

# Quarterly Financial Summary

2nd Quarter, ended September 30, 2017

November 9, 2017  
**Kaneka Corporation**

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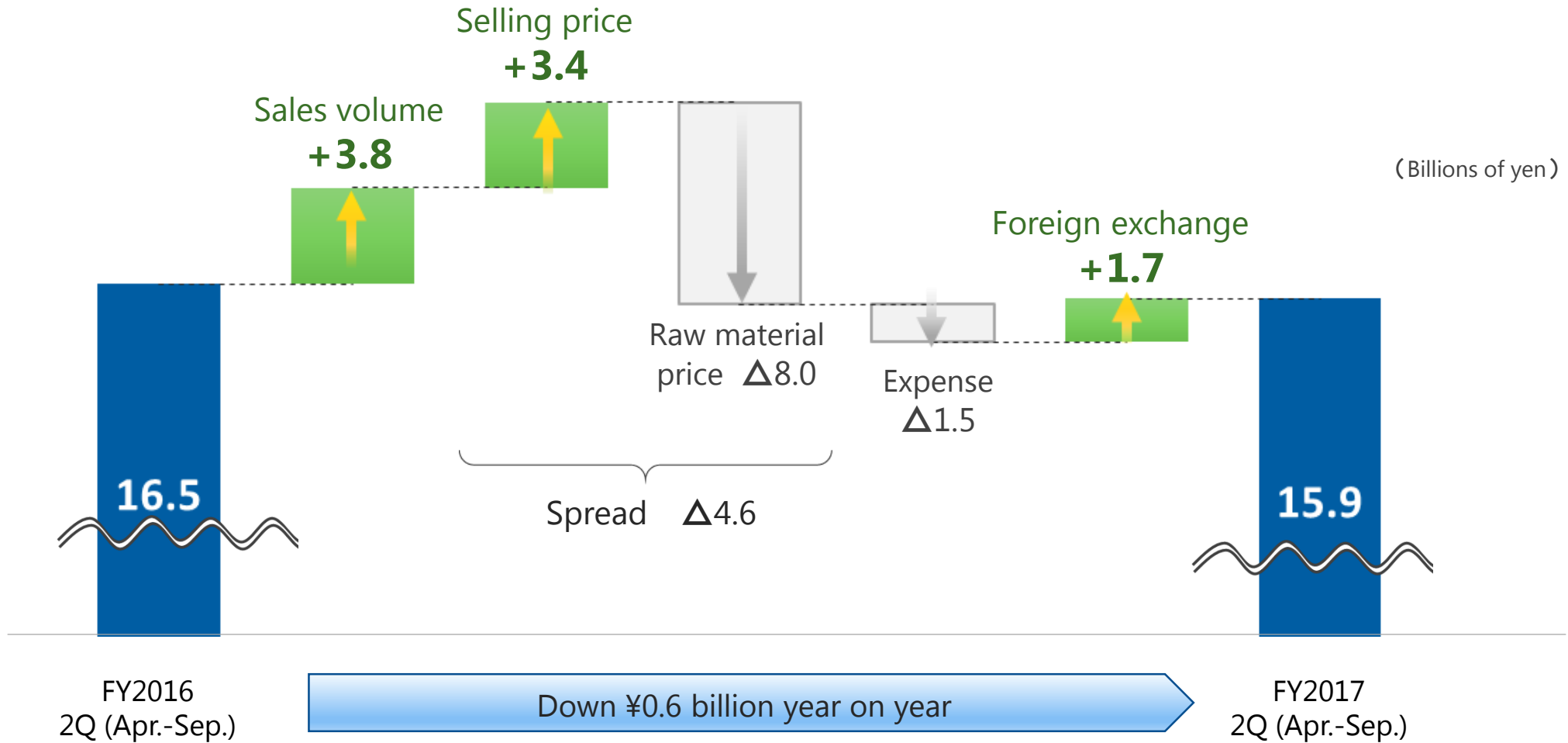
The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections.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

(Billions of yen)

