

Quarterly Financial Summary

1st Quarter, ended June 30, 2017

August 8, 2017

Kaneka Corporation

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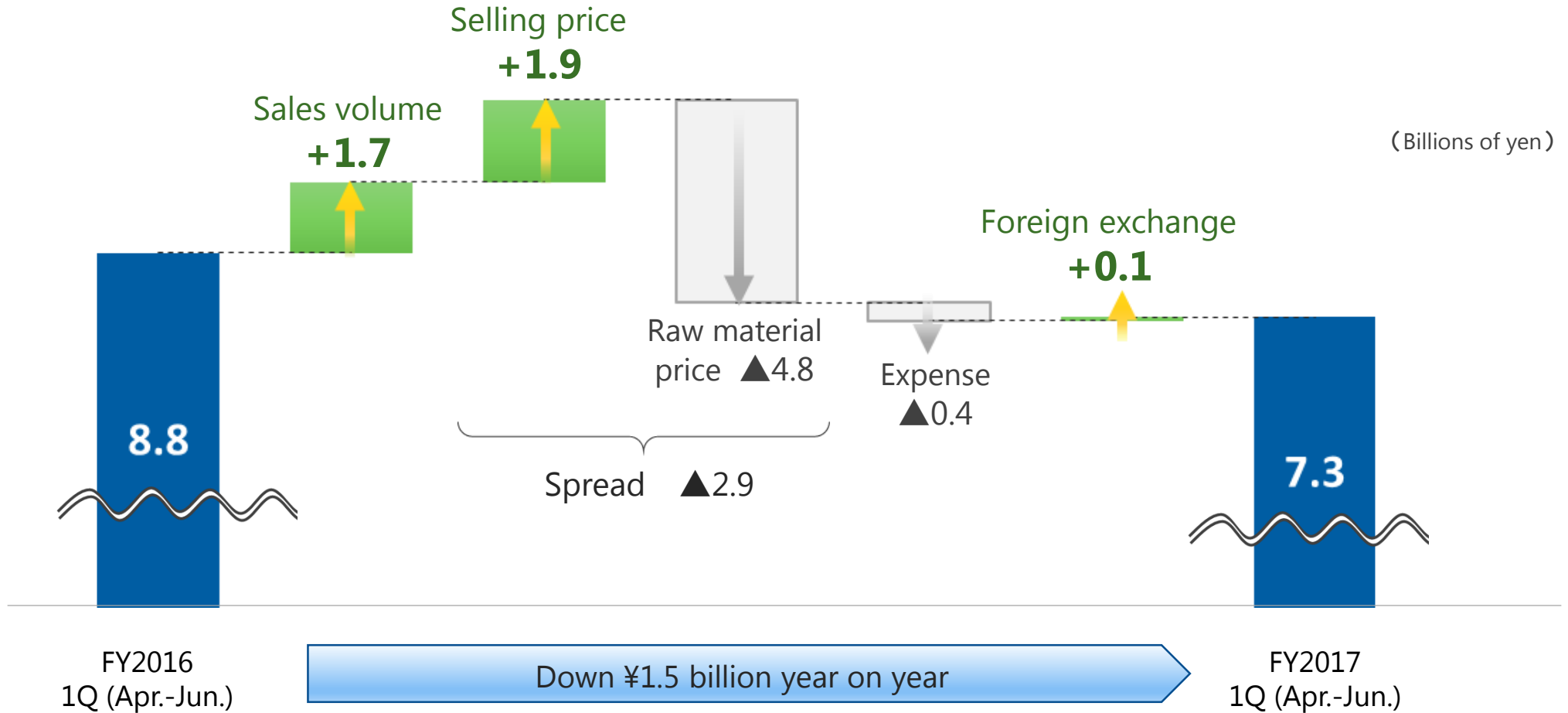
The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements.

