FINANCIAL SECTION 2017

Year Ended March 31, 2017

KANEKA CORPORATION

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

In the fiscal year from April 1, 2016 to March 31, 2017 (FY2017), the Kaneka Group was affected by the appreciation of the yen. Overall, net sales for FY2017 decreased 1.3% from the previous fiscal year to ¥548,222 million.

OPERATING EXPENSES AND OPERATING INCOME

During FY2017, the cost of sales decreased by 2.2% to ¥385,362 million. The cost of sales ratio decreased from 71.0% to 70.3%. SG&A expenses increased 5.5% to ¥129,695 million, and the ratio of SG&A expenses to sales increased from 22.2% to 23.7%.

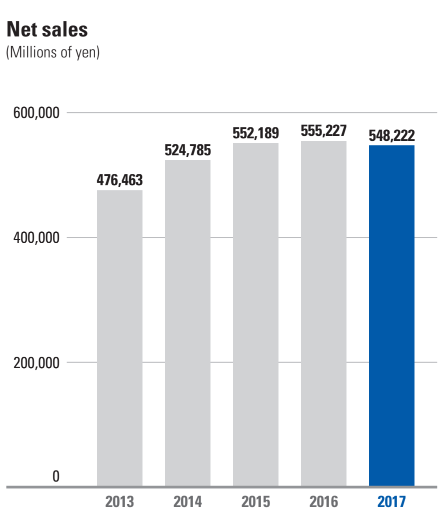
Operating income during FY2017 decreased 13.2% to ¥33,165 million. By segment, the Kaneka Group's business performance remained solid in the Chemicals, Functional Plastics, and Life Science Products segments due to steady expansion in sales of new and specialized products mainly in overseas markets, and our profitability improved in the Foodstuffs Products segment due to expansion in sales of new products and progress in business structure reforms, despite sluggish performance in the Electronic Products, and Synthetic Fibers and Others segments mainly affected by the appreciation of the yen and delays in the recovery of demand.

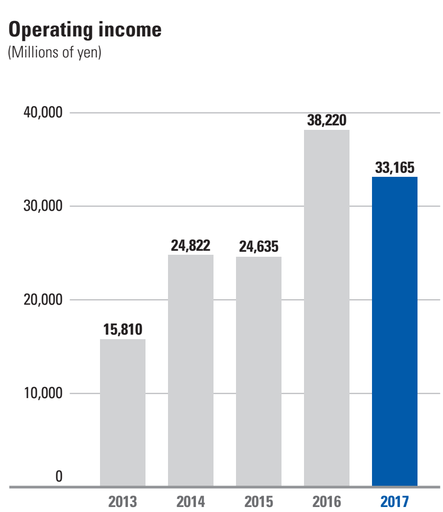
NET INCOME

For the year, the Group recorded net income attributable to owners of parent of ¥20,485 million, down 2.4% from the previous fiscal year.

FINANCIAL CONDITION

As of March 31, 2017, total assets were ¥592,900 million, up ¥15,649 million from March 31, 2016, due mainly to increases in property, plant and equipment. The ratio of net income attributable to owners of parent to total assets (ROA) was 3.5%, down 0.2% from the previous fiscal year. Interest-bearing debt stood at ¥110,082 million, down ¥3,795 million from March 31, 2016. Net assets increased ¥12,829 million to ¥321,551 million, reflecting an increase in retained earnings. As a result, the equity ratio came to 51.5%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.36.





CASH FLOWS

Cash and cash equivalents at March 31, 2017 were ¥41,018 million, ¥2,144 million less than at March 31, 2016.

Net cash provided by operating activities was ¥48,120 million, ¥11,585 million less than in the previous fiscal year. The main contributors to the decrease were income before income taxes and non-controlling interests of ¥28,692 million and depreciation and amortization of ¥27,808 million, which were partially offset by income taxes paid of ¥8,113 million.

Net cash used in investing activities amounted to ¥36,370 million, ¥4,382 million less than in the previous fiscal year. The principal use of cash was ¥36,726 million for the purchase of property, plant and equipment.

Financing activities used net cash of ¥13,613 million, ¥10,061 million more than in the previous fiscal year. This mainly reflected ¥2,594 million in repayment of loans payable, cash dividends paid of ¥6,329 million and purchase of treasury stock of ¥1,812 million.

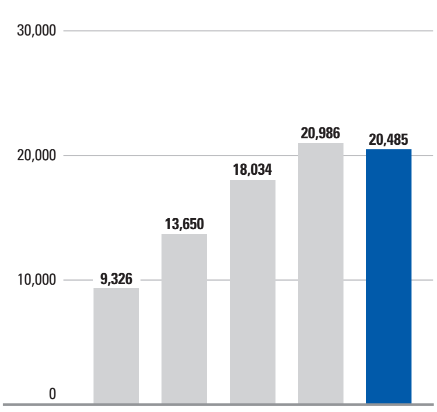
Financial Index Trends

	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017
Shareholders' equity ratio	53.8%	52.8%	53.5%	50.6%	51.5%
Shareholders' equity ratio based on market value	37.9%	40.6%	50.8%	55.4%	46.1%
Interest-bearing debt coverage ratio	2.6	3.0	3.3	1.9	2.3
Interest coverage ratio	36.4	33.6	27.8	50.9	34.2

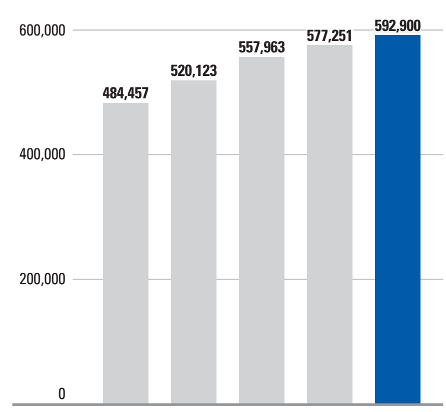
Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:

1. All items were calculated according to financial figures on a consolidated basis.
2. The calculation of the total market value of stock was based on the total number of shares outstanding, excluding treasury stock.
3. "Operating cash flows" refers to cash flows from operations.
4. The scope of interest-bearing debt is all liabilities in the Consolidated Balance Sheets for which interest is payable.
5. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.

Net income attributable to owners of parent
(Millions of yen)



Total assets
(Millions of yen)



BUSINESS RISKS AND UNCERTAINTIES

Factors that may significantly affect the performance and the financial position of the Kaneka Group include those described below. Please note that the matters described are only those that we considered risks as of March 31, 2017 and that this is not an exhaustive list of risks borne by the Group.

(1) Risks related to the Group's ability to maintain operational advantages and trends in the Japanese and overseas economic environments

The Kaneka Group maintains its operational advantages by developing and commercializing high value-added products in a host of fields and by consistently cultivating new markets and leveraging its ability to integrate and combine its expertise in core polymer and fermentation technologies. The Kaneka Group is working to ensure a corporate structure that is not affected by the entry of competitors into these markets, which could otherwise result in increased price competition and reduced profitability. Moreover, because the growth of generic products could cause a decrease in the demand for the Group's products and cause the Group to withdraw from or restructure certain operations, we are working to mitigate the potential effects of changes in the economic environment. However, such measures may not be sufficient to withstand a sudden downturn in the economic environment, obsolescence of the Company's technologies or an unexpected drop-off in demand for the Company's products. Such circumstances could seriously affect the Group's financial position and performance.

(2) Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)

For the Kaneka Group, globalization is a key element of its management strategy. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems, including transfer price taxation, and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. In addition, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments could seriously affect the performance and financial position of the Group.

(3) Risks of price fluctuations of raw materials and fuels

Through the combination of medium- to long-term forward contracts and spot market purchases, the Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels. However, since most of these commodities are subject to price fluctuations in the international market, there are still some risks involved. For example, there may be sharp fluctuations in prices which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect the production of PVC/caustic soda, modifier, expandable plastics and products and foodstuffs could significantly impact the Group's financial position and performance.

(4) Risks associated with product liability, industrial accidents and large scale disasters

The Kaneka Group implements comprehensive strategies to ensure the safe distribution of products that are safe to use. We maintain liability insurance covering the whole Group in the event of a product related accident. However, the possibility remains that unexpected problems with product quality could cause a large-scale product related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. A major disaster such as an industrial accident or an earthquake could destroy manufacturing facilities and result in losses beyond the coverage of property insurance. In such circumstances, it is possible that the Group's financial position and performance could be significantly affected.

(5) Risks associated with the protection of intellectual property rights

To maintain its business advantages, the Kaneka Group attaches strategic importance to the protection of its patents on newly developed technologies. However, with globalization and the development of IT technologies, it is not possible for us to completely avoid the risk of external leaks of our proprietary technologies and expertise. Nor is it possible to avoid all disputes with other parties in connection with the conveyance of our intellectual property rights to others or our use of other companies' intellectual property. In such circumstances, it is possible that the Group's competitiveness could be undermined and its financial position and performance significantly affected.

(6) Impact of environment related regulations

To minimize the impact of its business activities on the global environment and the world's ecosystem, the Kaneka Group puts forth its best efforts to reduce its environmental footprint and to save resources and energy throughout the lifecycle of its products. Nevertheless, environmental regulations are tightened every year, and depending on the nature of the regulations, expenses may be incurred in connection with the manufacture, storage and disposal of products that could significantly impact the Group's financial position and performance.

(7) Risks associated with legal action

The Group attaches great importance to compliance management regarding the observance of social rules, including the laws and regulations of the societies in which it conducts business. There are risks, however, of the Group becoming the subject of litigation or administrative measures in connection with operations in Japan or abroad. If a significant action is filed against the Group, it is possible that the Group's financial position and performance could be significantly affected.

(8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and certain financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Financial Instruments. With regard to fixed assets, a substantial worsening in the operating environment could cause further decline in the market value of idle land held by the Group. Consequently, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Impairment of Fixed Assets.

For retirement benefit obligations and retirement benefit expenses, actuarial calculations are used each year to determine the discount rate and other core ratios, incorporating the expected rate of investment return on core assets. However, a downturn in the discount rate or a decrease in investment yields on pension assets could affect the Kaneka Group's financial position and performance. Moreover, deferred tax assets are posted against future temporary differences with the assumption that they can be recovered by offsetting future taxable income. However, if future taxable income differs from expectations, the liquidation of deferred tax assets could affect the Group's financial position and performance. The Group's financial position and performance could also be significantly affected by factors such as fluctuations in the markets for its products, changes in laws and regulations, delays in research and development and technical innovations.

CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2017 and 2016

Assets	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current assets:			
Cash and cash equivalents (Note 4)	¥ 41,018	¥ 43,162	$ 365,612
Notes and accounts receivable—trade (Note 4)			
Unconsolidated subsidiaries and affiliates	760	773	6,774
Other	124,722	120,910	1,111,703
Inventories (Note 7)	96,749	93,701	862,367
Short-term loans receivable from unconsolidated subsidiaries and affiliates	1,672	1,527	14,903
Deferred tax assets (Note 9)	5,871	5,952	52,331
Other current assets	10,001	8,029	89,144
Allowance for doubtful accounts (Note 4)	(354)	(345)	(3,155)
Total current assets	280,439	273,709	2,499,679
Property, plant and equipment (Note 10)**:**			
Land	31,072	31,112	276,959
Buildings and structures	186,867	181,187	1,665,630
Machinery, equipment and vehicles	552,812	532,447	4,927,462
Construction in progress	13,431	23,633	119,717
Other	3,757	4,109	33,487
	787,939	772,488	7,023,255
Less accumulated depreciation	562,395	552,773	5,012,880
Property, plant and equipment, net	225,544	219,715	2,010,375
Intangible assets (Note 10)**:**	10,252	12,198	91,381
Investments and other assets:			
Investment securities (Notes 4, 5 and 10):			
Unconsolidated subsidiaries and affiliates	4,035	3,932	35,966
Other	59,031	52,152	526,170
Long-term loans receivable (Note 4)	1,301	1,308	11,596
Deferred tax assets (Note 9)	2,611	4,802	23,273
Other	9,916	9,651	88,386
Allowance for doubtful accounts (Note 4)	(229)	(216)	(2,041)
Total investments and other assets	76,665	71,629	683,350
	¥ 592,900	¥ 577,251	$ 5,284,785

See accompanying notes.

Liabilities and net assets	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Current liabilities:			
Short-term loans payable (Notes 4 and 10)	¥ 42,889	¥ 46,865	$ 382,289
Current portion of long-term loans payable (Notes 4 and 10)	9,405	5,831	83,831
Notes and accounts payable (Note 4):			
Trade	73,058	64,820	651,199
Construction	7,418	8,162	66,120
Other	15,016	16,663	133,844
Income taxes payable	3,391	3,709	30,226
Accrued expenses	13,475	11,758	120,109
Other current liabilities	4,350	5,743	38,773
Total current liabilities	169,002	163,551	1,506,391
Noncurrent liabilities:			
Bonds payable (Notes 4 and 10)	10,000	10,000	89,135
Long-term loans payable (Notes 4 and 10)	50,336	53,773	448,667
Net defined benefit liability (Note 11)	37,310	36,668	332,561
Provision for directors' retirement benefits	319	304	2,843
Deferred tax liabilities (Note 9)	2,099	1,674	18,709
Other noncurrent liabilities	2,283	2,559	20,350
Total noncurrent liabilities	102,347	104,978	912,265
Contingent liabilities (Note 12)			
Net assets (Note 13)**:**			
Shareholders' equity:			
Capital stock			
Authorized—750,000,000 shares Issued —350,000,000 shares	33,047	33,047	294,563
Capital surplus	32,813	34,936	292,477
Retained earnings	248,524	234,378	2,215,206
Less treasury stock, at cost—19,834,211 shares in 2017 18,356,481 shares in 2016	(16,753)	(15,559)	(149,327)
Total shareholders' equity	297,631	286,802	2,652,919
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	22,338	17,451	199,109
Deferred gains or losses on hedges	(61)	(52)	(544)
Foreign currency translation adjustments	(5,105)	(1,082)	(45,503)
Remeasurements of defined benefit plans	(9,653)	(10,910)	(86,042)
Total accumulated other comprehensive income	7,519	5,407	67,020
Subscription rights to shares (Note 14)	271	228	2,416
Non-controlling interests	16,130	16,285	143,774
Total net assets	321,551	308,722	2,866,129
	¥ 592,900	¥ 577,251	$ 5,284,785

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Net sales	¥ 548,222	¥ 555,227	¥ 552,189	$ 4,886,550
Cost of sales	385,362	394,021	413,390	3,434,905
Gross profit	162,860	161,206	138,799	1,451,645
Selling, general and administrative expenses	129,695	122,986	114,164	1,156,030
Operating income	33,165	38,220	24,635	295,615
Other income (expenses):				
Interest and dividend income	1,783	1,483	1,576	15,893
Interest expenses	(1,428)	(1,199)	(1,224)	(12,728)
Gain on sales of investment securities	1,602	121	493	14,279
Gain on sales of property, plant and equipment	626	—	2,910	5,580
Loss on disposal of property, plant and equipment	(2,534)	(3,485)	(2,062)	(22,587)
Foreign exchange gains (losses), net	(2,270)	(302)	2,432	(20,234)
Equity in earnings of affiliates, net	118	281	212	1,052
Gain on negative goodwill	—	1,313	—	—
Compensation expenses	—	(668)	—	—
Litigation expenses	(963)	(1,177)	(940)	(8,584)
Gain on step acquisitions	—	230	—	—
Impairment loss (Note 8)	—	(1,536)	—	—
Environmental expenses	—	(598)	—	—
Subsidy income	—	—	1,617	—
Other, net	(1,407)	(2,081)	(1,474)	(12,541)
Income before income taxes and non-controlling interests	28,692	30,602	28,175	255,745
Income taxes (Note 9)				
Current	7,089	6,599	5,312	63,188
Deferred	88	2,992	4,283	784
Net income	21,515	21,011	18,580	191,773
Net income attributable to non-controlling interests	1,030	25	546	9,181
Net income attributable to owners of parent	¥ 20,485	¥ 20,986	¥ 18,034	$ 182,592

	Yen			U.S. dollars (Note 1)
Net income per share—basic	¥ 61.72	¥ 62.98	¥ 53.52	$ 0.55
Net income per share—diluted	61.65	62.92	53.48	0.55
Cash dividends applicable to the year	18.00	18.00	16.00	0.16

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Net income	¥ 21,515	¥ 21,011	¥ 18,580	$ 191,773
Other comprehensive income:				
Valuation difference on available-for-sale securities	5,047	(2,239)	9,271	44,986
Deferred gains or losses on hedges	(9)	53	(105)	(80)
Foreign currency translation adjustment	(4,268)	(4,049)	2,395	(38,043)
Remeasurements of defined benefit plans	1,248	(12,098)	4,371	11,124
Share of other comprehensive income of associates accounted for using equity method	(2)	(18)	117	(18)
Total other comprehensive income (Note 3)	2,016	(18,351)	16,049	17,969
Comprehensive income	¥ 23,531	¥ 2,660	¥ 34,629	$ 209,742
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	¥ 22,597	¥ 2,690	¥ 34,141	$ 201,417
Comprehensive income attributable to non-controlling interests	934	(30)	488	8,325

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	**2017**
Shareholders' equity				
Capital stock				
Balance at beginning of year	**¥ 33,047**	¥ 33,047	¥ 33,047	**$ 294,563**
Changes of items during the period				
Total changes of items during the period	**—**	—	—	**—**
Balance at the end of current period	**33,047**	33,047	33,047	**294,563**
Capital surplus				
Balance at beginning of year	**34,936**	34,837	34,837	**311,400**
Changes of items during the period				
Disposal of treasury stock	**—**	(6)	—	**—**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**(2,123)**	105	—	**(18,923)**
Total changes of items during the period	**(2,123)**	99	—	**(18,923)**
Balance at the end of current period	**32,813**	34,936	34,837	**292,477**
Retained earnings				
Balance at beginning of year	**234,378**	218,746	209,450	**2,089,117**
Cumulative effects of changes in accounting policies	**—**	—	(3,396)	**—**
Restated balance	**234,378**	218,746	206,054	**2,089,117**
Changes of items during the period				
Dividends from surplus—¥18.00 per share	**(6,329)**	(5,345)	(5,392)	**(56,413)**
Change of scope of consolidation	**—**	—	138	**—**
Net income attributable to owners of parent	**20,485**	20,986	18,034	**182,592**
Change in retained earnings based on International Financial Reporting Standards used for foreign subsidiaries	**—**	—	(63)	**—**
Disposal of treasury stock	**(10)**	(9)	(25)	**(90)**
Total changes of items during the period	**14,146**	15,632	12,692	**126,089**
Balance at the end of current period	**248,524**	234,378	218,746	**2,215,206**
Treasury stock				
Balance at beginning of year	**(15,559)**	(12,072)	(10,521)	**(138,684)**
Changes of items during the period				
Purchase of treasury stock	**(1,812)**	(3,585)	(1,615)	**(16,151)**
Disposal of treasury stock	**618**	98	64	**5,508**
Total changes of items during the period	**(1,194)**	(3,487)	(1,551)	**(10,643)**
Balance at the end of current period	**(16,753)**	(15,559)	(12,072)	**(149,327)**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	**17,451**	19,660	10,535	**155,549**
Changes of items during the period				
Net changes of items other than shareholders' equity	**4,887**	(2,209)	9,125	**43,560**
Total changes of items during the period	**4,887**	(2,209)	9,125	**43,560**
Balance at the end of current period	**22,338**	17,451	19,660	**199,109**
Deferred gains or losses on hedges				
Balance at beginning of year	**(52)**	(105)	—	**(464)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(9)**	53	(105)	**(80)**
Total changes of items during the period	**(9)**	53	(105)	**(80)**
Balance at the end of current period	**(61)**	(52)	(105)	**(544)**