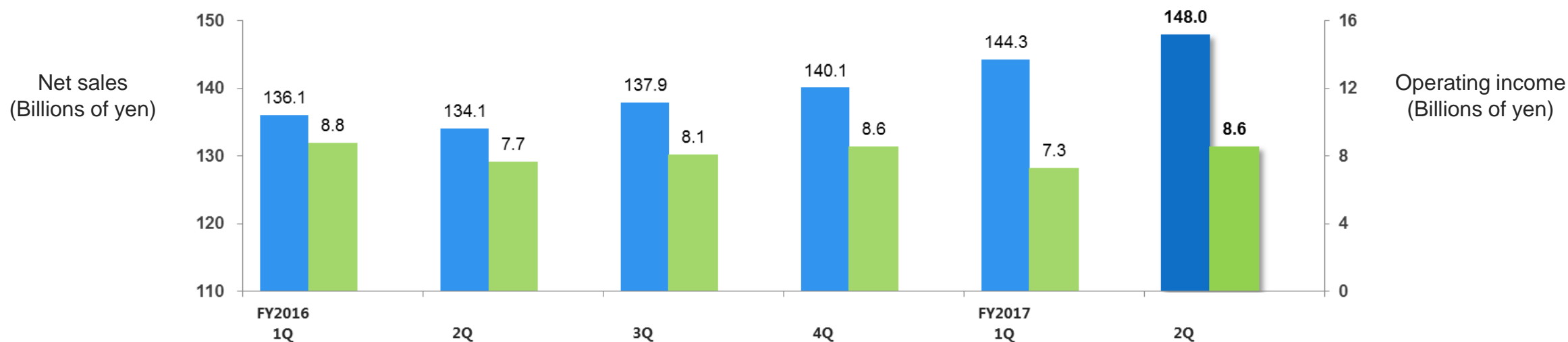
	FY2016 2Q (Apr.-Sep.)	FY2017 2Q (Apr.-Sep.)	Difference	
			Amount	%
Net sales	270.2	292.3	22.1	8.2%
Operating income	16.5	15.9	Δ 0.6	Δ 3.5%
Ordinary income	14.0	14.5	0.4	3.2%
Net income attributable to owners of parent	9.1	9.6	0.5	5.2%
Net income per share	¥27.56	¥29.21		

- Net sales : Reached a new record high, expanding mainly in overseas markets
- Ordinary income and net income : Both increased year on year
- Operating income : 2Q recovered to a level higher than the previous year despite being impacted by a hurricane in the U.S., but the 1Q drop caused by a sharp increase in certain raw material prices could not be absorbed

# Factors Affecting the Change in Operating Income



# Net Sales, Operating Income by Quarterly



(Billions of yen)	FY2016			FY2017			Difference		
	1 Q	2 Q	1st half	1 Q	2 Q	1st half	1 Q	2 Q	1st half
<b>Net sales</b>	136.1	134.1	270.2	144.3	148.0	292.3	8.2	13.9	22.1
<b>Operating income</b>	8.8	7.7	16.5	7.3	8.6	15.9	△ 1.5	0.9	△ 0.6

- Net sales : Increased for the fourth consecutive quarter, reaching a new record high following the 1Q record high and steadily expanding
- Operating income : 1Q declined due to a sharp increase in certain raw material prices, but 2Q recovered to a level higher than the previous year despite being impacted by a hurricane in the U.S.

# Net Sales, Operating Income by Segments

(Millions of yen)

	Net sales			
	FY2016 2Q (Apr.-Sep.)	FY2017 2Q (Apr.-Sep.)	Difference	
			Amount	%
Material Solutions Unit	99,543	115,472	15,928	16.0%
Quality of Life Solutions Unit	69,083	74,623	5,540	8.0%
Health Care Solutions Unit	22,932	21,675	△ 1,256	△5.5%
Nutrition Solutions Unit	78,137	79,857	1,719	2.2%
Others	485	628	143	29.6%
Adjustment	-	-	-	-
<b>Total</b>	<b>270,182</b>	<b>292,258</b>	<b>22,075</b>	<b>8.2%</b>

