

# Quarterly Financial Results for the First Quarter, Ended June 30, 2018 (Japanese GAAP, Consolidated)

August 8, 2018

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

URL <http://www.kaneka.co.jp>

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Scheduled date for submitting financial statements: August 10, 2018 Scheduled date of dividend distribution: —

Note: Figures have been rounded down to the nearest million yen.

## 1. Consolidated Business Performance for the First Quarter, Ended June 30, 2018

(from April 1, 2018 to June 30, 2018)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2018 – Jun. 2018	152,271	5.5	10,000	37.9	9,139	27.8	6,285	32.0
Apr. 2017 – Jun. 2017	144,302	6.1	7,252	(17.4)	7,151	0.3	4,761	3.5

Note: Comprehensive income(loss): ¥7,389 million (-28.8%) three months ended June 30, 2018  
¥10,372 million (—%) three months ended June 30, 2017

	Net income per share	Fully diluted net income per share
Apr. 2018 – Jun. 2018	¥ 19.18	¥ 19.16
Apr. 2017 – Jun. 2017	14.43	14.42

## (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of Jun 30, 2018	649,148	351,023	50.9
As of March 31, 2018	639,780	346,599	51.0

(Reference) Shareholders' equity: ¥330,446 million as of June 30, 2018  
¥326,186 million as of March 31, 2018

## 2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2017 – Mar. 2018	¥ —	¥ 9.00	¥ —	¥ 9.00	¥ 18.00
Apr. 2018 – Mar. 2019	—				
Apr. 2018 – Mar. 2019 (Forecasts)		9.00	—	45.00	—

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

The Company plans to conduct a consolidation of shares of common stock at the ratio of five shares to one share on the effective date of October 1, 2018. Accordingly, the year-end dividend per share (forecast) for the fiscal year ending March 31, 2019 reflects the impact of the share consolidation and the total annual dividend is shown as “—.” Excluding the share consolidation, the year-end dividend per share (forecast) for the fiscal year ending March 31, 2019 would be ¥9 and the annual dividend per share would be ¥18. For details, please see “Explanations or other items pertaining to appropriate use of business performance forecasts.”

3. Forecast for consolidated business performance for the year ending March 31, 2019  
(from April 1, 2018 to March 31, 2019)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	650,000	9.0	42,000	13.9	37,000	12.9	23,000	6.6	350.91

Note: Revisions to consolidated business performance forecasts during the quarter under review: No  
Net income per share in the forecast for consolidated business performance for the fiscal year ending March 31, 2019 reflects the impact of the share consolidation. Excluding the share consolidation, net income per share in the forecast for consolidated business performance for the fiscal year ending March 31, 2019 would be ¥70.18 per share. For details, please see “Explanations or other items pertaining to appropriate use of business performance forecasts.”

4. Other

- (1) Changes in principal subsidiaries during the term: No
- (2) Application of simplified methods of accounting and specific accounting methods: No
- (3) Changes in accounting principles, changes in estimates, or restatements
  1. Changes owing to revisions in accounting standards: No
  2. Changes other than 1. above: No
  3. Changes in accounting estimates: No
  4. Restatements: No

(4) Number of shares outstanding (common stock)

1. Number of shares issued at the end of the period (including treasury stock):
2. Shares of treasury stock at the end of the period:
3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year)

June 30, 2018	350,000,000 shares	March 31, 2018	350,000,000 shares
June 30, 2018	22,192,920 shares	March 31, 2018	22,284,691 shares
June 30, 2018	327,727,007 shares	June 30, 2017	329,963,118 shares

(These financial statements are exempt from audit procedures)

(Explanations or other items pertaining to appropriate use of business performance forecasts)

The business performance 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 forecasts. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements. For cautionary items used in business performance forecasts, please refer to the section entitled “(3) Consolidated Business Forecasts” under “1. Quarterly Consolidated Business Performance” on page 3.

The Company plans to conduct a consolidation of shares of common stock at the ratio of five shares to one share on the effective date of October 1, 2018, following the approval of a proposal on the share consolidation at the 94th Annual General Meeting of Shareholders held on June 28, 2018. The dividend forecast and forecast for consolidated business performance for the fiscal year ending March 31, 2019 before reflecting the share consolidation is as follows:

1. Dividend forecast for the fiscal year ending March 31, 2019  
Interim dividend per share ¥9.00 (Note 1) Year-end dividend per share ¥9.00 (Note 2)
2. Forecast for consolidated business performance for the fiscal year ending March 31, 2019  
Full-year net income per share for the fiscal year ending March 31, 2019 ¥70.18

Notes: 1. The interim dividend will be paid out based on the number of shares before the share consolidation.

