

Quarterly Financial Results for the First Quarter, Ended June 30, 2017 (Japanese GAAP, Consolidated)

August 8, 2017

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 10, 2017 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, 2017

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2017 – Jun. 2017	144,302	6.1	7,252	(17.4)	7,151	0.3	4,761	3.5
Apr. 2016 – Jun. 2016	136,058	(2.4)	8,779	2.0	7,131	(11.3)	4,600	(10.7)

Note: Comprehensive income(loss): ¥10,372 million (–%) three months ended June 30, 2017
(¥2,245) million (–%) three months ended June 30, 2016

	Net income per share	Fully diluted net income per share
Apr. 2017 – Jun. 2017	¥ 14.43	¥ 14.42
Apr. 2016 – Jun. 2016	13.87	13.86

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of Jun 30, 2017	599,284	327,430	51.9
As of March 31, 2017	592,900	321,551	51.5

(Reference) Shareholders' equity: ¥310,790 million as of June 30, 2017
¥305,149 million as of March 31, 2017

2. Dividends

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

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

3. Forecast for consolidated business performance for the year ending March 31, 2018

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	610,000	11.3	43,000	29.7	39,000	42.2	23,000	12.3	69.66

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: No

3. Changes in accounting estimates: No

4. Restatements: No

(4) Number of shares outstanding (common stock)

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

June 30, 2017	350,000,000 shares	March 31, 2017	350,000,000 shares
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2. Shares of treasury stock at the end of the period:

June 30, 2017	21,470,446 shares	March 31, 2017	19,834,211 shares
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3. Average number of shares during the period (calculated
cumulatively from the beginning of the fiscal year)

June 30, 2017	329,963,118 shares	June 30, 2016	331,663,263 shares
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(These financial statements are exempt from audit procedures)

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

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

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economy remained solid during the first quarter (April 1, 2017 to June 30, 2017). The Kaneka Group reported consolidated net sales of ¥144,302 million (up 6.1% year on year), the highest on record, due to a sales increase mainly in the overseas market. Ordinary income was ¥7,151 million (up 0.3% year on year), and net income attributable to owners of parent was ¥4,761 million (up 3.5% year on year). Operating income was ¥7,252 million (down 17.4% year on year) due to the impact of a sharp increase in certain raw material prices.

Operating performance by business segment was as follows:

1) Material Solutions Unit

In the Performance Polymers business, with strong demand of modifier continuing, a new facility in Malaysia started operation in March 2017, eliminating a shortage in production capacity and greatly increasing sales volume. However, due to an abrupt change in the market price of the major raw material butadiene, which the Group procured in large quantities in preparation for the full operation of the new facility, the profitability of the business dropped sharply in the first quarter.

After the second quarter, the Group is forecasting further earnings expansion, as the temporary impact of butadiene price will be eliminated and sales will be expanded due to increasing production capacity.

The sales volume of modified silicone polymers increased steadily due to expanding applications globally. In addition, a new production facility in Malaysia started operation in July 2017 as planned, and the product sales have already begun.

In the Vinyls and Chlor-Alkali business, general PVC resins and caustic soda continued to see firm sales in the Asian market, and sales of Specialty PVC resins such as Chlorinated PVC expanded steadily, mainly in the US market.

2) Quality of Life Solutions Unit

In the Foam & Residential Techs business, despite an increase in sales volume, profits declined due to the impact of rising prices of major raw materials such as styrene monomer. In the second quarter, which is the demand season, the business will see a sales price adjustment and sales volume expansion.

In the Performance Fibers business, the pile market saw the return of strong demand and the hair accessory market also saw demand recover after reaching a bottom in the third and fourth quarters over the previous fiscal year. However, profitability deteriorated as the Group was not able to maximize the competitiveness of the newly established Malaysia plant along with the rise in raw material prices. After the second quarter, profitability is expected to improve due to recovery in demand and the full-scale contribution of products produced in Malaysia.

In the E&I Technology business, where the demand is steadily expanding, profit improved due to an increase in sales volume of high-functional products such as Pixeo and progress on the supply system for ultra-heat-resistant polyimide film, which had been delayed. After the second quarter, there will be additional large-scale demand, such as new models of a major smartphone maker for which there have been frequent inquiries. We will promote sales expansion to boost profitability by strengthening capacity-enhanced facilities.

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

3) Health Care Solutions Unit

Sales of the Medical Devices business remained solid in the domestic and overseas markets. After the second quarter, we will further advance our joint business in vascular intervention with other companies and expand sales of the blood purification business by strengthening marketing structure in the US.

In the Pharma business, sales of active pharmaceutical ingredients (API) and bio-pharmaceuticals expanded steadily, although the sales volume of pharmaceutical intermediates decreased compared the first quarter of fiscal 2016, where sales were concentrated.