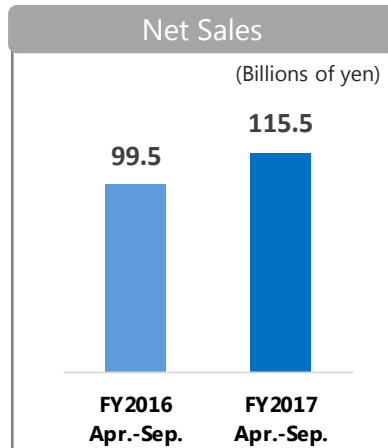
	Operating income			
	FY2016 2Q (Apr.-Sep.)	FY2017 2Q (Apr.-Sep.)	Difference	
			Amount	%
	10,506	12,248	1,741	16.6%
	8,376	6,853	△ 1,522	△18.2%
	5,472	4,228	△ 1,243	△22.7%
	2,143	2,549	406	19.0%
	207	339	132	63.7%
	△ 10,245	△ 10,340	△ 94	-
	<b>16,460</b>	<b>15,879</b>	<b>△ 580</b>	<b>△3.5%</b>

<b>Material</b>	Overseas sales in the Vinyls and Chlor-Alkali business were strong, and sales in the Performance Polymers business expanded after the production system was strengthened in response to robust demand, despite being impacted by sudden changes in raw material prices and a hurricane in the U.S.
<b>Quality of Life</b>	Against the backdrop of robust demand, the E & I Technology business enhanced performance with an increase in the use of proprietary products, while the Foam & Residential Techs and Performance Fibers businesses were significantly impacted by sharp increase in raw material prices
<b>Health Care</b>	The Pharma business steadily expanded in the API and biopharmaceuticals businesses, but the sales volume of low-molecular pharmaceutical materials was less than last year since these products were shipped intensively during the first half of the previous year
<b>Nutrition</b>	The Supplemental Nutrition business saw increased sales volumes, primarily in the U.S. market, and business performance expanded

## Material Solutions Unit

Net Sales ¥115.5 billion (year-on-year + 16.0%)

Operating Income ¥12.2 billion (year-on-year + 16.6%)

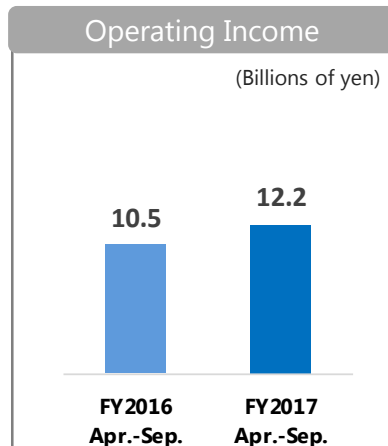


### Vinyls and Chlor-Alkali

- Exports of general PVC resins and caustic soda to Asia continued to be strong, while domestic sales for those were fine.
- Sales of chlorinated PVC and paste PVC expanded steadily, mainly in overseas markets.
- Considering that strong demand will continue even after the third quarter, business performance is expected to be better.

### Performance Polymers

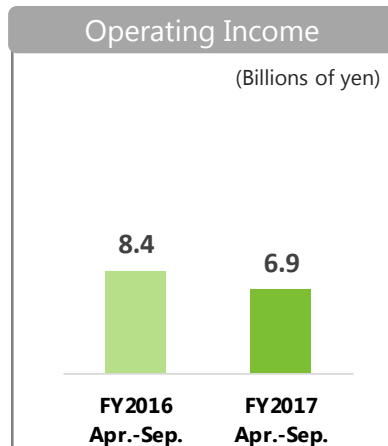
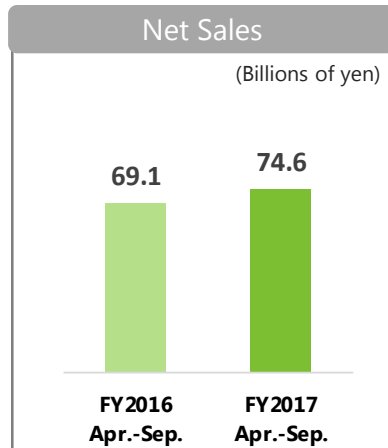
- Although sales of modifiers were affected by a hurricane in the U.S. and declining profitability due to an abrupt change in the market price of the major raw material butadiene in the first quarter, strong demand continued globally and sales expanded with the full contribution of a new production facility in Malaysia.
- After the third quarter, the Group is forecasting these temporary problems will have gone and the enhancement of business performance through expanding applications around the world.
- Regarding modified silicone polymers, a new facility in Malaysia, which can satisfy current demand, commenced service in July 2017. Additionally, the Group decided to increase the production capacity in Belgium to respond to further demand expansion.



