

Quarterly Financial Summary

3rd Quarter, ended December 31, 2017

February 8, 2018
Kaneka Corporation

Contents

Summary	1
Net Sales, Operating Income by Quarterly	2
Net Sales , Operating Income by Segments	3
Business Performance by Segments	4
Consolidated Balance Sheet	8
Consolidated Cash Flow	9
Consolidated Business Forecasts	10
Appendix	11

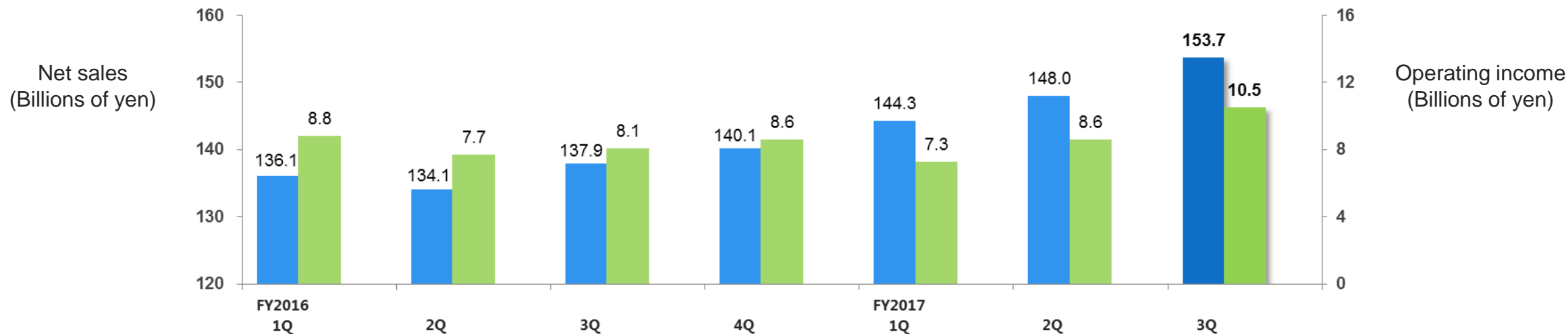
The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections.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

(Billions of yen)

	FY2016 3Q (Apr.-Dec.)	FY2017 3Q (Apr.-Dec.)	Difference	
			Amount	%
Net sales	408.1	445.9	37.8	9.3%
Operating income	24.6	26.4	1.8	7.3%
Ordinary income	20.8	24.3	3.5	17.1%
Net income attributable to owners of parent	13.0	15.7	2.8	21.5%
Net income per share	¥39.03	¥47.89		

- Net sales reached a new record high, driven by the overseas business
- Operating income increased, absorbing a sharp increase in certain raw material prices (1Q) and the impact of hurricanes in the U.S. (2Q). Ordinary income and net income attributable to owners of parent also both increased.

Net Sales, Operating Income by Quarterly



(Billions of yen)	FY2016				FY2017		
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q
Net sales	136.1	134.1	137.9	140.1	144.3	148.0	153.7
Operating income	8.8	7.7	8.1	8.6	7.3	8.6	10.5

- Net sales : Expanded steadily, increasing for a fifth consecutive quarter, and marking a new record high for a third consecutive quarter.
- Operating income : Surpassed the ¥10.0 billion level, returning to a growth trajectory as one-time factors decreasing profits (1Q: high raw material costs; 2Q: hurricanes) passed

Net Sales, Operating Income by Segments

(Millions of yen)

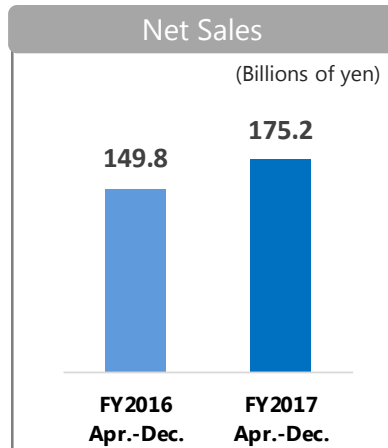
	Net sales				Operating income			
	FY2016 3Q (Apr.-Dec.)	FY2017 3Q (Apr.-Dec.)	Difference		FY2016 3Q (Apr.-Dec.)	FY2017 3Q (Apr.-Dec.)	Difference	
			Amount	%			Amount	%
Material Solutions Unit	149,803	175,192	25,388	16.9%	15,417	18,871	3,453	22.4%
Quality of Life Solutions Unit	104,386	115,116	10,729	10.3%	12,304	11,615	△ 688	△5.6%
Health Care Solutions Unit	34,042	32,787	△ 1,254	△3.7%	7,972	6,618	△ 1,353	△17.0%
Nutrition Solutions Unit	119,123	121,950	2,826	2.4%	3,933	4,657	723	18.4%
Others	725	884	158	21.8%	309	441	131	42.7%
Adjustment	-	-	-	-	△ 15,367	△ 15,848	△ 481	-
Total	408,082	445,931	37,848	9.3%	24,570	26,355	1,784	7.3%