	Millions of yen 2017	2016	2015	Thousands of U.S. dollars (Note 1) 2017
Foreign currency translation adjustment				
Balance at beginning of year	**(1,082)**	2,975	353	**(9,644)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(4,023)**	(4,057)	2,622	**(35,859)**
Total changes of items during the period	**(4,023)**	(4,057)	2,622	**(35,859)**
Balance at the end of current period	**(5,105)**	(1,082)	2,975	**(45,503)**
Remeasurements of defined benefit plans				
Balance at beginning of year	**(10,910)**	1,172	(3,293)	**(97,246)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**1,257**	(12,082)	4,465	**11,204**
Total changes of items during the period	**1,257**	(12,082)	4,465	**11,204**
Balance at the end of current period	**(9,653)**	(10,910)	1,172	**(86,042)**
Subscription rights to shares				
Balance at beginning of year	**228**	137	139	**2,032**
Changes of items during the period				
Net changes of items other than shareholders' equity	**43**	91	(2)	**384**
Total changes of items during the period	**43**	91	(2)	**384**
Balance at the end of current period	**271**	228	137	**2,416**
Non-controlling interests				
Balance at beginning of year	**16,285**	10,830	10,586	**145,156**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(155)**	5,455	244	**(1,382)**
Total changes of items during the period	**(155)**	5,455	244	**(1,382)**
Balance at the end of current period	**16,130**	16,285	10,830	**143,774**
Total net assets				
Balance at beginning of year	**308,722**	309,227	285,133	**2,751,779**
Cumulative effects of changes in accounting policies	**—**	—	(3,396)	**—**
Restated balance	**308,722**	309,227	281,737	**2,751,779**
Changes of items during the period				
Dividends from surplus—¥18.00 per share	**(6,329)**	(5,345)	(5,392)	**(56,413)**
Change of scope of consolidation	**—**	—	138	**—**
Net income attributable to owners of parent	**20,485**	20,986	18,034	**182,592**
Change in retained earnings based on International Financial Reporting Standards used for foreign subsidiaries	**—**	—	(63)	**—**
Purchase of treasury stock	**(1,812)**	(3,585)	(1,615)	**(16,151)**
Disposal of treasury stock	**608**	83	39	**5,418**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**(2,123)**	105	—	**(18,923)**
Net changes of items other than shareholders' equity	**2,000**	(12,749)	16,349	**17,827**
Total changes of items during the period	**12,829**	(505)	27,490	**114,350**
Balance at the end of current period	**¥ 321,551**	¥ 308,722	¥ 309,227	**$ 2,866,129**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017, 2016 and 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	**2017**
Cash flows from operating activities				
Income before income taxes and non-controlling interests	**¥ 28,692**	¥ 30,602	¥ 28,175	**$ 255,745**
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:				
Depreciation and amortization	**27,808**	26,438	23,739	**247,865**
Impairment loss	**—**	1,536	—	**—**
Gain on negative goodwill	**—**	(1,313)	—	**—**
Increase (decrease) in net defined benefit liability	**2,516**	429	640	**22,426**
Decrease (increase) in net defined benefit asset	**—**	425	(2,450)	**—**
Increase (decrease) in allowance for doubtful accounts	**34**	14	6	**303**
Interest and dividends income	**(1,783)**	(1,483)	(1,576)	**(15,893)**
Interest expenses	**1,428**	1,199	1,224	**12,728**
Loss (gain) on disposal of property, plant and equipment	**102**	824	(2,009)	**909**
Subsidy income	**—**	—	(1,617)	**—**
Gain on sales of investment securities	**(1,602)**	—	—	**(14,279)**
Gain on step acquisitions	**—**	(230)	—	**—**
Equity in earnings of affiliates, net	**(118)**	(281)	(212)	**(1,052)**
Decrease (increase) in notes and accounts receivable—trade	**(4,609)**	6,933	(2,500)	**(41,082)**
Decrease (increase) in inventories	**(4,057)**	(1,596)	(1,448)	**(36,162)**
Increase (decrease) in notes and accounts payable—trade	**7,304**	(4,566)	(3,863)	**65,104**
Others	**19**	5,733	2,128	**170**
Subtotal	**55,734**	64,664	40,237	**496,782**
Interest and dividends income received	**1,904**	1,600	1,684	**16,971**
Interest expenses paid	**(1,405)**	(1,172)	(1,207)	**(12,523)**
Income taxes paid	**(8,113)**	(5,387)	(7,111)	**(72,315)**
Net cash provided by operating activities	**48,120**	59,705	33,603	**428,915**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(36,726)**	(38,552)	(41,720)	**(327,355)**
Proceeds from sales of property, plant and equipment	**1,093**	466	3,656	**9,742**
Purchase of intangible assets	**(1,474)**	(2,880)	(2,075)	**(13,138)**
Proceeds from subsidy income	**—**	—	1,465	**—**
Purchase of investment securities	**(76)**	(70)	(455)	**(677)**
Proceeds from sales and distributions of investment securities	**1,586**	386	1,073	**14,137**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(102)**	—	—	**(909)**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**—**	1,538	—	**—**
Purchase of stocks of subsidiaries and affiliates	**—**	—	(105)	**—**
Payments for transfer of business	**—**	—	—	**—**
Payments of loans receivable	**(315)**	(1,462)	(862)	**(2,808)**
Collection of loans receivable	**213**	930	602	**1,899**
Others	**(569)**	(1,108)	207	**(5,073)**
Net cash used in investing activities	**(36,370)**	(40,752)	(38,214)	**(324,182)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	**(2,859)**	1,359	122	**(25,484)**
Proceeds from long-term loans payable	**6,251**	13,326	16,673	**55,718**
Repayment of long-term loans payable	**(5,986)**	(9,301)	(5,192)	**(53,356)**
Redemption of bonds payable	**—**	—	(5,000)	**—**
Proceeds from sales and leasebacks	**—**	280	—	**—**
Repayments of lease obligations	**(171)**	(101)	(195)	**(1,524)**
Proceeds from share issuance to non-controlling shareholders	**54**	—	—	**481**
Cash dividends paid	**(6,329)**	(5,345)	(5,392)	**(56,413)**
Cash dividends paid to non-controlling interests	**(400)**	(243)	(205)	**(3,565)**
Purchase of treasury stock	**(1,812)**	(3,585)	(1,615)	**(16,151)**
Proceeds from sales of treasury stock	**411**	74	0	**3,663**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(2,772)**	(16)	—	**(24,708)**
Net cash used in financing activities	**(13,613)**	(3,552)	(804)	**(121,339)**
Effect of exchange rate change on cash and cash equivalents	**(281)**	(259)	(388)	**(2,504)**
Net increase (decrease) in cash and cash equivalents	**(2,144)**	15,142	(5,803)	**(19,110)**
Cash and cash equivalents at beginning of period	**43,162**	28,020	33,804	**384,722**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**—**	—	19	**—**
Cash and cash equivalents at end of period	**¥ 41,018**	¥ 43,162	¥ 28,020	**$ 365,612**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kaneka Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Financial Instruments and Exchange Law in Japan and its related accounting regulations and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of major consolidated overseas subsidiaries after the year ended March 31, 2009 were prepared for consolidation purposes in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements."

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2017 which was ¥112.19 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control (together, the "Companies"). Investments in non-consolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, except for insignificant investments which are recorded at cost.

The Company has 76 consolidated subsidiaries (75 in FY2016 and 62 in FY2015) and 3 affiliates accounted for by the equity method (3 in FY2016 and 3 in FY2015). For the year ended March 31, 2017, the accounts of 15 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between their fiscal year end and that of the Company, the transactions are included in consolidation. Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss are deducted from acquisition costs. Depreciation is computed over the estimated useful life of the asset mainly by the straight-line method. Repairs, maintenance and minor renewals are charged to expenses as incurred. Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life as measured by the lease term of the respective asset by the straight-line method. The residual value is zero or the guaranteed residual value.

Goodwill

Goodwill, except for minor goodwill, is amortized by the straight-line method within 20 years. Minor goodwill is expensed as incurred.

Liability (asset) for retirement benefits

The Company has an unfunded lump-sum benefit plan generally covering all employees. Under the terms of the plan, eligible employees are entitled upon mandatory retirement at age 60 or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service.

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provide employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets. The estimated benefit is attributed to each period based on the plan's benefit formula. Prior service costs are recognized as expense using the straight-line method over mainly 5 years, a term within the average of the estimated remaining service years of the current employees. Actuarial gains and losses are recognized using the straight-line method over mainly 10 years, a term also within the average of the estimated remaining service years of employees, commencing with the following period.

Provision for directors' retirement benefits

Directors and statutory auditors terminating their service with certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2017, 2016 and 2015 were ¥28,513 million ($254,149 thousand), ¥26,768 million and ¥23,319 million, respectively.

Income taxes

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Application of consolidated taxation system

The Company and certain domestic consolidated subsidiaries apply a consolidated taxation system.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2017 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Additional information

(Transfer of Company shares to the employees through an employee stock ownership trust)

The Company has introduced a plan to transfer Company shares to the employees' share holding association through a trust in order to provide the Company group's employees to promote the benefit and welfare of the employees of the Company and to provide incentives to increase the enterprise value of the Company.

(1) Outline of the transactions

The Board of Directors approved a resolution on October 9, 2015 to introduce the "Employee Stock Ownership Plan (ESOP) Trust" (the "Plan") to provide employees an incentive toward achieving medium- to long-term growth in corporate value.

The Plan is an incentive plan in which all employees of the Company who are members of the "Kaneka Share Holding Association" ("Share Holding Association") may participate. According to the plan, the Company creates a trust with employee members of the Share Holding Association who meet certain requirements as beneficiaries, and during a predetermined period, the trust acquires a number of the Company's shares that the Association is then expected to acquire over the next five years.

Afterwards, the trust sells the shares to the Share Holding Association in accordance with the plan. The remaining funds will be distributed according to each employee's contribution ratio when there are the trust earnings resulting from an upward swing in stock price when the trust ends. There is no additional risk of loss to the employee when a loss is incurred as a result of a decrease in the stock price as the Company will pay back the loan based on a guarantee clause in the loan agreement.

(2) Stocks remaining in the trust

The book value (excluding incidental expenses) of stock remaining in the trust is included as "treasury stock" in net assets in the consolidated balance sheets. As of March 31, 2017 and 2016, the trust held 931,000 and 1,422,000 shares of Company stock with a book value of ¥1,106 million ($9,858 thousand) and ¥1,689 million.

(3) Book value of loans recorded using the gross price method

¥1,276 million ($11,374 thousand) as of March 31, 2017.

¥1,706 million as of March 31, 2016.

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)
The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")) from the current fiscal year.