2. Converted to the per-share dividend before the share consolidation.

3. The annual dividend per share for the fiscal year ending March 31, 2019 (before the share consolidation) was ¥18.00.

## Supplementary Materials

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## 1. Quarterly Consolidated Business Performance

### (1) Consolidated Business Performance

During the first quarter (April 1, 2018 to June 30, 2018), the global economy continued to follow a gradual growth path. Against this backdrop, the Kaneka Group's operating results were significantly higher than the same period of the previous fiscal year. Consolidated net sales in the first quarter amounted to ¥152,271 million (up 5.5% year on year), driven by growth in global businesses, where the Group bolstered production capacity. Operating income was ¥10,000 million (up 37.9% year on year). Ordinary income was ¥9,139 million (up 27.8% year on year). Net income attributable to owners of parent was ¥6,285 million (up 32.0% year on year). The Group has been transforming its business portfolio in line with the management system revised in the previous year. This transformation of the business portfolio is steadily producing results.

Operating performance by business segment was as follows:

#### 1) Material Solutions Unit

In the Vinyls and Chlor-Alkali business, sales were favorable for PVC resins and caustic soda both in Japan and overseas. This business posted a firm performance, including for chlorinated PVC and paste PVC, which have continued to enjoy strong demand.

In the Performance Polymers business, modifiers saw progress on the expansion of applications for non-PVC and other uses and recorded favorable sales primarily in the Asian market. Demand for modified silicone polymers, a globally unique product, has been increasing globally. In this environment, sales of modified silicone polymers increased substantially as new production facilities in Malaysia started contributing to sales in earnest. Going forward, the Group will address further growth in demand by bringing enhanced production capacity online in Belgium as planned.

In addition, the Group has decided to bolster the production capacity of biodegradable polymers, which are being adopted for use in fruit and vegetable bags in the European market. Considering that this material is biodegradable even in seawater, the Group will develop the market for this product as a solution to the problem of microplastic pollution.

The Group has been making progress on the development of applications for epoxy masterbatch for use in automobiles and electronic components. In composites for the aerospace industry, which will serve as next-generation, cutting-edge high-tech materials, the Group will focus on speedy business expansion through the installation of prepeg production facilities.

#### 2) Quality of Life Solutions Unit

In the E & I Technology business, sales of ultra-heat-resistant polyimide films were favorable, supported by increased demand for smartphones with higher functionality. Sales of new polyimide products for use in displays also expanded. The Group has decided to dramatically increase the production capacity of high thermal conductive graphite sheets and ultra-heat-resistant polyimide films, the raw material of the former, as demand for those materials is expected to increase dramatically as digital devices become more compact and offer higher functionality. The Group is the only manufacturer of those materials that conducts integrated production from raw materials to products. Leveraging these strengths, the Group will work to expand this business.

In the Performance Fibers business, demand for the hair accessories in the African market has continued to steadily recover, and the Group is strengthening its brand capabilities in high-functionality hair accessories to spearhead further demand creation in Africa and other markets. In the flame-retardant material field, sales increased atop surging demand for uniforms in Europe and the Americas.

In the Foam & Residential Techs business, sales grew steadily. The Group is striving to pass surging raw materials costs on to selling prices and implement cost reductions. In bead-method polyolefin foam, the Group is working to strengthen its global supply structure through measures including starting operations at a plant in Thailand and enhancing production capacity in Belgium, in order to address growing demand in the automotive field and other areas.

In the PV & Energy Management business, sales of high-efficiency photovoltaic module products expanded, and the Group steadily advanced its structural reforms. The Group will develop net zero energy management systems for houses and buildings by using its proprietary photovoltaic modules integrated with construction materials such as windows and walls.

3) Health Care Solutions Unit

In the Medical Devices business, sales of new products, such as high-functionality balloon catheters and electrode catheters, proceeded steadily. Meanwhile, sales increased in overseas markets, offsetting the negative impact of the revision of medical reimbursement prices in Japan. Looking ahead, the Group will focus on expanding its business by developing therapeutic fields such as drug-coated balloon catheter treatments and digestive system catheters.