Material	The Vinyls and Chlor-Alkali business continued to see strong sales, mainly in overseas markets. The Performance Polymers business expanded sales with a contribution from a new production facility in Malaysia amid continued strong global demand.
Quality of Life	The E & I Technology business saw steady growth in sales of ultra-heat-resistant polyimide films. In the Foam & Residential Techs business, sales volume growth was sluggish, while the Performance Fibers business increased sales volumes but full recovery is not expected until the fourth quarter due to a slower-than-expected recovery in the African hair accessory market.
Health Care	Sales in the Medical Devices business performed strongly, while the Pharma business saw steady expansion in sales of biopharmaceuticals, although sales volumes of low-molecular pharmaceutical materials declined after being shipped intensively in the same period of the previous fiscal year.
Nutrition	The Foods & Agris business expanded sales by leveraging new foodstuffs, while the Supplemental Nutrition business saw a strong contribution from the continued increase in sales volumes of the reduced form of coenzyme Q10, mainly in the U.S. market.

Material Solutions Unit

Net Sales ¥175.2 billion (year-on-year + 16.9%)

Operating Income ¥18.9 billion (year-on-year + 22.4%)

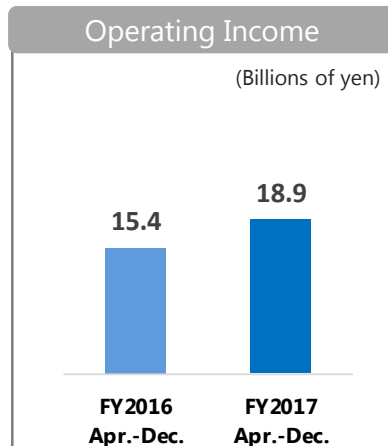


Vinyls and Chlor-Alkali

- Exports of general PVC resins and caustic soda to Asia continued to be strong, while domestic sales for those were also brisk.
- Sales of chlorinated PVC and paste PVC expanded steadily, mainly in overseas markets.

Performance Polymers

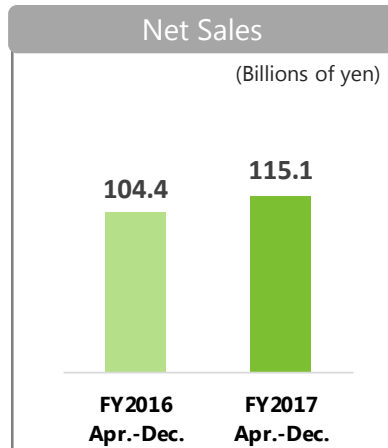
- Although first-half sales of modifiers were affected by an abrupt change in the market price of raw materials, hurricanes, and other factors, strong demand continued globally, and sales expanded with the full contribution of a new production facility in Malaysia. Looking ahead, the Group expects to see earnings continue to grow with progress on expanding applications such as non-PVC fields.
- Sales also expanded steadily in modified silicone polymers, with the contribution of a new production facility in Malaysia that commenced operation in July 2017 in response to global demand.
- Looking forward, the Group will advance the development of new highly functional materials in the aerospace field which is expected to grow to provide valuable solutions.



Quality of Life Solutions Unit

Net Sales ¥115.1 billion (year-on-year + 10.3%)

Operating Income ¥11.6 billion (year-on-year Δ 5.6%)



E & I Technology

- Sales of ultra-heat-resistance polyimide films grew steadily due to the contribution from strengthening the supply system in response to strong demand for new models from major smartphone manufacturers.
- Profits also rose with an increase in models adopting new products using polyimide resin technologies for displays and so forth.
- Looking ahead, it is expected that the downsizing and multifunctioning of digital devices, such as smartphones, will create higher demand for ultra-heat-resistant polyimide films and high thermal conductive graphite sheets, and the Group is considering increasing its production capacity.