Changes in accounting policies

(Application of Accounting Standard for Retirement Benefits)
The Company and its consolidated domestic subsidiaries adopted Article 35 of Statement No. 26 and Article 67 of Guidance No. 25 (amended March 26, 2015) from the fiscal year ended March 31, 2015 and have changed the determination of retirement benefit obligations and current service costs. In addition, the Company and its consolidated domestic subsidiaries have changed the method of attributing expected benefits to periods from a straight-line basis to a benefit formula basis and changed the method used for determining the discount rates.

In accordance with Article 37 of Statement No. 26, the effect of changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings at the beginning of the fiscal year ended March 31, 2015.

As a result, net defined benefit liability increased by ¥4,194 million, net defined benefit asset decreased by ¥950 million and retained earnings decreased by ¥3,396 million in the beginning balance of the fiscal year ended March 31, 2015. The impact on operating income, and income before income taxes and minority interests for the fiscal year ended March 31, 2015 was immaterial.

(Application of Accounting Standard for Business Combinations)
The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the fiscal year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests." Certain amounts in the fiscal year ended March 31, 2015 comparative information were reclassified to conform to such changes in the presentation.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities," and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2 (4) of Statement No. 21, Article 44-5 (4) of Statement No. 22 and Article 57-4 (4) of Statement No. 7 with application from the beginning of the fiscal year ended March 31, 2016 prospectively.

These changes had no material effect on operating income, income before income taxes and non-controlling interests and earnings per share for the fiscal year ended March 31, 2016, and on the capital surplus amount at the end of the fiscal year ended March 31, 2016.

3. COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	**2017**
Valuation difference on available-for-sale securities				
Decrease during the year	**¥ 8,584**	¥ (3,666)	¥ 13,134	**$ 76,513**
Reclassification adjustments	**(1,600)**	112	(480)	**(14,262)**
Subtotal, before tax	**6,984**	(3,554)	12,654	**62,251**
Tax expense	**(1,937)**	1,315	(3,383)	**(17,265)**
Subtotal, net of tax	**5,047**	(2,239)	9,271	**44,986**
Deferred gains or losses on hedges				
Decrease during the year	**475**	242	(43)	**4,234**
Reclassification adjustments	**(484)**	(173)	(94)	**(4,314)**
Subtotal, before tax	**(9)**	69	(137)	**(80)**
Tax expense	**(0)**	(16)	32	**(0)**
Subtotal, net of tax	**(9)**	53	(105)	**(80)**
Foreign currency translation adjustment				
Decrease during the year	**(4,268)**	(4,049)	2,395	**(38,043)**
Reclassification adjustments	**—**	—	—	**—**
Subtotal, before tax	**(4,268)**	(4,049)	2,395	**(38,043)**
Tax expense	**—**	—	—	**—**
Subtotal, net of tax	**(4,268)**	(4,049)	2,395	**(38,043)**
Remeasurements of defined benefit plans				
Decrease during the year	**(711)**	(17,811)	5,783	**(6,337)**
Reclassification adjustments	**2,515**	344	902	**22,417**
Subtotal, before tax	**1,804**	(17,467)	6,685	**16,080**
Tax expense	**(556)**	5,369	(2,314)	**(4,956)**
Subtotal, net of tax	**1,248**	(12,098)	4,371	**11,124**
Share of other comprehensive income of associates accounted for using equity method				
Decrease during the year	**(2)**	8	48	**(18)**
Reclassification adjustments	**—**	(26)	69	**—**
Subtotal, net of tax	**(2)**	(18)	117	**(18)**
Total other comprehensive income	**¥ 2,016**	¥ (18,351)	¥ 16,049	**$ 17,969**

4. FINANCIAL INSTRUMENTS

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

The Companies procure funds necessary for the manufacturing and sales business primarily through borrowings from financial institutions or by issuing corporate bonds based upon the plan and budget for capital investments. In principle, temporary surplus funds are centralized by the Cash Management System (CMS) and invested in highly safe financial assets. In addition, the Companies procure short-term operating capital from financial institutions. Derivative transactions are used to hedge against risks described below, but never for speculative purposes.

(2) Description of financial instruments and inherent risks

Notes and accounts receivable—trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities, primarily shares of companies with which the Companies maintain business relations, are exposed to the risk of market price fluctuations.

Notes and accounts payable, which are operating payables, are basically settled in the short-term with a deadline set within a year. Operating payables include payables denominated in foreign currencies for importing materials and are exposed to foreign exchange fluctuation risk. However, they remain within the range of the balance of operating receivables denominated in the same foreign currencies. Short-term borrowings are primarily for procuring operating capital and long-term debt, and bonds are issued to obtain necessary funds mainly for capital expenditures. A portion of the short-term debt and the long-term debt are exposed to interest rate fluctuation risk, but the effect is limited.

Derivative transactions such as foreign exchange forward contracts, currency swaps and interest rate swaps are used to hedge against the foreign currency fluctuation risk associated with operating receivables and payables denominated in foreign currencies, investment assets, loans receivable, etc. Since all derivative transactions correspond to assets and liabilities on the balance sheets, foreign exchange fluctuation risk is hedged and the fluctuation risk of market interest rates is rendered insignificant.

(3) Risk management system related to financial instruments

(a) Credit risk management (risk pertaining to breach of contract on the part of business partners)

The Company aims to mitigate credit risk by quickly identifying any concerns about the collection of operating receivables resulting from the deterioration of a business partner's financial position or other factors. Also, each business division periodically reviews the status of our main business partners and regularly monitors deadlines, balances and credit status for each partner. The consolidated subsidiaries also manage operating receivables in accordance with the practices of the Company.

As for debt securities, the credit risk is insignificant since the Company only handles those with high ratings or issued by companies with existing business relations with the Company and whose creditability is verifiable. Further, the Company periodically verifies the financial position of issuers to mitigate risk. Since the counterparties to the derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2017.

(b) Market risk management (foreign exchange and interest rate fluctuation risk)

The Company and some consolidated subsidiaries identify foreign exchange fluctuation risk associated with operating receivables denominated in foreign currencies by currency and by month. Such risk is hedged by using foreign exchange forward contracts, principally up to the amounts to be settled after netting operating payables denominated in foreign currencies. Note that the Company defines the monthly execution limit and the operating standard based upon its Procedures for Foreign Exchange Management and enters into foreign exchange forward contracts within the scope provided by the procedures. Also, the Companies utilize interest rate swaps mainly to hedge against the fluctuation risk of market interest rates.

For marketable securities and investment securities, the Company periodically identifies fair values and the financial positions of the issuers (business partner companies). For securities other than held-to-maturity bonds, the Company continuously revises the holding status taking into consideration the business relationship with the business partner companies.

The Financial Department of the Company executes derivative transactions based upon its Transaction Regulations for Derivative Financial Products, which defines the basic policy, the scope of operations, the personnel responsible for execution, the basis for decision making and the management system. Consolidated subsidiaries enter into derivative transactions based upon resolutions passed by their respective bodies upon the Company's approval. The Company ensures an effective internal checking system by segregating the execution function from the monitoring and managing function. Also, the Director of the Company's Financial Department performs evaluations for hedge effectiveness of all derivative transactions entered into by the Companies and reports the results together with a description of the underlying assets and liabilities to the President and the CFO on a monthly basis.

(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments by deadlines)

The Company manages liquidity risk by timely preparing and updating cash flow plans by the Financial Department and by maintaining a liquidity facility, which is the sum of liquidity on hand and commitment lines, in the approximate amount of one month's consolidated net sales. In addition, the Companies mitigate liquidity risk in principle by centralizing the Companies' funds using CMS. Accordingly, the Companies consider that no significant liquidity risk exists.

(4) Supplementary explanation for matters regarding fair value of financial instruments

The fair value of financial instruments is based on market price. If a market price is not available, another valuation method is used. Such methods include variable factors and assumptions, and the results of a valuation may differ depending on which factors and assumptions are used.

The contract amounts related to the derivative transactions shown in "Derivative Transactions" do not indicate the market risks associated with the derivative transactions themselves.

2. Matters regarding the fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2017 (the consolidated accounts settlement date of the year ending March 31, 2017), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 41,018	¥ 41,018	¥ —
(2) Notes and accounts receivable—trade	125,482	125,482	—
(3) Marketable and investment securities			
Available-for-sale securities	52,733	52,733	—
(4) Long-term loans receivable	1,301		
Allowance for doubtful receivables (*1)	(0)		
	1,301	1,300	(1)
Total assets	220,534	220,533	(1)
(1) Notes and accounts payable—trade	73,058	73,058	—
(2) Short-term loans payable	52,294	52,294	—
(3) Accounts payable—other	22,149	22,149	—
(4) Bonds payable	10,000	10,403	403
(5) Long-term loans payable	50,336	50,227	(109)
Total liabilities	207,837	208,131	294
Derivative transactions (*2)			
– Hedge accounting applied	(24)	(24)	—
– Hedge accounting not applied	708	708	—

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2016 (the consolidated accounts settlement date for the year ending March 31, 2016), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 43,162	¥ 43,162	¥ —
(2) Notes and accounts receivable—trade	121,683	121,683	—
(3) Marketable and investment securities			
Available-for-sale securities	45,772	45,772	—
(4) Long-term loans receivable	1,308		
Allowance for doubtful receivables (*1)	(0)		
	1,308	1,313	5
Total assets	211,925	211,930	5
(1) Notes and accounts payable—trade	64,820	64,820	—
(2) Short-term loans payable	52,696	52,696	—
(3) Accounts payable—other	24,609	24,609	—
(4) Bonds payable	10,000	10,550	550
(5) Long-term loans payable	53,773	54,427	654
Total liabilities	205,898	207,102	1,204
Derivative transactions (*2)			
– Hedge accounting applied	9	9	—
– Hedge accounting not applied	233	233	—

The table below shows the amounts as of March 31, 2017 calculated into U.S. dollars.