(Billions of yen)

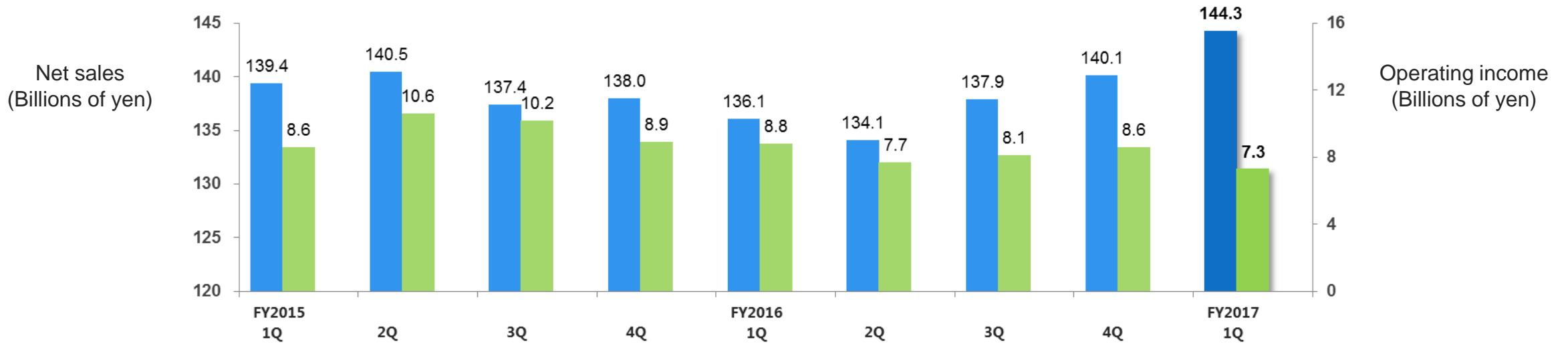
	FY2016 1Q (Apr.-Jun.)	FY2017 1Q (Apr.-Jun.)	Difference	
			Amount	%
Net sales	136.1	144.3	8.2	6.1%
Operating income	8.8	7.3	Δ 1.5	Δ17.4%
Ordinary income	7.1	7.2	0.0	0.3%
Net income attributable to owners of parent	4.6	4.8	0.2	3.5%
Net income per share	¥13.87	¥14.43		

- Net sales reached a new record high, continuing to expand, mainly in the overseas market
- Ordinary income and net income attributable to owners of parent both increased year on year, but operating income declined due to the impact of a sharp increase in certain raw material prices

Factors Affecting the Change in Operating Income



Net Sales, Operating Income by Quarterly



(Billions of yen)	FY2015				FY2016				FY2017
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q	4 Q	1 Q
Net sales	139.4	140.5	137.4	138.0	136.1	134.1	137.9	140.1	144.3
Operating income	8.6	10.6	10.2	8.9	8.8	7.7	8.1	8.6	7.3

- 1Q net sales expanded briskly after hitting bottom in 2Q of fiscal 2016
- Meanwhile, operating income saw a temporary decline in profitability due to a sharp increase in certain raw material prices

Net Sales, Operating Income by Segments

(Millions of yen)

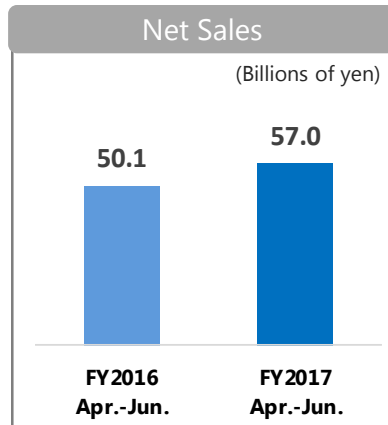
	Net sales				Operating income			
	FY2016 1Q (Apr.-Jun.)	FY2017 1Q (Apr.-Jun.)	Difference		FY2016 1Q (Apr.-Jun.)	FY2017 1Q (Apr.-Jun.)	Difference	
			Amount	%			Amount	%
Material Solutions Unit	50,090	57,034	6,943	13.9%	5,674	5,747	73	1.3%
Quality of Life Solutions Unit	34,362	35,618	1,256	3.7%	4,513	2,839	Δ 1,673	Δ 37.1%
Health Care Solutions Unit	11,885	11,209	Δ 675	Δ 5.7%	2,790	2,364	Δ 425	Δ 15.3%
Nutrition Solutions Unit	39,477	40,051	574	1.5%	956	1,220	264	27.6%
Others	242	387	145	59.8%	104	244	139	132.9%
Adjustment	-	-	-	-	Δ 5,260	Δ 5,164	95	-
Total	136,058	144,302	8,244	6.1%	8,779	7,252	Δ 1,527	Δ 17.4%

- In the Material segment, sales expansion drove a significant increase in net sales, but profit fell well short of plan due to the impact of a sharp increase in raw material prices
- The Quality of Life segment, Performance Fibers and Foam & Residential Techs saw profits decline after a strong performance in the previous fiscal year, due to the impact high raw material prices and expenses for a new plant in Malaysia