Foam & Residential Techs

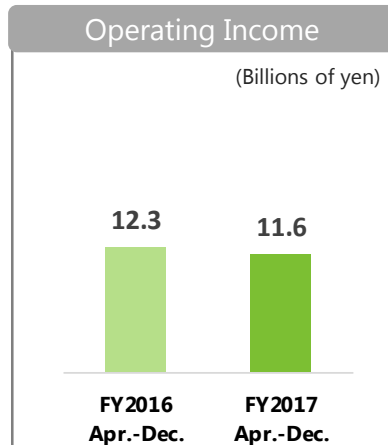
- Sales volume grew at a sluggish pace due to diminished hauls and delays in construction and civil engineering work caused by bad weather.
- Looking ahead, the Group will put more highly functional expandable plastics products on the market that are lightweight, energy saving, resource saving, and heat insulating, seeking to expand sales in the automobile field where the adoption of EVs is advancing and strengthen development of the housing solutions business.

Performance Fibers

- Sales volume increased due to strong demand in the pile and flame-retardant materials fields.
- Demand for hair accessories in the African market has bottomed out and begun to recover, however the pace of recovery has been slower than anticipated, and a full-scale recovery is now expected from the fourth quarter onward.
- As demand in the hair accessory market continues to expand, the Group will continue to develop its new markets in Africa and other regions.

PV & Energy management

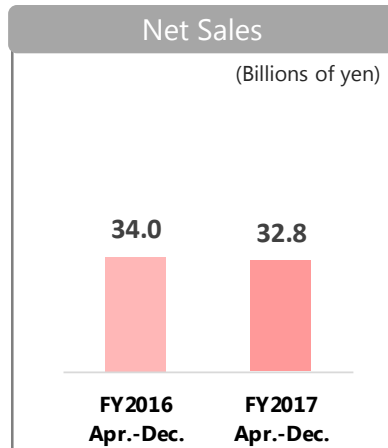
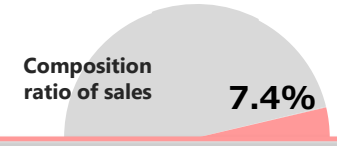
- Sales of new products in high-efficiency photovoltaic modules and others expanded steadily, and the Group advanced its structural reforms.
- The Group will focus on providing energy solutions that contribute to net zero energy houses and buildings, centering on the photovoltaic module business.



Health Care Solutions Unit

Net Sales ¥32.8 billion (year-on-year Δ 3.7%)

Operating Income ¥6.6 billion (year-on-year Δ 17.0%)

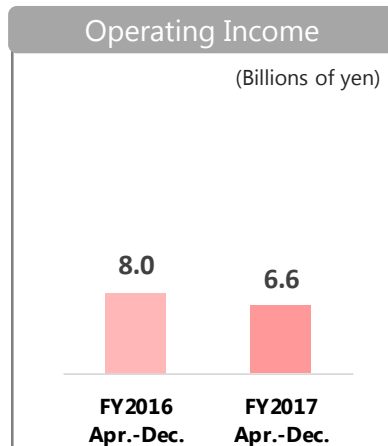


Medical Devices

- Sales remained solid in the domestic and overseas markets.
- Sales of new products, such as high-pressure balloon catheters to enlarge peripheral vessels, proceeded steadily, absorbing a fall in reimbursement pricing to secure earnings on par with the previous fiscal year.
- Looking ahead, the Group will expand new therapeutic fields such as drug-coated balloon treatments and strengthen the sales and marketing system of the blood purification business in the U.S.

Pharma

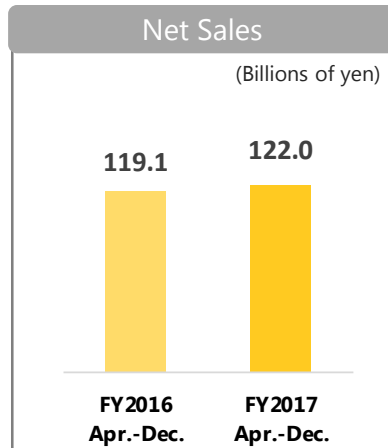
- Sales of biopharmaceuticals expanded steadily, and production expansion is proceeding.
- However, the sales volume of low-molecular pharmaceutical materials decreased since these products were shipped intensively during the same period of the previous fiscal year. The Group expects sales will recover going forward.
- The Group will strengthen open innovation using the Kaneka U.S. Innovation Center, which was established in 2016 on the U.S. West Coast.