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	$ 365,612	$ 365,612	$ —
(2) Notes and accounts receivable—trade	1,118,477	1,118,477	—
(3) Marketable and investment securities			
Available-for-sale securities	470,033	470,033	—
(4) Long-term loans receivable	11,596		
Allowance for doubtful receivables (*1)	(0)		
	11,596	11,587	(9)
Total assets	1,965,718	1,965,709	(9)
(1) Notes and accounts payable—trade	651,199	651,199	—
(2) Short-term loans payable	466,120	466,120	—
(3) Accounts payable—other	197,424	197,424	—
(4) Bonds payable	89,135	92,727	3,592
(5) Long-term loans payable	448,667	447,696	(971)
Total liabilities	1,852,545	1,855,166	2,621
Derivative transactions (*2)			
– Hedge accounting applied	(214)	(214)	—
– Hedge accounting not applied	6,311	6,311	—

(*1) The amount of allowance for doubtful accounts, which is recorded for each long-term loan receivable, is excluded.

(*2) Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

Note 1.
Matters regarding the determination of fair value for financial instruments, marketable securities and derivative transactions

Assets

(1) Cash and cash equivalents
The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

(2) Notes and accounts receivable—trade
The fair value of notes and accounts receivable—trade settled in a short period of time approximates book value. Therefore, the book value is used as the fair value. The fair value of long-term notes and accounts receivable—trade is based on the present value calculated by discounting receivable amounts classified by certain periods at a rate that takes into account the time to maturity and credit risk.

(3) Marketable and investment securities
The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is based on market prices on exchanges or by prices obtained from financial institutions. Debt securities without available market prices are measured at present value by discounting future cash flows generated by the financial assets. Refer to "Securities" for matters regarding securities classified by the purpose for which they are held.

(4) Long-term loans receivable
The fair value of long-term loans receivable is measured at the present value of future cash flows classified by the length of term and by risk category, according to the Company's credit risk management, at a rate with credit spread added to appropriate indices such as JGB yields. The fair value of borrowings with special concern is measured at the amounts deemed collectable because of the existence of collateral and/or guarantees.

Liabilities

(1) Notes and accounts payable—trade, (2) Short-term loans payable and (3) Accounts payable—other

The fair value of notes and accounts payable—trade, short-term loans payable and accounts payable—other approximate book value because they are mostly settled in a short period of time. As a result, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by a certain period at a rate that takes into account the time to maturity and credit risk.

(4) Bonds payable

The fair value of bonds payable issued by the Company is measured based on the market price.

(5) Long-term loans payable

The fair value of long-term loans payable is measured at the present value calculated by discounting the total amount of principle and interest at an interest rate for similar new borrowings.

Derivative transactions

Refer to Note 6, "Derivative financial instruments and hedging transactions."

Note 2.

Financial instruments whose fair values are deemed extremely difficult to assess

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Unlisted equity securities	¥ 10,333	¥ 10,312	$ 92,103

The financial instruments shown above are not included in the tables in "(3) Marketable and investment securities" because their market prices were not available and their fair values were deemed extremely difficult to assess.

Note 3.

Redemption schedules after the consolidated balance sheet date for monetary receivables and securities with maturity dates

	Millions of yen			
	2017			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 41,018	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	125,482	—	—	—
Long-term loans receivable	51	597	456	197
Total	¥ 166,551	¥ 597	¥ 456	¥ 197

	Millions of yen			
	2016			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 43,162	¥ —	¥ —	¥ —
Notes and accounts receivable—trade	121,683	—	—	—
Long-term loans receivable	53	505	460	290
Total	¥ 164,898	¥ 505	¥ 460	¥ 290

	Thousands of U.S. dollars (Note 1)			
	2017			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	$ 365,612	$ —	$ —	$ —
Notes and accounts receivable—trade	1,118,477	—	—	—
Long-term loans receivable	454	5,321	4,065	1,756
Total	$1,484,543	$ 5,321	$ 4,065	$ 1,756

Note 4.

Maturity schedules after the consolidated balance sheet date for bonds and long-term debt

Refer to Note 10, "Short-term loans payable and long-term debt."

5. SECURITIES

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2017:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2017			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 18,513	¥ 50,941	¥ 32,428	$ 165,015	$ 454,060	$ 289,045
Bonds	—	—	—	—	—	—
	¥ 18,513	¥ 50,941	¥ 32,428	$ 165,015	$ 454,060	$ 289,045

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2017			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 2,090	¥ 1,792	¥ (298)	$ 18,629	$ 15,973	$ (2,656)
Bonds	—	—	—	—	—	—
	¥ 2,090	¥ 1,792	¥ (298)	$ 18,629	$ 15,973	$ (2,656)

The following table summarizes sales of available-for-sale securities as of March 31, 2017:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2017			2017		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	¥ 1,717	¥ 1,602	¥ (3)	$ 15,304	$ 14,279	$ (27)
Bonds	—	—	—	—	—	—
	¥ 1,717	¥ 1,602	¥ (3)	$ 15,304	$ 14,279	$ (27)

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2016:

Securities with book value exceeding acquisition cost:

	Millions of yen 2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 17,322	¥ 43,054	¥ 25,732
Bonds	—	—	—
	¥ 17,322	¥ 43,054	¥ 25,732

Securities with book value not exceeding acquisition cost:

	Millions of yen 2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,331	¥ 2,718	¥ (613)
Bonds	—	—	—
	¥ 3,331	¥ 2,718	¥ (613)

The following table summarizes sales of available-for-sale securities as of March 31, 2016:

	Millions of yen 2016		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 386	¥ 77	¥ —
Bonds	—	—	—
	¥ 386	¥ 77	¥ —

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Foreign exchange forward contracts				
Sell contract				
U.S. dollar	**¥ 1,343**	**¥ (0)**	**$ 11,971**	**$ (0)**
Currency swap contracts				
Pay euro and receive U.S. dollars	**2,277**	**(23)**	**20,296**	**(205)**
Pay Malaysia ringgit and receive Singapore dollars	**508**	**(0)**	**4,528**	**(0)**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay fixed and receive floating	**¥ 2,244**	**¥ (1)**	**$ 20,002**	**$ (9)**

Derivative transactions to which hedge accounting was applied as of March 31, 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Currency swaps contracts				
Pay U.S. dollars and receive Malaysia ringgit	**¥ 6,283**	**¥ 708**	**$ 56,003**	**$ 6,311**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swaps				
Pay floating and receive fixed	**¥ 500**	(*)	**$ 4,457**	(*)

Derivative transactions to which hedge accounting was not applied as of March 31, 2016 were as follows:

	Contract amount (Millions of yen)	Fair value (Millions of yen)
Foreign exchange forward contracts		
Sell contract		
U.S. dollar	¥ 1,353	¥ 4
Currency swap contract		
Pay JPY and receive U.S. dollar	2,421	22

	Contract amount (Millions of yen)	Fair value (Millions of yen)
Interest rate swaps		
Pay fixed and receive floating	¥ 2,254	¥ (17)

Derivative transactions to which hedge accounting was applied as of March 31, 2016 were as follows:

	Contract amount (Millions of yen)	Fair value (Millions of yen)
Currency swaps		
Pay U.S. dollars and receive Malaysia ringgit	¥ 3,606	¥ 233

	Contract amount (Millions of yen)	Fair value (Millions of yen)
Interest rate swaps		
Pay floating and receive fixed	¥ 500	(*)

(*) Because interest rate swaps are processed with loans payable, the fair value is included in the fair value of the loans payable (Note 4).

7. INVENTORIES

Inventories at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Merchandise and finished goods	**¥ 52,493**	¥ 51,746	**$ 467,894**
Work-in-process	**10,149**	10,126	**90,462**
Raw materials and supplies	**34,107**	31,829	**304,011**
	¥ 96,749	¥ 93,701	**$ 862,367**

8. IMPAIRMENT LOSS

The Companies recognized impairment loss in other expenses for the year ended March 31, 2016.

Location	Use	Type
SANVIC Inc. (Hamamatsu, Shizuoka)	Business assets (production facility for molding polyvinyl chloride)	Machinery, equipment and vehicles, etc.

The Companies groups its assets mainly according to business units. For the business run mainly by subsidiaries, the Companies group assets according to subsidiary units.

Because profitability worsened, the book value of the production facilities for molding polyvinyl chloride of SANVIC Inc. was written down to its recoverable value, and the Companies posted an impairment loss of ¥1,536 million. Of this amount, machinery, equipment and vehicles accounted for ¥1,485 million.

The recoverable value of the above asset groups were estimated by net sales values based mainly on appraisal values determined by real property appraisers.

9. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 30.81% for the year ended March 31, 2017, approximately 33.02% for the year ended March 31, 2016 and approximately 35.59% for the year ended March 31, 2015.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2017, 2016 and 2015 were as follows:

	2017	2016	2015
Statutory tax rate	30.81%	33.02%	This information is not required as the differences between the statutory tax rate and the Companies' effective tax rate was not more than 5% of the statutory tax rate.
Permanently non-deductible expense	0.66%	0.65%	
Permanently non-taxable income	(7.42%)	(5.06%)	
Elimination of dividends on consolidation	6.92%	4.61%	
Tax credits primarily for research and development expenses	(12.35%)	(2.74%)	
Change in valuation allowance	2.42%	(0.34%)	
Tax rate differences of foreign subsidiaries	3.31%	0.65%	
Adjustment of deferred tax assets by the changes of tax rate	—%	1.33%	
Other	0.67%	(0.78%)	
Effective tax rate	25.02%	31.34%	

Significant components of deferred tax assets and liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Net defined benefit liability	¥ 11,247	¥ 11,092	$ 100,250
Tax loss carryforwards	3,061	3,921	27,284
Loss on valuation of investment securities	860	856	7,666
Excess bonuses accrued	1,799	1,666	16,035
Impairment loss on noncurrent assets	3,739	4,083	33,327
Unrealized gain	1,478	1,539	13,174
Tax credit carryforwards	2,976	1,745	26,526
Other	3,084	3,875	27,489
Subtotal	28,244	28,777	251,751
Valuation allowance	(6,834)	(6,138)	(60,914)
Total deferred tax assets	21,410	22,639	190,837
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	9,279	7,456	82,708
Depreciation of overseas subsidiaries	4,207	4,186	37,499
Other	1,541	1,917	13,735
Total deferred tax liabilities	15,027	13,559	133,942
Net deferred tax assets (liabilities)	¥ 6,383	¥ 9,080	$ 56,895

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates:
On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 were changed for the fiscal year ended March 31, 2015 from 35.59% to 33.02% and 32.22%, respectively, as of March 31, 2015. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting deferred tax liabilities) increased by ¥21 million as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥935 million, evaluation differences of other securities increased by ¥892 million and accumulated adjustments for employee retirement benefits increased by ¥64 million.