In the Pharma business, sales of biopharmaceuticals made by Kaneka Eurogentec S.A. expanded steadily. The Group will work to bolster production capacity as planned. The Group installed continuous manufacturing equipment for the manufacture of pharmaceutical intermediates and active pharmaceutical ingredients at Kaneka Singapore Co. (Pte.) Ltd., and started commercial production in June 2018. Leveraging its system for efficiently manufacturing a wide variety of pharmaceutical products, the Group will strive to strengthen its business in the small molecule pharmaceutical sector and accelerate comprehensive business expansion in the Health Care field.

4) Nutrition Solutions Unit

In the Foods & Agris business, amid sluggish conditions in the markets for confectionery and bakery products, the Group worked to stimulate demand through proactive proposal-based sales to major suppliers of bakery products, convenience stores and food product manufacturers. Moreover, the Indonesian business expanded steadily. The Group newly entered the dairy products business. In this business, the Group started sales of fermented butter, in addition to milk. Going forward, the Group will continue to enhance its lineup of new dairy products. In conjunction with the food production support business, the Group will also contribute to productivity improvements for dairy farmers and recycling-oriented dairy farming.

In the Supplemental Nutrition business, sales of the mainstay reduced form of coenzyme Q10 continued to increase, primarily in the U.S. market. The Group recently invested in a company specializing in lactic acid bacteria in Spain. The Group will work closely with this company to increase its lineup of supplement materials and expand business globally.

(2) Consolidated Financial Position

1) Status of Assets, Liabilities and Equity

Total assets were ¥649,148 million as of June 30, 2018, up ¥9,367 million compared with March 31, 2018, due to increases in inventories and property, plant and equipment. Interest-bearing debt totaled ¥298,124 million, up ¥4,943 million, due to an increase in notes and accounts payable-trade. Net assets (equity) increased by ¥4,424 million to ¥351,023 million, due to an increase in retained earnings.

(3) Consolidated Business Forecasts

In the near term, the global economy presents concerns about the negative impact of the protectionist trade policies of various countries, including the policies of the Trump administration. In today's highly interconnected world, the global economic outlook is shrouded in increasing uncertainty.

In this highly unpredictable and challenging business environment, the Company will accelerate its transformation to a new, resilient portfolio structure by further enhancing R&D and global business initiatives based on its new management system. In the second quarter onward, the Group will continuously work to revise prices in response to rising raw materials prices. At the same time, the Group will strive to increase sales of modifiers and modified silicone polymers, where global competitiveness will be enhanced by bolstering production capacity at overseas sites. Along with this, the Group will work to drive growth in key strategic businesses such as E & I Technology, where demand is expected to rapidly increase with the arrival of the IoT- and AI-driven society, and the Health Care and Supplemental Nutrition businesses, where new products are being developed. Together with those measures, the Group will focus on strengthening its business platform by pushing ahead with open innovation, alliances and M&As.

In light of the above, the Group has left its forecast for consolidated business performance unchanged from the forecast announced on May 11, 2018.

## 2. Quarterly Consolidated Financial Statements

## (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2017 Term ended March 31, 2018	FY2018 1st Quarter Term ended June 30, 2018
<b>Assets</b>		
Current assets		
Cash and deposits	47,647	47,317
Notes and accounts receivable – trade	142,194	142,238
Short-term investment securities	110	110
Merchandise and finished goods	55,955	59,358
Work in process	9,527	9,389
Raw materials and supplies	38,732	40,336
Other	13,076	14,838
Allowance for doubtful accounts	(972)	(967)
<b>Total current assets</b>	<b>306,270</b>	<b>312,621</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	77,592	78,635
Machinery, equipment and vehicles, net	106,298	106,963
Other, net	53,583	53,526
<b>Total property, plant and equipment</b>	<b>237,475</b>	<b>239,126</b>
Intangible assets		
Goodwill	3,476	3,246
Other	6,415	6,377
<b>Total intangible assets</b>	<b>9,892</b>	<b>9,623</b>
Investments and other assets		
Investment securities	68,888	70,287
Other	17,524	17,755
Allowance for doubtful accounts	(270)	(264)
<b>Total investments and other assets</b>	<b>86,142</b>	<b>87,777</b>
<b>Total noncurrent assets</b>	<b>333,510</b>	<b>336,527</b>
<b>Total assets</b>	<b>639,780</b>	<b>649,148</b>