Nutrition Solutions Unit

Net Sales ¥122.0 billion (year-on-year + 2.4%)

Operating Income ¥4.7 billion (year-on-year + 18.4%)

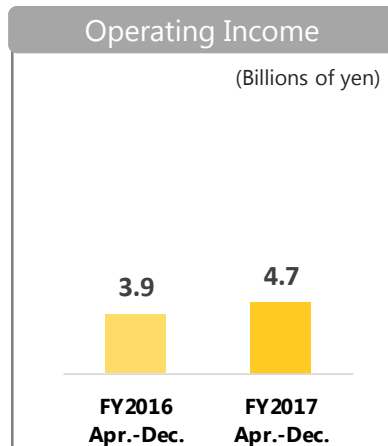


Foods & Agris

- Sales expanded due to proactive proposal-based sales leveraging new foodstuffs and targeting major suppliers of bakery products, convenience stores, and food product manufacturers.
- Sales of Group companies in and outside Japan also performed steadily.
- The Group is advancing market development of new solutions aiming to develop new business models in the agriculture and livestock produce field.

Supplemental Nutrition

- The sales volume of the reduced form of coenzyme Q10 continued to increase, mainly in the U.S. market, contributing significantly to business performance.
- The Group reached a partial settlement regarding U.S. patent infringement claims related to oxidized coenzyme Q10 and is working to grow its share of the North American oxidized coenzyme Q10 market and increased sales in reduced coenzyme Q10 in the Chinese market.



(Billions of yen)

	March 31, 2017	December 31, 2017	Difference
Assets			
Current Assets	280.4	304.2	23.7
Noncurrent Assets	312.5	332.4	20.0
Total assets	592.9	636.6	43.7
Liabilities			
Interest bearing debt	110.1	111.5	1.4
Others	161.3	180.8	19.6
Total liabilities	271.3	292.4	21.0
Net assets			
Shareholders' equity	305.1	326.5	21.4
Others	16.4	17.7	1.3
Total net assets	321.6	344.2	22.7
Total liabilities and net assets	592.9	636.6	43.7

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

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

(Billions of yen)

	FY2016 3Q (Apr.-Dec.)	FY2017 3Q (Apr.-Dec.)
Net cash provided by operating activities	37.7	35.2
Net cash used in investing activities	△ 28.6	△ 29.4
Free cash flow	9.1	5.7
Net cash used in financing activities	△ 10.9	△ 8.5
Net increase (decrease) in cash and cash equivalents (*)	△ 2.0	△ 1.9
Cash and cash equivalents at end of period	41.1	39.2

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

- Net cash provided by operating activities came to ¥35.2 billion, mainly due to income before income taxes and depreciation and amortization, partly offset by an increase in operating capital due to sales expansion and so forth
- Net cash used in investing activities was ¥29.4 billion, reflecting aggressive ongoing capital expenditure

- In the third quarter, the impacts of the raw materials issue and hurricane that occurred in the first half passed, and the Group returned to a growth trajectory with the contribution from production capacity enhancements in mainstay businesses and full rollout of new products.
- From the fourth quarter onward, the Group will implement timely pricing corrections for increases in raw materials prices. It will also expand sales of modifiers, modified silicon polymers, and others making use of the new production facility in Malaysia. Furthermore, the Group will strengthen the business foundations of its focus areas for strategic growth, namely the Medical Devices, Pharma and Supplemental Nutrition, and E & I Technology solutions vehicles, the latter of which is experiencing market growth for smartphones. Through these initiatives, the Group will promote its strengths in global business expansion.
- As a solutions provider with a market-oriented perspective, the Group will aggressively pursue open innovation, alliances, and M&As in a concentrated effort to transform its business portfolio and achieve growth.
- As a result, the Group has not revised its business forecast for the fiscal year ending March 31, 2018.

<reference>Consolidated business forecast for the fiscal year ending March 31, 2018 announced November 9, 2017