On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed for the fiscal year ended March 31, 2016 from 32.22% to 30.81% and 30.58%, respectively, as of March 31, 2016. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥271 million as of March 31, 2016 and accumulated adjustments for employee retirement benefits decreased by ¥255 million. Deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥407 million and evaluation differences of other securities increased by ¥391 million.

10. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 1.20% and 1.00% at March 31, 2017 and 2016, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.00% to 2.80% in 2017 and 2016, maturing serially through 2024	**¥ 1,427**	¥ 1,777	**$ 12,719**
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 4.51% in 2017 and 2016, maturing serially through 2033	**58,314**	57,827	**519,779**
Bonds at interest rate of 1.67%, due September 13, 2019	**10,000**	10,000	**89,135**
	69,741	69,604	**621,633**
Less amounts due within one year	**9,405**	5,831	**83,831**
	¥ 60,336	¥ 63,773	**$ 537,802**

At March 31, 2017, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥1,794 million ($15,991 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Property, plant and equipment, net	**¥ 4,808**	**$ 42,856**
Land	**1,170**	**10,429**
Investment securities	**2,188**	**19,503**
Intangible assets	**16**	**142**
	¥ 8,182	**$ 72,930**

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2018	¥ 9,405	$ 83,831
2019	9,558	85,195
2020	12,340	109,992
2021	7,430	66,227
2022	8,797	78,412
2023 and thereafter	22,211	197,976
	¥ 69,741	$ 621,633

11. PROVISION FOR RETIREMENT BENEFITS

Defined benefit plans

(1) Movement in retirement benefit obligations, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	**2017**
Balance at beginning of year	**¥ 113,742**	¥ 92,723	**$ 1,013,834**
Service cost	**3,841**	2,974	**34,237**
Interest cost	**812**	1,526	**7,238**
Actuarial loss (gain)	**1,015**	16,544	**9,047**
Increase from newly consolidated subsidiary	**—**	3,118	**—**
Benefits paid	**(3,842)**	(3,100)	**(34,245)**
Other	**(45)**	(43)	**(402)**
Balance at the end of year	**¥ 115,523**	¥ 113,742	**$ 1,029,709**

(2) Movements in plan assets, except plan applying simplified method

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Balance at beginning of year	¥ 80,023	¥ 78,171	$ 713,281
Expected return on plan asset	2,001	1,331	17,836
Actuarial loss (gain)	304	(1,267)	2,710
Contributions paid by the employer	1,681	1,622	14,983
Benefits paid	(2,666)	(2,387)	(23,763)
Increase from newly consolidated subsidiary	—	2,553	—
Balance at the end of year	¥ 81,343	¥ 80,023	$ 725,047

(3) Movement in liability for retirement benefits of defined benefit plan applying the simplified method

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Balance at beginning of year	¥ 2,949	¥ 2,654	$ 26,286
Retirement benefit cost	451	300	4,020
Benefits paid	(269)	(249)	(2,398)
Increase from newly consolidated subsidiary	—	244	—
Other	(1)	(0)	(9)
Balance at the end of year	¥ 3,130	¥ 2,949	$ 27,899

(4) Reconciliation from retirement benefit obligations and plan assets to liability and asset for retirement benefits

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Funded retirement benefit obligation	¥ 89,735	¥ 88,056	$ 799,848
Plan asset	(81,350)	(80,030)	(725,109)
	8,385	8,026	74,739
Unfunded retirement benefit obligations	28,925	28,642	257,822
Total net liability (asset) for retirement benefits	37,310	36,668	332,561
Liability for retirement benefits	37,310	36,668	332,561
Asset for retirement benefits	—	—	—
Total net liability (asset) for retirement benefits	¥ 37,310	¥ 36,668	$ 332,561

(5) Retirement benefit costs

	Millions of yen 2017	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2017
Service cost	¥ 3,841	¥ 2,974	¥ 2,963	$ 34,237
Interest cost	812	1,526	1,514	7,238
Expected return on plan assets	(2,001)	(1,331)	(1,157)	(17,836)
Net actuarial loss amortization	2,515	344	902	22,417
Other	451	300	344	4,020
	¥ 5,618	¥ 3,813	¥ 4,566	$ 50,076

(6) Remeasurements for retirement benefits

	Millions of yen 2017	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2017
Actuarial gains and losses	¥ 1,804	¥ (17,467)	¥ 6,685	$ 16,080

(7) Accumulated remeasurements for retirement benefits

	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars (Note 1) 2017
Actuarial gains and losses that are yet to be recognized	¥ 13,974	¥ 15,779	$ 124,557

(8) Plan assets

1. Plan assets comprise:

	2017	2016
Bonds	52%	56%
Equity securities	25%	25%
General account	15%	15%
Other	8%	4%
	100%	100%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions

	2017	2016	2015
Discount rate	0.7% – 3.97%	0.7% – 3.83%	1.28% – 3.64%
Long-term expected rate of return	2.5%	1.68% – 2.5%	1.68%

Defined contribution plans

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
The amount of contributions to the defined contribution plan	¥ 607	¥ 601	¥ 500	$ 5,410

12. CONTINGENT LIABILITIES

At March 31, 2017 and 2016, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Notes endorsed	¥ 9	¥ 3	$ 80
Notes discounted	30	50	267
Guarantees	464	510	4,136
Letters of awareness	180	168	1,604
	¥ 683	¥ 731	$ 6,087

13. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

On May 12, 2017, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2017 on the shares of stock then outstanding at the rate of ¥9.0 ($0.08) per share or a total of ¥2,980 million ($26,562 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

14. STOCK OPTIONS

(1) The Company

The Company has implemented a stock option plan by which subscription rights to shares were granted to directors of the Company.

The following table summarizes the Company's stock option plan.

	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Category and number of people granted stock options	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 12	Company directors, 12	Company directors, 13	Company directors, 12	Company directors, 13	Company directors, 13
Number of stock options granted by category of stock	74,000 shares of common stock	74,000 shares of common stock	75,000 shares of common stock	65,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	57,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 10, 2016 through August 9, 2041 (*)	From August 12, 2015 through August 11, 2040 (*)	From August 12, 2014 through August 11, 2039 (*)	From August 10, 2013 through August 9, 2038 (*)	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)	From August 11, 2010 through August 10, 2035 (*)	From August 12, 2009 through August 11, 2034 (*)	From August 12, 2008 through August 11, 2033 (*)	From September 11, 2007 through September 10, 2032 (*)

(*) If a holder of subscription rights to shares loses his/her position as Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Unvested stock options										
Beginning of term	—	—	—	—	—	—	—	—	—	—
Granted	74,000	—	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—
Vested	74,000	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—
Vested stock options										
Beginning of term	—	74,000	70,000	44,000	35,000	32,000	25,000	19,000	20,000	3,000
Vested	74,000	—	—	—	—	—	—	—	—	—
Exercised	—	7,000	7,000	5,000	5,000	5,000	4,000	4,000	4,000	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—
Unexercised balance	74,000	67,000	63,000	39,000	30,000	27,000	21,000	15,000	16,000	3,000
Exercise price (yen)	1	1	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	684	684	684	684	684	684	684	684	—
Fair value per stock at the date granted (yen)	721	947	502	558	363	412	456	622	600	883
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	6.10	6.10	6.10	6.10	6.10	6.10	6.10	6.10	—
Fair value per stock at the date granted (USD)	6.43	8.44	4.47	4.97	3.24	3.67	4.06	5.54	5.35	7.87

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥53 million ($472 thousand), ¥70 million and ¥38 million for the years ended March 31, 2017, 2016 and 2015, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015
Expected volatility	30.74%	24.04%
Expected holding period	4 years	6 years
Expected dividend	18 yen	16 yen
Risk free interest rate	(0.161)%	0.121%

(2) CEMEDINE CO., LTD.

CEMEDINE CO., LTD. has implemented a stock option plan by which subscription rights to shares were granted to directors of the company.

The following table summarizes the company's stock option plan.

	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Category and number of people granted stock options	Company directors, 5	Company directors, 4	Company directors, 6	Company directors, 7	Company directors, 8	Company directors, 8	Company directors, 8	Company directors, 7	Company directors, 7
Number of stock options granted by category of stock	32,000 shares of common stock	26,000 shares of common stock	38,000 shares of common stock	53,000 shares of common stock	58,000 shares of common stock	64,000 shares of common stock	67,000 shares of common stock	58,000 shares of common stock	58,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.
Exercise period	From July 8, 2016 through July 7, 2036 (*)	From July 10, 2015 through July 9, 2035 (*)	From July 11, 2014 through July 10, 2034 (*)	From July 10, 2013 through July 9, 2033 (*)	From July 13, 2012 through July 12, 2032 (*)	From July 15, 2011 through July 14, 2031 (*)	From July 27, 2010 through July 26, 2030 (*)	From August 12, 2009 through August 11, 2029 (*)	From October 21, 2008 through October 20, 2028 (*)

(*) If a holder of subscription rights to shares loses his/her position as Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Unvested stock options									
Beginning of term	—	26,000	22,000	14,000	12,000	7,000	8,000	8,000	8,000
Granted	32,000	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—
Unvested balance	32,000	26,000	22,000	14,000	12,000	7,000	8,000	8,000	8,000
Vested stock options									
Beginning of term	—	—	—	—	—	—	—	—	—
Vested	—	—	—	—	—	—	—	—	—
Exercised	—	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—
Unexercised balance	—	—	—	—	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—	—	—	—	—	—
Fair value per stock at the date granted (yen)	441	415	388	388	352	342	293	273	163
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	—	—	—	—	—	—	—
Fair value per stock at the date granted (USD)	3.93	3.70	3.46	3.46	3.14	3.05	2.61	2.43	1.45

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥13 million ($116 thousand) and ¥2 million for the years ended March 31, 2017 and 2016, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on July 7, 2016
Expected volatility	22.22%
Expected holding period	6 years and 2 months
Expected dividend	10 yen
Risk-free interest rate	(0.380)%

15. BUSINESS COMBINATION DUE TO ACQUISITION

(Business combination due to acquisition)

At a meeting held on December 8, 2015, the Company's Board of Directors resolved to consolidate equity method affiliate CEMEDINE CO., LTD. as a subsidiary by conducting a tender offer to acquire the affiliate's common shares in accordance with the Financial Instruments and Exchange Act of Japan. The tender offer, which began on the day following the resolution on December 9, was completed on January 13, 2016. The following is an overview.