	(Millions of yen)	
	FY2017	FY2018 1st Quarter
	Term ended March 31, 2018	Term ended June 30, 2018
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	84,914	87,058
Short-term loans payable	59,653	60,810
Income taxes payable	4,481	2,714
Provision	126	18
Other	45,706	48,035
Total current liabilities	194,881	198,637
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	45,847	47,019
Provision	643	610
Net defined benefit liability	37,324	37,321
Other	4,483	4,535
Total noncurrent liabilities	98,299	99,487
Total liabilities	293,181	298,124
<b>Net assets</b>		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,799	32,798
Retained earnings	264,963	268,296
Treasury stock	(18,683)	(18,573)
Total shareholders' equity	312,125	315,568
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	24,730	25,209
Deferred gains or losses on hedges	(108)	(155)
Foreign currency translation adjustment	(3,035)	(2,986)
Remeasurements of defined benefit plans	(7,526)	(7,188)
Total accumulated other comprehensive income	14,060	14,878
Subscription rights to shares	300	303
Noncontrolling interests	20,112	20,273
Total net assets	346,599	351,023
Total liabilities and net assets	639,780	649,148

## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2017 1st Quarter	FY2018 1st Quarter	
	From April 1, 2017 to June 30, 2017	From April 1, 2018 to June 30, 2018	
Net sales	144,302	152,271	
Cost of sales	104,526	108,859	
Gross profit	39,776	43,411	
Selling, general and administrative expenses	32,523	33,410	
Operating income	7,252	10,000	
Non-operating income			
Dividends income	715	720	
Foreign exchange gains	261	139	
Equity in earnings of affiliates	32	—	
Other	182	209	
Total non-operating income	1,192	1,069	
Non-operating expenses			
Interest expenses	388	493	
Loss on retirement of noncurrent assets	390	674	
Loss on earnings of affiliates	—	18	
Other	514	744	
Total non-operating expenses	1,293	1,930	
Ordinary income	7,151	9,139	
Extraordinary loss			
Patent protection court costs	281	355	
Total extraordinary losses	281	355	
Income before income taxes	6,869	8,784	
Income taxes—current	2,310	2,741	
Income taxes—deferred	(344)	(607)	
Total income taxes	1,966	2,134	
Net income	4,903	6,650	
Net income attributable to noncontrolling interests	141	364	
Net income attributable to owners of parent	4,761	6,285	



## Quarterly Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	FY2017 1st Quarter	FY2018 1st Quarter
	From April 1, 2017 to June 30, 2017	From April 1, 2018 to June 30, 2018
Net income	4,903	6,650
Other comprehensive income		
Valuation difference on available-for-sale securities	3,191	494
Deferred gains or losses on hedges	(38)	(46)
Foreign currency translation adjustment	1,862	(45)
Remeasurements of defined benefit plans, net of tax	449	338
Share of other comprehensive income of associates accounted for using equity method	3	0
Total other comprehensive income	5,469	739
Comprehensive income	10,372	7,389
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,000	7,103
Comprehensive income attributable to noncontrolling interests	372	285

## (3) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

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

Not applicable

(Additional Information)

(Adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.")

The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting, etc." (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the beginning of the three months ended June 30, 2018. Accordingly, deferred tax assets have been presented under investments and other assets and deferred tax liabilities have been presented under noncurrent liabilities.

(Segment Information)

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

## 1) Sales and Income (Loss) by Segments

(Millions of yen)

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

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

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

## 2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements (Adjustments)

(Millions of yen)

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

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

## II Term from April 1, 2018 to June 30, 2018

## 1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment information					Others (Note)1	Total	Adjustment	Figures in consolidated financial statements (Note)2
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	62,491	38,601	11,415	39,454	151,693	307	152,271	—	152,271
Intersegment	355	4	—	6	366	274	641	(641)	—
Total	62,847	38,606	11,415	39,460	152,330	582	152,912	(641)	152,271
Segment profit	7,837	3,695	2,382	1,197	15,113	164	15,278	(5,277)	10,000

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

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

## 2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements (Adjustments)

(Millions of yen)

Income	Amount
Segment total	15,113
Segment profit of Others	164
Elimination of intersegment transactions	3
Companywide expenses (Note)	(5,274)
Other adjustments	(6)
Operating income in the quarterly consolidated statements of income	10,000

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