Material Solutions Unit

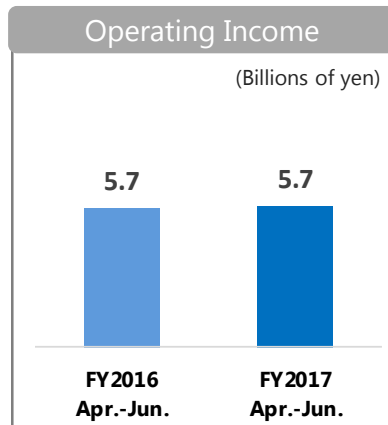
Net Sales ¥57.0 billion (year-on-year + 13.9%)

Operating Income ¥5.7 billion (year-on-year + 1.3%)



Performance Polymers

- 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.



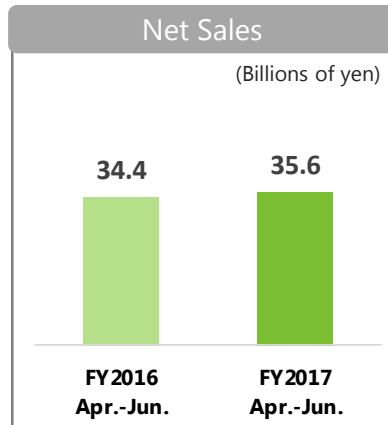
Vinyls and Chlor-Alkali

- 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.

Quality of Life Solutions Unit

Net Sales ¥35.6 billion (year-on-year + 3.7%)

Operating Income ¥2.8 billion (year-on-year Δ 37.1%)



Foam & Residential Techs

- 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.

Performance Fibers

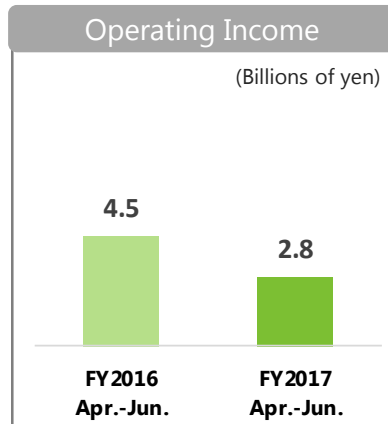
- The pile market saw the return of strong demand and the hair accessory market also saw demand recover after reaching a bottom in the third and fourth quarters over the previous fiscal year. However, profitability deteriorated as the Group was not able to maximize the competitiveness of the newly established 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.

E & I Technology

- 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.

PV & Energy management

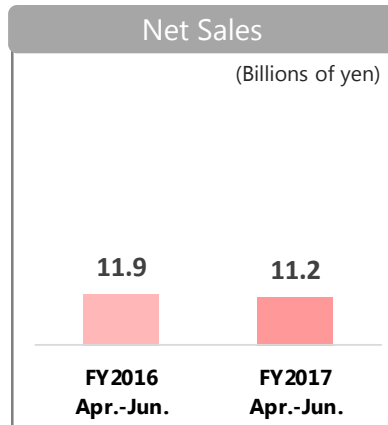
- The sales of high efficiency roof-tile-integrated photovoltaic modules to major house makers, launched last year, expanded steadily.
- Looking ahead, we will commit to providing energy solutions that contribute to net zero energy houses, centering on the photovoltaic modules business.



Health Care Solutions Unit

Net Sales ¥11.2 billion (year-on-year Δ 5.7%)

Operating Income ¥2.4 billion (year-on-year Δ 15.3%)

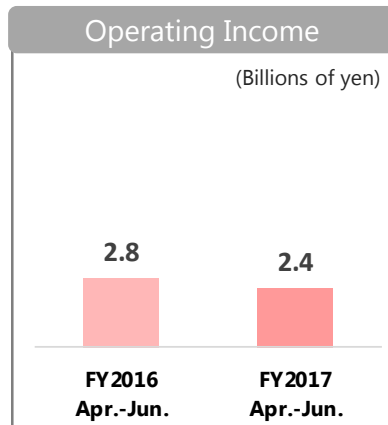


Medical Devices

- 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.