1. Summary of business combination

(1) Name of acquired company and its business

Name of acquired company

CEMEDINE CO., LTD.

Business

Manufacture and sale of adhesives, sealer, special paints, adhesive tapes

(2) Reasons for executing business combination

Since first accepting a third-party allotment of shares for recapitalizing CEMEDINE CO., LTD. in April 1990, Kaneka had strengthened its capital relationship with the affiliate in stages, cooperating in a mutual effort to expand business. However, Kaneka's Board reached a unanimous agreement that making CEMEDINE into a consolidated subsidiary would be an extremely effective means of raising the Kaneka Group's corporate value by promoting the mutual provision and effective use of management resources in areas encompassing the assets, technologies, expertise and overseas networks of the two companies. As a result, the two companies each held a Board of Directors meeting on December 8, 2015, and resolved to conduct a tender offer for Kaneka to consolidate CEMEDINE as a subsidiary.

(3) Date of business combination

January 20, 2016

(4) Legal form of business combination

Share acquisition in exchange for cash

(5) Name of company after combination

There was no change in the company name.

(6) Share of voting rights acquired

Share of voting rights held immediately before the date of business combination 29.61%

Share of voting rights additionally acquired on the date of business combination 21.39%

Share of voting rights held after acquisition 51.00%

(Note) Kaneka's ratio of voting rights in CEMEDINE CO., LTD. was calculated based on a denominator of 150,129 individual voting rights attached to 15,012,901 shares of outstanding CEMEDINE stock adjusted for dilution. This figure was calculated by adjusting the 15,167,000 nominal shares of outstanding stock as of September 30, 2015, recorded in CEMEDINE's "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015," by adding 105,000 shares of unissued stock underlying 105 stock acquisition rights that had remained unexercised as of September 30, 2015 and subtracting a balance of 259,099 shares of treasury stock that CEMEDINE had recorded as of September 30, 2015. CEMEDINE had recorded the issuance of 26 new stock issuance rights in its "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015" and had reported a balance of 176 outstanding stock acquisition rights as of March 31, 2015 in the securities report it filed on June 19, 2015 for the year ended March 31, 2015. From this total of 202 stock acquisition rights, the exercise of 97 stock acquisition rights as of January 14, 2016 was subtracted to arrive at the net figure of 105 outstanding stock acquisition rights.

(7) Rational behind determining the company to be acquired

The Company acquired a majority of the voting rights and clearly has control over the decision making body of the acquiree.

2. Period of results of the acquired company included in the consolidated financial statements

The acquired company's financial results from January 1, 2016 to March 31, 2016 are included in the consolidated statement of income for the year ended March 31, 2016 as the acquisition date is regarded as January 1, 2016.

3. Additional acquisition of shares in acquired company

Acquisition cost and consideration paid

		Millions of yen
Consideration paid for the acquisition		
Fair value of common stock of CEMEDINE held before the business combination	¥	2,560
Cash paid by additional common stock acquired as of the business combination		1,850
Acquisition cost	¥	4,410

4. Main acquisition related costs

Advisory fees: ¥101 million

5. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions until the business combination

Gain on step acquisition: ¥230 million

6. Amount of gain on negative goodwill recognized and reason for recognition

(1) Amount of gain on negative goodwill recognized

¥1,313 million

(2) Reason for recognition

The acquisition cost was more than the net asset value at the date of business combination.

7. Value of assets and liabilities assumed as of business combination

		Millions of yen
Current assets	¥	14,052
Non-current assets		8,159
Total assets	¥	22,211
Current liabilities	¥	8,770
Non-current liabilities		1,836
Total liabilities	¥	10,606

8. Estimated effect on consolidated statement of operations assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and methods for calculation

		Millions of yen
Net sales	¥	17,371
Operating income		903
Income before income taxes and non-controlling interests		634
Net income attributable to owners of parent		30

		Yen
Net income per share	¥	0.09

(Methods for calculating estimated amounts)

The difference between net sales and profit and loss accounts calculated assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and the corresponding figures in the accompanying consolidated statement of operations were used.

The amounts shown above have not been audited.

(Additional Acquisition of Subsidiary's Shares)

1. Summary of business combination

(1) Name of acquired company and its business

Name of acquired company

Eurogentec S.A.

Business

Sales and manufacture of biopharmaceuticals, diagnostic and biotech products

(2) Date of business combination

August 19, 2016

(3) Legal form of business combination

Acquisition of shares from non-controlling interests

(4) Name of company after combination

There was no change in the company name.

(5) Other matters regarding summary

The company group acquired 30% of the voting rights and made the target company a wholly-owned subsidiary.

Through the business combination, the Company expects to strengthen management structure and expedite decision making.

2. Summary of accounting treatment applied

Pursuant to the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the business combination under common control was treated as a transaction with non-controlling interests.

3. Additional acquisition of shares in subsidiary

Acquisition cost and consideration paid

Consideration paid for acquisition: Cash and cash equivalents in the amount of ¥2,603 million ($23,202 thousand)

4. Changes in the portion held by the Company in connection with the transactions with non-controlling interests

(1) Main reasons for changes in capital surplus

Additional acquisition of subsidiary's shares

(2) Decreases in capital surplus due to transactions with non-controlling interests

¥2,181 million ($19,440 thousand)

16. SEGMENT INFORMATION

1. Overview of Reporting Segments

Kaneka's reporting segments aim to gather financial information from the Company's separate business units to facilitate decisions by the Board of Directors on the allocation of management resources and allow for the Board's regular review of business performance.

Technology is the common foundation of all the Company's operations. These operations are divided into segments by product and service type, application and market similarity. Each segment develops its operations in accordance with a global group strategy for the Company's products and services that has unified subsidiaries in Japan and overseas.

Accordingly, the Company has categorized its operations by products and services, based on its business divisions. The corresponding seven reporting segments are Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others. The Company establishes or abolishes business divisions as needed in order to facilitate a swift and flexible response to changes in the business environment. Accordingly, when determining reporting segments, the Company gives emphasis to continuity over a considerable period.

In the Chemicals segment, the Kaneka Group manufactures and sells products with a broad range of applications, from daily-use products to industrial materials, such as high-value-added specialty PVC resins and other PVC resins. In the Functional Plastics segment, the Group manufactures polymers that have been functionally modified for such qualities as superior heat resistance, weather resistance, flame resistance and elasticity. The resins it produces with these augmented functions are sold to the construction, automotive, home electronics and communication equipment industries. In the Expandable Plastics and Products segment, the Group manufactures and sells cushioning materials for electrical products, shock-absorbing materials for automotive and fishery applications, and expandable plastics and products used in housing insulation. In the Foodstuffs Products segment, the Group produces mainly bakery yeast and margarine for sale to commercial confectioneries, bakeries and others in the food products industry. In Life Science Products, the Group has leveraged its expertise in fermentation and high-polymer technologies into pharmaceutical intermediates (API and intermediate pharmaceuticals), functional foodstuffs, and catheters and other medical devices, which it manufactures and sells to medical product manufacturers and medical institutions. In the Electronic Products segment, the Group manufactures and sells highly functional films for electronic equipment manufacturers, as well as solar cells. In the Synthetic Fibers and Others segment, the Group is mainly involved in the production and sale of synthetic fibers used in wigs, apparel and other applications.

2. Basis of Calculation of Monetary Amounts for Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reporting Segment

Accounting treatment and procedures for reported business segments are the same as those shown in the "Notes to the Consolidated Financial Statements." Intersegment sales and transfer prices are calculated based on market value.

3. Segment Information by Business Category

Millions of yen

2017	Segment Information								Adjustments	Consolidated
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total		
Sales										
Customers	¥ 96,632	¥ 110,665	¥ 64,258	¥ 147,312	¥ 55,818	¥ 35,551	¥ 37,986	¥ 548,222	¥ —	¥ 548,222
Intersegment	1,110	958	93	11	53	226	1,375	3,826	(3,826)	—
Total	97,742	111,623	64,351	147,323	55,871	35,777	39,361	552,048	(3,826)	548,222
Segment profit (loss)	7,428	14,825	5,791	4,515	11,662	(1,182)	10,816	53,855	(20,690)	33,165
Segment assets	101,496	104,011	53,026	85,031	68,161	67,862	34,321	513,908	78,992	592,900
Other Items										
Depreciation	5,124	3,906	2,685	2,683	3,112	4,738	2,574	24,822	2,821	27,643
Amortization of goodwill	—	32	56	—	431	—	—	519	—	519
Investment in equity method affiliates	—	69	1,953	—	—	—	—	2,022	—	2,022
Increase in assets	4,967	9,460	2,965	2,396	3,480	3,604	8,456	35,328	2,652	37,980

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

Millions of yen

2016	Segment Information								Adjustments	Consolidated
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total		
Sales										
Customers	¥ 103,430	¥ 98,386	¥ 65,148	¥ 144,960	¥ 58,922	¥ 39,123	¥ 45,258	¥ 555,227	¥ —	¥ 555,227
Intersegment	940	759	61	9	26	261	1,251	3,307	(3,307)	—
Total	104,370	99,145	65,209	144,969	58,948	39,384	46,509	558,534	(3,307)	555,227
Segment profit (loss)	5,568	15,117	6,310	3,749	11,724	20	15,658	58,146	(19,926)	38,220
Segment assets	102,106	94,575	52,444	82,362	66,625	68,514	31,713	498,339	78,912	577,251
Other Items										
Depreciation	5,310	3,364	2,339	2,512	3,150	4,456	2,421	23,552	2,687	26,239
Amortization of goodwill	—	36	—	—	468	—	—	504	—	504
Investment in equity method affiliates	—	76	1,843	—	—	—	—	1,919	—	1,919
Increase in assets	4,855	15,760	4,469	3,178	3,085	4,710	9,097	45,154	2,177	47,331