4) Nutrition Solutions Unit

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

In the Supplemental Nutrition business, profitability improved due to an increase in public recognition of the reduced form of coenzyme Q10 and productivity enhancements. The Group expect to expand sales in the US market from the second quarter.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥599,284 million as of June 30, 2017, down ¥6,384 million compared with March 31, 2017 due to increases in investment securities and noncurrent assets. Liabilities totaled ¥271,853 million, up ¥504 million due to an increase in accrued expenses. Net assets (equity) increased by ¥5,879 million to ¥327,430 million due to increases in the valuation difference on available-for-sale securities and in retained earnings.

2) Consolidated Cash Flows

Net cash provided by operating activities during the first quarter was ¥8,844 million, mainly due to income before income taxes and depreciation and amortization, while net cash used in investing activities amounted to ¥9,842 million, mainly due to the purchase of property, plant and equipment. Net cash used in financing activities came to ¥5,711 million, mainly owing to cash dividends paid. As a result, cash and cash equivalents as of June 30, 2017 totaled ¥34,444 million, mainly due to cash dividends paid and purchase of treasury stock.

(3) Consolidated Business Forecasts

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

In this business environment, in the E&I Technology business the Company expects an increase in sales to major smartphone makers for new models, and the Performance Fibers business it expects an increase in sales in the Asian and African markets from the second quarter. In addition, the impact of sharp increase in raw material prices will be eliminated, and the Group will expand sales of modifiers and modified silicone polymers, which are experiencing strong demand due to strengthening of production capacity. Therefore, the Group has not revised its full-year consolidated business forecast for the fiscal year ending March 31 2018.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2016 Term ended March31, 2017	FY2017 1st Quarter Term ended June 30, 2017
Assets		
Current assets		
Cash and deposits	41,116	34,874
Notes and accounts receivable – trade	125,482	127,205
Short-term investment securities	110	110
Merchandise and finished goods	52,493	54,155
Work in process	10,148	9,471
Raw materials and supplies	34,106	34,526
Other	17,334	20,284
Allowance for doubtful accounts	(353)	(354)
Total current assets	280,439	280,272
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	74,073	74,631
Machinery, equipment and vehicles, net	98,666	101,763
Other, net	52,803	52,102
Total property, plant and equipment	225,544	228,498
Intangible assets		
Goodwill	3,322	3,509
Other	6,929	6,730
Total intangible assets	10,251	10,239
Investments and other assets		
Investment securities	62,584	67,627
Other	14,309	12,921
Allowance for doubtful accounts	(228)	(275)
Total investments and other assets	76,665	80,273
Total noncurrent assets	312,461	319,011
Total assets	592,900	599,284

	(Millions of yen)	
	FY2016	FY2017 1st Quarter
	Term ended March 31, 2017	Term ended June 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable – trade	73,058	70,776
Short-term loans payable	52,294	51,839
Income taxes payable	3,390	2,349
Provision	135	16
Other	40,122	44,533
Total current liabilities	169,001	169,514
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	50,336	49,927
Provision	319	279
Net defined benefit liability	37,310	37,272
Other	4,381	4,859
Total noncurrent liabilities	102,347	102,339
Total liabilities	271,349	271,853
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,813	32,803
Retained earnings	248,523	250,305
Treasury stock	(16,753)	(18,122)
Total shareholders' equity	297,630	298,032
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,338	25,464
Deferred gains or losses on hedges	(61)	(99)
Foreign currency translation adjustment	(5,105)	(3,403)
Remeasurements of defined benefit plans	(9,653)	(9,204)
Total accumulated other comprehensive income	7,518	12,757
Subscription rights to shares	271	263
Noncontrolling interests	16,130	16,377
Total net assets	321,551	327,430
Total liabilities and net assets	592,900	599,284