## Quality of Life Solutions Unit

**Net Sales** ¥74.6 billion (year-on-year + 8.0%)

**Operating Income** ¥6.9 billion (year-on-year  $\Delta$  18.2%)



### E & I Technology

- Regarding ultra-heat-resistant polyimide films, sales of highly functional products (Pixeo) increased due to the contribution from strengthening the supply system in response to strong demand for new models from major smartphone manufacturers.
- Looking ahead, it is expected that the downsizing and multifunctioning of digital devices, such as smartphones, will create higher demand for ultra-heat-resistant polyimide films and high thermal conductive graphite sheets as thermal countermeasure resins.
- The Group is concerned with the issue of supplying those products under current production capacity. On top of that, the Group forecast that strong demand for new products exploiting polyimide resin technology, used in display application, etc., will come, and the Group will reinforce production and expand profit further.

### Foam & Residential Techs

- Sales grew sluggish pace due to decreased haul and delays in construction caused by bad weather, also there was an impact of a sharp increase in certain raw material prices.
- Looking ahead, the Group will put highly functional expandable plastics products on the market that are light weight, energy saving, resource saving and heat insulating. As a result, demand for applications for cars and housing will increase and the business performance will get better.

### Performance Fibers

- Sales volume increased due to strong demand in the pile market, but the business was strongly affected by sharp increase in raw material prices.
- The Group will expand the business in the hair accessory market in the stage of demand recovery and develop new markets by taking advantage of the plant in Malaysia with high competitiveness.

### PV & Energy management

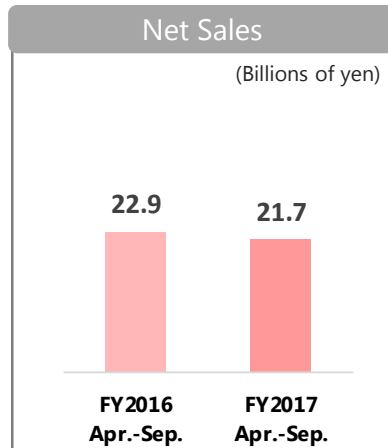
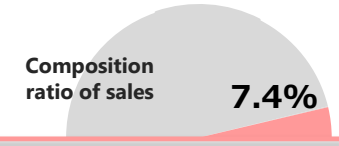
- Sales of high efficiency roof-tile-integrated photovoltaic modules to major housing manufacturers expanded steadily.
- Looking ahead, the Group will commit to providing energy solutions that contribute to net zero energy houses, centering on the photovoltaic modules business.



## Health Care Solutions Unit

Net Sales ¥21.7 billion (year-on-year  $\Delta$  5.5%)

Operating Income ¥4.2 billion (year-on-year  $\Delta$  22.7%)

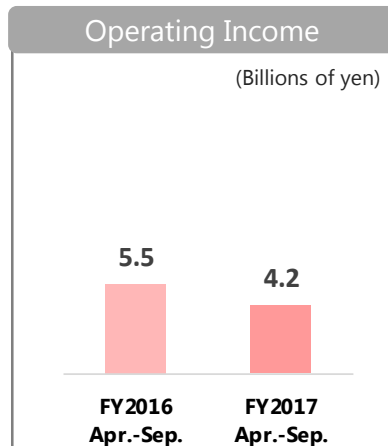


### Medical Devices

- Sales remained solid in the domestic and overseas markets.
- The Group worked on business expansion through joint businesses with other companies of the vascular intervention and reinforcement sales and marketing system of the blood purification business in the U.S.