Pharma

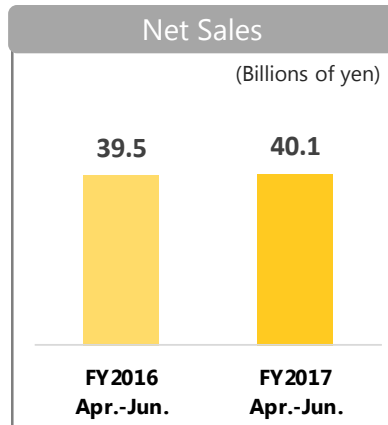
- Sales of active pharmaceutical ingredients (API) and bio-pharmaceuticals expanded steadily, although the sales volume of pharmaceutical intermediates decreased compared the first quarter of fiscal 2016, where sales were concentrated.



Nutrition Solutions Unit

Net Sales ¥40.1 billion (year-on-year + 1.5%)

Operating Income ¥1.2 billion (year-on-year + 27.6%)

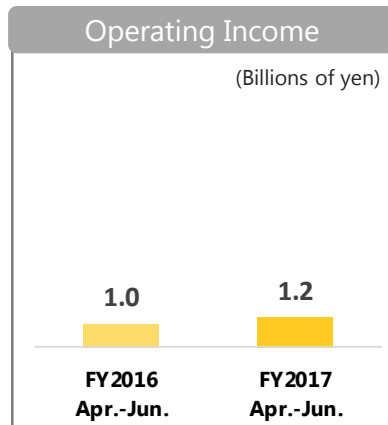


Foods & Agris

- 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.

Supplemental Nutrition

- 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.



(Billions of yen)

	March 31, 2017	June 30, 2017	Difference
Assets			
Current Assets	280.4	280.3	△ 0.2
Noncurrent Assets	312.5	319.0	6.6
Total assets	592.9	599.3	6.4
Liabilities			
Interest bearing debt	110.1	109.2	△ 0.9
Others	161.3	162.6	1.4
Total liabilities	271.3	271.9	0.5
Net assets			
Shareholders' equity	305.1	310.8	5.6
Others	16.4	16.6	0.2
Total net assets	321.6	327.4	5.9
Total liabilities and net assets	592.9	599.3	6.4

* Shareholders' equity : Net assets deducting Noncontrolling interests and Subscription rights to shares

- Total assets increased due to an increase property, plant and equipment by capital expenditure and an increase in investment securities

(Billions of yen)

	FY2016 1Q (Apr.-Jun.)	FY2017 1Q (Apr.-Jun.)
Net cash provided by operating activities	16.7	8.8
Net cash used in investing activities	△ 11.1	△ 9.8
Free cash flow	5.6	△ 1.0
Net cash used in financing activities	△ 5.6	△ 5.7
Net increase (decrease) in cash and cash equivalents (*)	△ 0.9	△ 6.6
Cash and cash equivalents at end of period	42.3	34.4

* Including Effect of exchange rate change on cash and cash equivalents and Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation

- Net cash provided by operating activities came to ¥8.8 billion, mainly due to income before income taxes and depreciation and amortization, partly offset by an increase in operating capital due to sales expansion and so forth
- Net cash used in investing activities was ¥9.8 billion, reflecting aggressive ongoing capital expenditure

- 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.
- As a result, the Group has not revised its business forecast for the fiscal year ending March 31, 2018.

<reference>Consolidated business forecast for the fiscal year ending March 31, 2018 announced May 12, 2017

(Billions of yen)

	FY2016 result	FY2017 forecast	Difference
Net sales	548.2	610.0	61.8 (11.3%)
Operating income	33.2	43.0	9.8 (29.7%)
Ordinary income	27.4	39.0	11.6 (42.2%)
Net income attributable to owners of parent	20.5	23.0	2.5 (12.3%)