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2016 1st Quarter	FY2017 1st Quarter	
	From April 1, 2016 to June 30, 2016	From April 1, 2017 to June 30, 2017	
Net sales	136,058	144,302	
Cost of sales	94,321	104,526	
Gross profit	41,737	39,776	
Selling, general and administrative expenses	32,957	32,523	
Operating income	8,779	7,252	
Non-operating income			
Dividends income	733	715	
Foreign exchange gains	—	261	
Equity in earnings of affiliates	37	32	
Other	164	182	
Total non-operating income	935	1,192	
Non-operating expenses			
Interest expenses	324	388	
Loss on retirement of noncurrent assets	485	390	
Foreign exchange losses	1,349	—	
Other	424	514	
Total non-operating expenses	2,584	1,293	
Ordinary income	7,131	7,151	
Extraordinary loss			
Patent protection court cost	184	281	
Total extraordinary losses	184	281	
Income before income taxes	6,946	6,869	
Income taxes—current	2,346	2,310	
Income taxes—deferred	(271)	(344)	
Total income taxes	2,075	1,966	
Net income	4,871	4,903	
Net income attributable to non-controlling interests	270	141	
Net income attributable to owners of parent	4,600	4,761	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2016 1st Quarter From April 1, 2016 to June 30, 2016	FY2017 1st Quarter From April 1, 2017 to June 30, 2017
Net income	4,871	4,903
Other comprehensive income		
Valuation difference on available-for-sale securities	(703)	3,191
Deferred gains or losses on hedges	(2)	(38)
Foreign currency translation adjustment	(6,845)	1,862
Remeasurements of defined benefit plans, net of tax	436	449
Share of other comprehensive income of associates accounted for using equity method	(2)	3
Total other comprehensive income	(7,116)	5,469
Comprehensive income	(2,245)	10,372
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(2,173)	10,000
Comprehensive income attributable to noncontrolling interests	(72)	372

(3) Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	FY2016 1st Quarter From April 1, 2016 to June 30, 2016	FY2017 1st Quarter From April 1, 2017 to June 30, 2017
Net cash provided by (used in) operating activities		
Income before income taxes	6,946	6,869
Depreciation and amortization	6,634	7,300
Increase (decrease) in net defined benefit liability	541	566
Increase (decrease) in allowance for doubtful accounts	14	29
Interest and dividends income	(747)	(730)
Interest expenses	324	388
Equity in (earnings) losses of affiliates	(37)	(32)
Loss (gain) on disposal of noncurrent assets	130	146
Decrease (increase) in notes and accounts receivable-trade	3,584	(1,169)
Decrease (increase) in inventories	1,163	(838)
Increase (decrease) in notes and accounts payable-trade	(2,023)	(2,616)
Other, net	3,125	1,145
Subtotal	19,657	11,059
Interest and dividends income received	750	740
Interest expenses paid	(239)	(254)
Income taxes paid	(3,464)	(2,700)
Net cash provided by (used in) operating activities	16,705	8,844
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(10,116)	(8,732)
Purchase of intangible assets	(425)	(332)
Purchase of investment securities	(10)	(511)
Proceeds from sales of investment securities	-	131
Purchase of stocks of subsidiaries and affiliates	(102)	-
Payments of loans receivable	(67)	(786)
Collection of loans receivable	30	733
Other, net	(403)	(344)
Net cash provided by (used in) investing activities	(11,095)	(9,842)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,568)	304
Proceeds from long-term loans payable	17	48
Repayments of long-term loans payable	(590)	(1,347)
Repayments of lease obligations	(44)	(182)
Purchase of treasury stock	(1)	(1,502)
Proceeds from sales of treasury stock	87	95
Cash dividends paid	(3,330)	(2,979)
Dividends paid to noncontrolling interests	(155)	(127)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(20)
Net cash provided by (used in) financing activities	(5,585)	(5,711)
Effect of exchange rate change on cash and cash equivalents	(881)	135
Net increase (decrease) in cash and cash equivalents	(857)	(6,573)
Cash and cash equivalents at beginning of period	43,161	41,018
Cash and cash equivalents at end of period	42,303	34,444

(4) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

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

Not applicable

(Segment Information)

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

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	50,090	34,362	11,885	39,477	135,815	242	136,058	—	136,058
Intersegment	274	4	—	4	283	390	673	(673)	—
Total	50,365	34,366	11,885	39,481	136,099	633	136,732	(673)	136,058
Segment profit	5,674	4,513	2,790	956	13,934	104	14,039	(5,260)	8,779

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

2 Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

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

(Millions of yen)

Income	Amount
Segment total	13,934
Segment profit of Others	104
Elimination of intersegment transactions	(13)
Companywide expenses (Note)	(5,255)
Other adjustments	9
Operating income in the quarterly consolidated statements of income	8,779

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

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

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment Information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	57,034	35,618	11,209	40,051	143,914	387	144,302	—	144,302
Intersegment	313	5	—	10	329	265	595	(595)	—
Total	57,347	35,624	11,209	40,062	144,244	653	144,897	(595)	144,302
Segment profit	5,747	2,839	2,364	1,220	12,172	244	12,416	(5,164)	7,252

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

2 Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

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

(Millions of yen)

Income	Amount
Segment total	12,172
Segment profit of Others	244
Elimination of intersegment transactions	0
Companywide expenses (Note)	(5,173)
Other adjustments	9
Operating income in the quarterly consolidated statements of income	7,252

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

3) Concerning Changes in Reporting Segments, etc.

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

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

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

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

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

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