157	31,747
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	268	175
Cash and cash equivalents at end of period	22,686	27,411

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

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

(Segment Information)

Term from April 1, 2012 to December 31, 2012

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Reporting Segment								Adjustment	Total
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Segment Total		
Sales										
Customers	70,132	51,912	44,628	97,636	34,191	30,374	24,387	353,262	—	353,262
Intersegment	924	469	131	0	5	473	1,220	3,224	(3,224)	—
Total	71,057	52,382	44,760	97,636	34,196	30,847	25,607	356,487	(3,224)	353,262
Segment income (loss)	2,813	4,460	3,592	3,797	6,881	(2,808)	3,420	22,158	(10,400)	11,757

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

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

Income	Amount
Segment total	22,158
Elimination of intersegment transactions	(22)
Companywide expenses (Note)	(10,336)
Other adjustments	(42)
Operating income in the quarterly consolidated statements of income	11,757

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

Term from April 1, 2013 to December 31, 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	76,904	62,929	50,091	100,933	34,480	35,969	29,726	391,036	—	391,036
Intersegment	1,763	556	174	0	2	855	1,431	4,783	(4,783)	—
Total	78,667	63,485	50,265	100,934	34,482	36,825	31,157	395,820	(4,783)	391,036
Segment income	1,797	6,761	3,463	4,257	5,050	677	6,726	28,735	(10,162)	18,572

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

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

(Millions of yen)

Income	Amount
Segment total	28,735
Elimination of intersegment transactions	14
Companywide expenses (Note)	(10,161)
Other adjustments	(15)
Operating income in the quarterly consolidated statements of income	18,572

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

3) Notes Concerning Changes in Reporting Segments

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

As a result of this change, in comparison with the previous depreciation method, Kaneka's segment profit for the nine months ended December 31, 2013 increased ¥1,385 million in the Chemicals segment, ¥582 million in the Functional Plastics segment, ¥434 million in the Expandable Plastics and Products segment, ¥632 million in the Foodstuffs Products segment, ¥380 million in the Life Science Products segment, ¥1,369 million in the Electronic Products segment, and ¥484 million in the Synthetic Fibers and Others segment. In addition, Kaneka's companywide expenses not allocable to any reporting segment decreased ¥506 million.

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

(Significant changes in Goodwill)

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