### Pharma

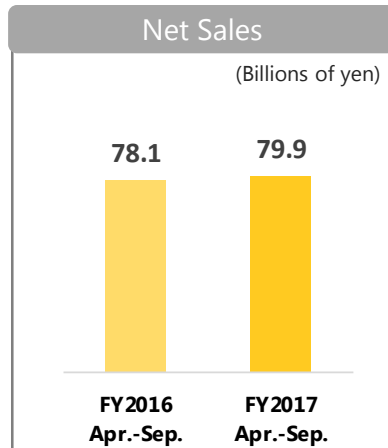
- Sales of active pharmaceutical ingredients (API) and biopharmaceuticals expanded steadily and production expansion both in Japan and overseas took place.
- However, the sales volume of low-molecular pharmaceutical materials was less than previous year since these products were shipped intensively during the first half of the previous year. The Group expects sales will recover from the third quarter.



## Nutrition Solutions Unit

**Net Sales** ¥79.9 billion (year-on-year + 2.2%)

**Operating Income** ¥2.5 billion (year-on-year + 19.0%)

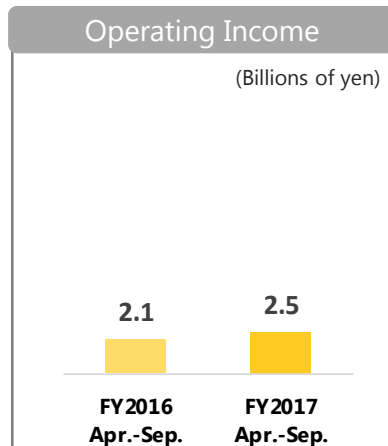


### Foods & Agris

- Sales expanded due to progress proposal-based approach to major suppliers of bakery products, convenience stores, and food product manufacturers, which have strengths in new foodstuffs amid continued faltering in domestic demand.

### Supplemental Nutrition

- The sales volume of the reduced form of coenzyme Q10 increased mainly in the U.S market, and significantly contributed to business performance.
- The Group will continue to expand the business globally after the third quarter.



(Billions of yen)

	March 31, 2017	September 30, 2017	Difference
<b>Assets</b>			
Current Assets	280.4	298.1	17.7
Noncurrent Assets	312.5	325.6	13.1
<b>Total assets</b>	592.9	623.7	30.8
<b>Liabilities</b>			
Interest bearing debt	110.1	112.1	2.0
Others	161.3	175.3	14.1
<b>Total liabilities</b>	271.3	287.4	16.1
<b>Net assets</b>			
Shareholders' equity	305.1	319.0	13.9
Others	16.4	17.3	0.9
<b>Total net assets</b>	321.6	336.3	14.7
<b>Total liabilities and net assets</b>	592.9	623.7	30.8

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

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

(Billions of yen)

	FY2016 2Q (Apr.-Sep.)	FY2017 2Q (Apr.-Sep.)
Net cash provided by operating activities	26.2	21.6
Net cash used in investing activities	△ 20.3	△ 19.5
Free cash flow	5.9	2.1
Net cash used in financing activities	△ 8.7	△ 4.4
Net increase (decrease) in cash and cash equivalents (*)	△ 4.0	△ 1.5
Cash and cash equivalents at end of period	39.2	39.5

\* 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 ¥21.6 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 ¥19.5 billion, reflecting aggressive ongoing capital expenditure

- In the first half of the year, net sales increased steadily due to expanding sales by production capacity expansion for main businesses and higher contributions from new products, although the sharp price increase in raw materials in the first quarter and the hurricane in the U.S. had an impact on the profit. Based on its financial performance in the first half, the Group revised the forecast
- Net sales have been steady, and the previous forecast of ¥610 billion has been left unchanged
- Profits will be adjusted downward to ¥37 billion in operating income, ¥33 billion in ordinary income, and ¥21 billion in net income attributable to owners of parent
- Compared with the previous year, both net sales and profits are forecast to exceed the previous year's results