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

Millions of yen

2015	Segment Information								Adjustments	Consolidated
	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total		
Sales										
Customers	¥ 110,716	¥ 95,388	¥ 66,073	¥ 139,729	¥ 53,399	¥ 42,748	¥ 44,136	¥ 552,189	¥ —	¥ 552,189
Intersegment	1,267	626	106	1	62	332	1,212	3,606	(3,606)	—
Total	111,983	96,014	66,179	139,730	53,461	43,080	45,348	555,795	(3,606)	552,189
Segment profit (loss)	2,927	11,293	4,420	1,807	9,342	(943)	12,131	40,977	(16,342)	24,635
Segment assets	108,198	74,369	50,489	79,991	67,692	73,229	28,906	482,874	75,089	557,963
Other Items										
Depreciation	4,421	2,939	2,065	2,302	2,912	4,359	2,420	21,418	2,091	23,509
Amortization of goodwill	—	37	—	—	473	—	—	510	—	510
Investment in equity method affiliates	—	2,247	1,702	—	—	—	—	3,949	—	3,949
Increase in assets	10,577	3,350	3,008	2,817	3,255	5,666	13,903	42,576	3,002	45,578

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

2017	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
	Segment Information								Thousands of U.S. dollars (Note 1)	
Sales										
Customers	$ 861,324	$ 986,407	$ 572,760	$ 1,313,058	$ 497,531	$ 316,883	$ 338,587	$ 4,886,550	$ —	$ 4,886,550
Intersegment	9,894	8,539	829	98	472	2,014	12,257	34,103	(34,103)	—
Total	871,218	994,946	573,589	1,313,156	498,003	318,897	350,844	4,920,653	(34,103)	4,886,550
Segment profit (loss)	66,209	132,142	51,618	40,244	103,949	(10,536)	96,408	480,034	(184,419)	295,615
Segment assets	904,680	927,097	472,645	757,920	607,550	604,885	305,916	4,580,693	704,092	5,284,785
Other Items										
Depreciation	45,673	34,816	23,933	23,915	27,739	42,232	22,942	221,250	25,145	246,395
Amortization of goodwill	—	285	499	—	3,842	—	—	4,626	—	4,626
Investment in equity method affiliates	—	615	17,408	—	—	—	—	18,023	—	18,023
Increase in assets	44,273	84,321	26,428	21,357	31,019	32,124	75,372	314,894	23,639	338,533

Note: Segment profit is reconciled with operating income in the consolidated financial statements.

4. Reconciliation between Segment Total and Consolidated Statements of Income (Adjustments)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Income				
Segment total	¥ 53,855	¥ 58,146	¥ 40,977	$ 480,034
Elimination of intersegment transactions	(8)	12	(1)	(71)
Companywide expenses (Note)	(20,696)	(19,932)	(16,336)	(184,473)
Other adjustments	14	(6)	(5)	125
Operating income in the quarterly consolidated statements of income	¥ 33,165	¥ 38,220	¥ 24,635	$ 295,615

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2017	2016	2015	2017
Assets				
Segment total	¥ 513,908	¥ 498,339	¥ 482,874	$ 4,580,693
Elimination of intersegment transactions	(12,802)	(12,993)	(12,367)	(114,110)
Companywide assets (Note)	91,212	91,484	87,306	813,014
Other adjustments	582	421	150	5,188
Total assets in the quarterly consolidated statements of income	¥ 592,900	¥ 577,251	¥ 557,963	$ 5,284,785

Note: Companywide assets are working capital, investment securities and land that are not allocable to any reporting segment.

	Segment total			Other			Adjustments			Consolidated (Millions of yen)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015	2017	2016	2015
Other Items												
Depreciation	¥ 24,822	¥ 23,552	¥ 21,418	¥ 2,821	¥ 2,687	¥ 2,091	¥ —	¥ —	¥ —	¥ 27,643	¥ 26,239	¥ 23,509
Increase in assets	35,328	45,154	42,576	2,652	2,177	3,002	—	—	—	37,980	47,331	45,578

Note: Other is primarily expenses for basic R&D that are not allocable to any reporting segment.

	Segment total	Other	Adjustments	Consolidated
	Thousands of U.S. dollars (Note 1)			
	2017	2017	2017	2017
Other Items				
Depreciation	$ 221,250	$ 25,145	$ —	$ 246,395
Increase in assets	314,894	23,639	—	338,533

Note: Other is primarily expenses for basic R&D that are not allocable to any reporting segment.

(Related Information)

Related information at March 31, 2017, 2016 and 2015 consisted of the following.

1. Information by Product and Service

No information is reported because product and service classifications are the same as the reporting segment classifications.

2. Geographic Area

(1) Sales

2017					Millions of yen
Japan	Asia	North America	Europe	Other areas	Total
¥ 344,891	**¥ 86,188**	**¥ 42,702**	**¥ 51,068**	**¥ 23,373**	**¥ 548,222**

2016					Millions of yen
Japan	Asia	North America	Europe	Other areas	Total
¥ 337,814	¥ 91,012	¥ 43,628	¥ 55,667	¥ 27,106	¥ 555,227

2015					Millions of yen
Japan	Asia	North America	Europe	Other areas	Total
¥ 341,124	¥ 87,822	¥ 43,478	¥ 54,628	¥ 25,137	¥ 552,189

2017					Thousands of U.S. dollars (Note 1)
Japan	Asia	North America	Europe	Other areas	Total
$ 3,074,169	**$ 768,232**	**$ 380,622**	**$ 455,192**	**$ 208,335**	**$ 4,886,550**

Note: Sales are classified into countries or regions based on the geographic location of customers.

(2) Property, plant and equipment

2017					Millions of yen
Japan	Malaysia	Asia-Other	North America	Europe	Total
¥ 161,254	**¥ 28,418**	**¥ 7,012**	**¥ 20,338**	**¥ 8,522**	**¥ 225,544**

2016					Millions of yen
Japan	Malaysia	Asia-Other	North America	Europe	Total
¥ 156,035	¥ 25,551	¥ 8,172	¥ 21,578	¥ 8,379	¥ 219,715

2017					Thousands of U.S. dollars (Note 1)
Japan	Malaysia	Asia-Other	North America	Europe	Total
$ 1,437,330	**$ 253,302**	**$ 62,501**	**$ 181,282**	**$ 75,960**	**$ 2,010,375**

3. Information on Major Customers

No information is reported because no sales to any external customer represented more than 10% of net sales on the consolidated statements of income.

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2017, 2016 and 2015 consisted of the following.

Millions of yen

2017	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

Millions of yen

2016	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ 1,536	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1,536	¥ —	¥ 1,536

Millions of yen

2015	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

Thousands of U.S. dollars (Note 1)

2017	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2017 and 2016 consisted of the following.

Millions of yen

2017	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	¥ —	¥ 32	¥ 56	¥ —	¥ 431	¥ —	¥ —	¥ 519	¥ —	¥ 519
Balance	—	141	—	—	3,182	—	—	3,323	—	3,323

Millions of yen

2016	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	¥ —	¥ 36	¥ —	¥ —	¥ 468	¥ —	¥ —	¥ 504	¥ —	¥ 504
Balance	—	194	—	—	3,929	—	—	4,123	—	4,123

Thousands of U.S. dollars (Note 1)

2017	Segment Information: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Goodwill)										
Amortization	$ —	$ 285	$ 499	$ —	$ 3,842	$ —	$ —	$ 4,626	$ —	$ 4,626
Balance	—	1,257	—	—	28,362	—	—	29,619	—	29,619

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Functional Plastics segment, the Company recorded gain on negative goodwill of ¥1,313 million in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2016.

17. SUBSEQUENT EVENTS

(Reclassification in Segments)

In the Kaneka Group's mid-term management vision newly started in fiscal 2017, we radically reformed our management system in order to accelerate our contribution to the development of society by creating new value through 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 aging society.

Our business divisions have been renamed "Solutions Vehicles" 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 Vehicles" consistent with four new business domains known as "Solutions Units." 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 will be reclassified into new reporting segments which reflected the new business domains from the beginning of the fiscal year ending March 31, 2018.

Solutions Unit (Reporting Segments)	Solutions Vehicle (SV)
Material Solutions Unit	Vinyls and Chlor-Alkali SV
	Performance Polymers SV
Quality of Life Solutions Unit	Foam & Residential Techs SV
	E & I Technology SV
	PV & Energy management SV
	Performance Fibers SV
Health Care Solutions Unit	Medical Devices SV
	Pharma & Supplemental Nutrition SV (Pharma)
Nutrition Solutions Unit	Pharma & Supplemental Nutrition SV (Supplemental Nutrition)
	Foods & Agris SV

Segment information for the fiscal year ended March 31, 2017 based on new reporting segments is as follows:

Millions of yen

	Segment Information								
2017	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Total	Adjustments	Consolidated
Sales									
Customers	**¥ 207,297**	**¥ 136,849**	**¥ 45,141**	**¥ 157,990**	**¥ 547,277**	**¥ 945**	**¥ 548,222**	**¥ —**	**¥ 548,222**
Intersegment	**1,357**	**11**	**—**	**39**	**1,407**	**1,374**	**2,781**	**(2,781)**	**—**
Total	**208,654**	**136,860**	**45,141**	**158,029**	**548,684**	**2,319**	**551,003**	**(2,781)**	**548,222**
Segment profit (loss)	**22,251**	**15,041**	**10,897**	**5,281**	**53,470**	**382**	**53,852**	**(20,687)**	**33,165**

Thousands of U.S. dollars (Note 1)

	Segment Information								
2017	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Total	Adjustments	Consolidated
Sales									
Customers	**$ 1,847,732**	**$ 1,219,797**	**$ 402,362**	**$ 1,408,235**	**$ 4,878,126**	**$ 8,424**	**$ 4,886,550**	**$ —**	**$ 4,886,550**
Intersegment	**12,095**	**98**	**—**	**349**	**12,542**	**12,246**	**24,788**	**(24,788)**	**—**
Total	**1,859,827**	**1,219,895**	**402,362**	**1,408,584**	**4,890,668**	**20,670**	**4,911,338**	**(24,788)**	**4,886,550**
Segment profit (loss)	**198,333**	**134,067**	**97,130**	**47,072**	**476,602**	**3,406**	**480,008**	**(184,393)**	**295,615**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kaneka Corporation:

We have audited the accompanying consolidated financial statements of Kaneka Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2017, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaneka Corporation and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for each of the three years in the period ended March 31, 2017, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August, 9, 2017
Osaka, Japan

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