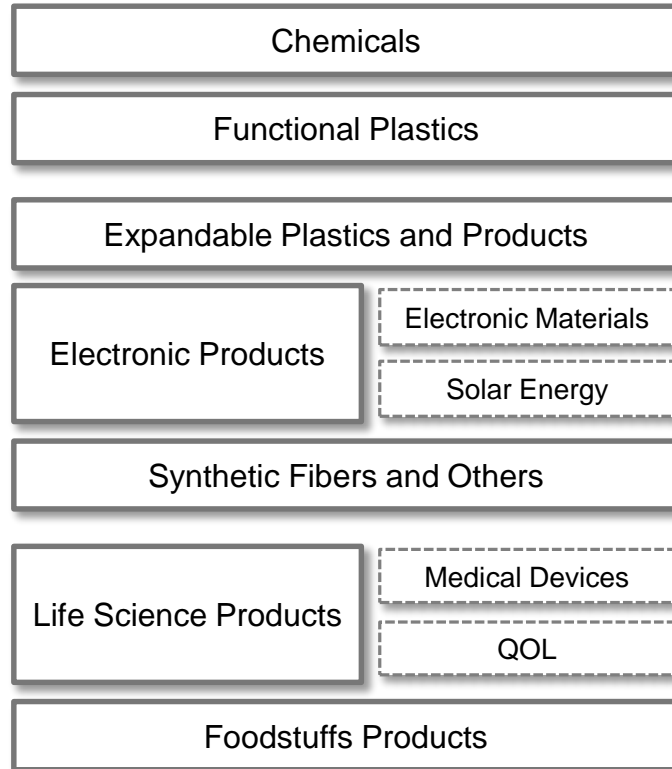
The forecasts above are based on exchange rates of ¥110 to the U.S. dollar, ¥120 to the euro and a domestic naphtha price of ¥42,000 per kiloliter.

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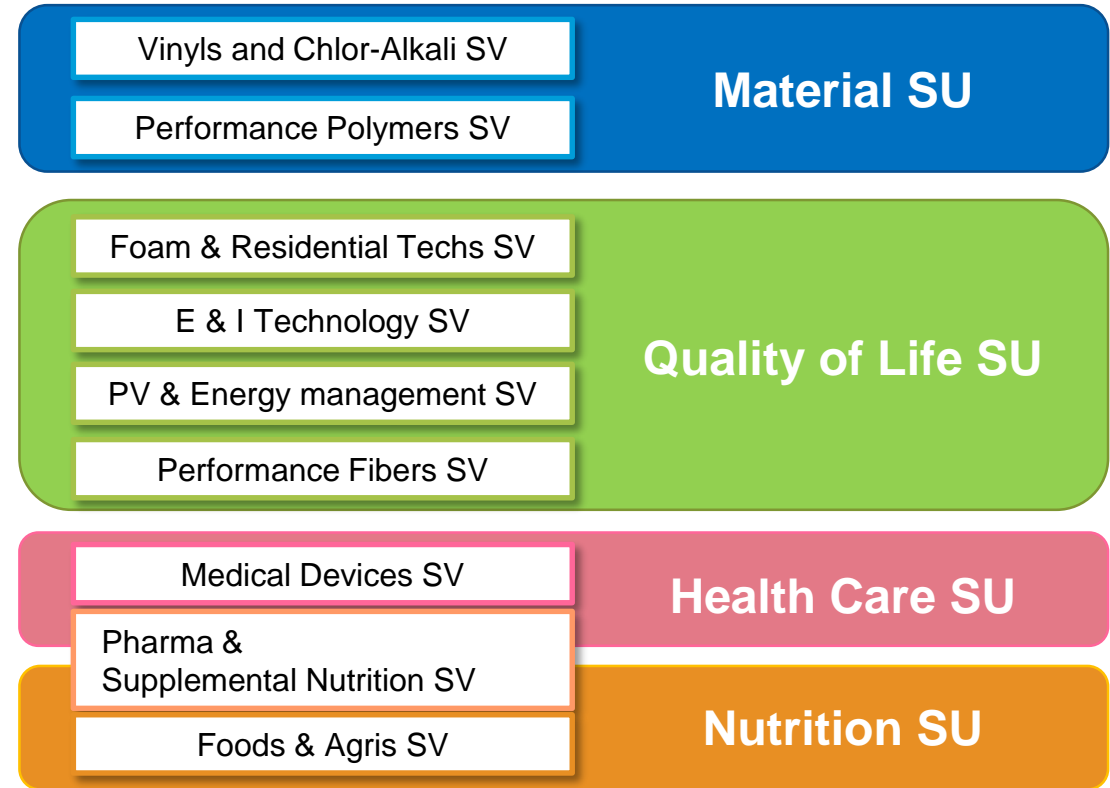
Appendix (Revised segments and business categories)

- Reporting segments and business categories have been revised from 1st Quarter, ended June 30, 2017

Previous reporting segments



New reporting segments [FY2017 Onwards]



*SU . . . Solutions Unit (Segment)

*SV . . . Solutions Vehicle (Business Unit)

KANEKA CORPORATION
<http://www.kaneka.co.jp/en/>