## <Consolidated business forecast for the fiscal year ending March 31, 2018>

	FY2016 (result)	Previous forecast (May.12,2017)	Current forecast	(Billions of yen)	
				Change	
				Vs. previous year	Vs. previous forecast
<b>Net sales</b>	548.2	610.0	<b>610.0</b>	61.8	-
<b>Operating income</b>	33.2	43.0	<b>37.0</b>	3.8	△ 6.0
<b>Ordinary income</b>	27.4	39.0	<b>33.0</b>	5.6	△ 6.0
<b>Net income attributable to owners of parent</b>	20.5	23.0	<b>21.0</b>	0.5	△ 2.0
<b>Net income per share</b>	¥61.72	¥69.66	<b>¥63.96</b>		

The forecasts from October 1, 2017 are based on exchange rates of ¥110 to the U.S. dollar, ¥130 to the euro and a domestic naphtha price of ¥42,000 per kiloliter.

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# Consolidated Business Revised Forecasts by Segments

- Compared to the previous forecast, the Material SU (Vinyls, Performance Polymers), Quality of Life SU (E & I), and Nutrition SU (reduced-form coenzyme Q10) units rose due to robust overseas sales, while the Quality of Life SU (excluding E & I) declined due to rises in raw material prices and a delayed recovery in demand, and the Health Care SU (low-molecular pharmaceutical materials) fell due to delays in shipment schedules
- Compared to the previous year, results are expected to significantly increase and exceed the previous year due to an improvement in the supply-demand balance in the Material SU, the expansion of differentiated new products, rapid expansion of demand in the E & I smartphone market, and expansion of sales centered on reduced-form coenzyme Q10 in the U.S. market

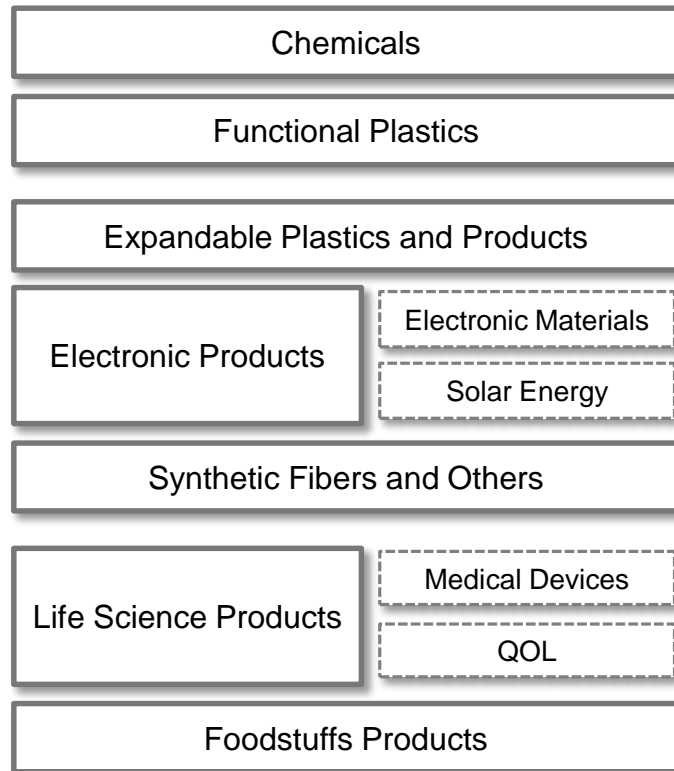
(Billions of yen)