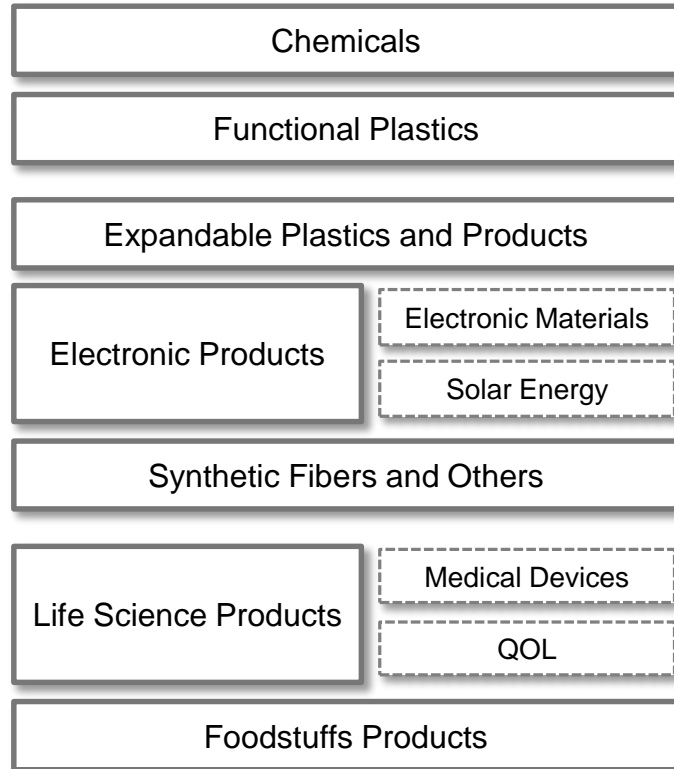
(Billions of yen)

	FY2016 result	FY2017 forecast	change
Net sales	548.2	610.0	61.8 (11.3%)
Operating income	33.2	37.0	3.8 (11.6%)
Ordinary income	27.4	33.0	5.6 (20.3%)
Net income attributable to owners of parent	20.5	21.0	0.5 (2.5%)

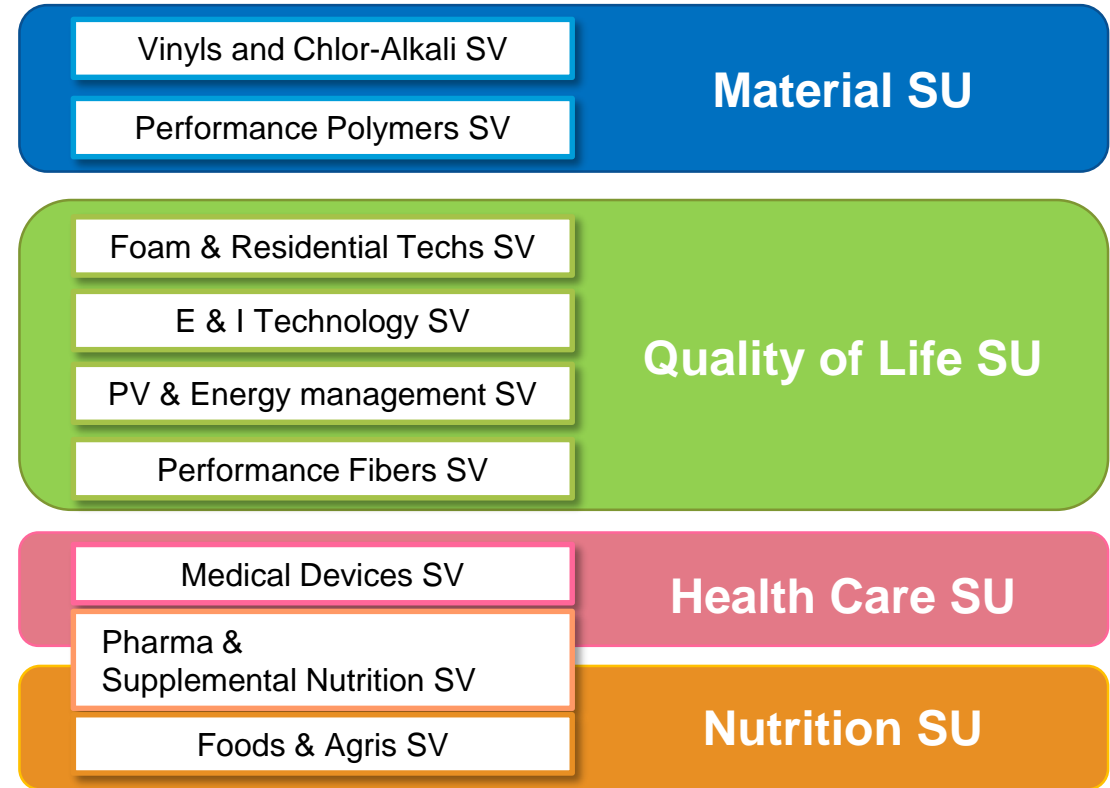
The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections.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

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

Previous reporting segments



New reporting segments [FY2017 Onwards]



*SU . . . Solutions Unit (Segment)

*SV . . . Solutions Vehicle (Business Unit)

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