	Net Sales					Operating Income				
	FY2016 (result)	Previous forecast (May.12 2017)	Current forecast	Change		FY2016 (result)	Previous forecast (May.12 2017)	Current forecast	Change	
				Vs. previous year	Vs. previous forecast				Vs. previous year	Vs. previous forecast
<b>Material Solutions Unit</b>	207.3	227.0	<b>242.0</b>	34.7	15.0	22.3	23.5	<b>26.3</b>	4.0	2.8
<b>Quality of Life Solutions Unit</b>	136.8	156.0	<b>155.0</b>	18.2	Δ 1.0	15.0	19.0	<b>15.7</b>	0.6	Δ 3.3
<b>Health Care Solutions Unit</b>	45.1	50.0	<b>47.0</b>	1.9	Δ 3.0	10.9	13.0	<b>9.5</b>	Δ 1.4	Δ 3.5
<b>Nutrition Solutions Unit</b>	158.0	174.0	<b>165.0</b>	7.0	Δ 9.0	5.3	8.0	<b>6.3</b>	1.0	Δ 1.7
<b>Others</b>	0.9	3.0	<b>1.0</b>	0.1	Δ 2.0	0.4	0.5	<b>0.5</b>	0.1	-
<b>Adjustment</b>	-	-	<b>-</b>	-	-	Δ 20.7	Δ 21.0	<b>Δ 21.2</b>	Δ 0.5	Δ 0.2
<b>Total</b>	<b>548.2</b>	<b>610.0</b>	<b>610.0</b>	61.8	-	<b>33.2</b>	<b>43.0</b>	<b>37.0</b>	3.8	Δ 6.0

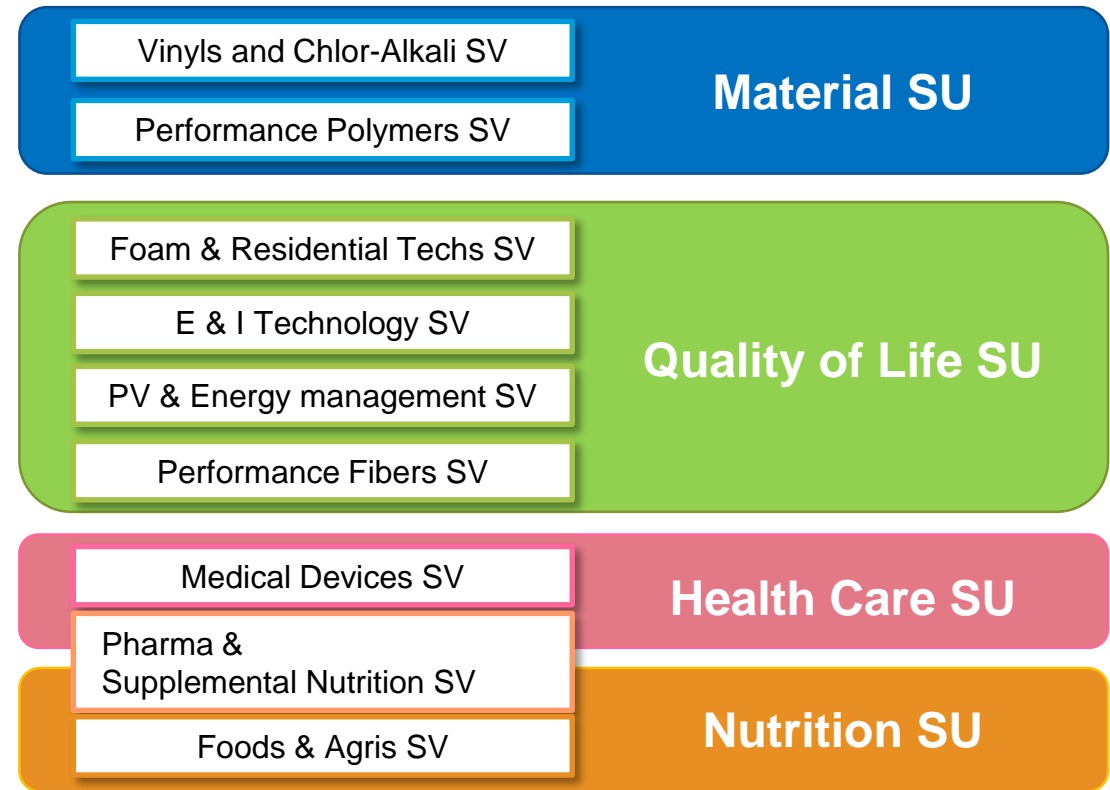
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- Reporting segments and business categories have been revised from 1st Quarter, ended June 30, 2017

## Previous reporting segments



## New reporting segments [FY2017 Onwards]



\*SU . . . Solutions Unit (Segment)

\*SV . . . Solutions Vehicle (Business Unit)

**KANEKA CORPORATION**  
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