

# Financial Summary

Fiscal Year Ended March 31, 2019

May 14, 2019

**Kaneka Corporation**

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

(Billions of yen)

	FY2017 Apr.2017-Mar.2018	FY2018 Apr.2018-Mar.2019	Difference	
			Amount	%
Net sales	596.1	621.0	24.9	4.2%
Operating income	36.9	36.0	△ 0.8	△2.3%
Ordinary income	32.8	31.3	△ 1.5	△4.6%
Net income attributable to owners of parent	21.6	22.2	0.7	3.1%
Net income per share	¥328.46	¥339.15		
Dividend per share	¥90.00	¥100.00		
ROE	6.8%	6.7%		

\* The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. Net income per share and dividend per share were calculated using the number of shares after the share consolidation.

- While the global economy continued to experience modest growth during the first half of the fiscal year ended March 31, 2019, a global economic adjustment phase then started to take shape, reflecting political and economic uncertainty from escalating U.S.-China trade friction sparked by a conservative administration in the U.S., geopolitical risk in the Middle East and Asia, the issue of the U.K.'s withdrawal from the EU, and so forth.
- The Japanese economy temporarily stalled as activity was hindered by natural disasters such as typhoons and earthquakes.
- In business performance, the Company's net sales reached a new record high driven by a contribution from global business development, but operating income declined due to global economic fluctuation year on year.

# Net Sales, Operating Income by Segments

(Millions of yen)

	Net sales				Operating income			
	FY2017 Apr.2017-Mar.2018	FY2018 Apr.2018-Mar.2019	Difference		FY2017 Apr.2017-Mar.2018	FY2018 Apr.2018-Mar.2019	Difference	
			Amount	%			Amount	%
Material Solutions Unit	238,880	255,918	17,037	7.1%	27,109	25,961	△ 1,147	△4.2%
Quality of Life Solutions Unit	149,360	156,674	7,314	4.9%	13,730	15,092	1,361	9.9%
Health Care Solutions Unit	45,856	47,442	1,585	3.5%	9,849	10,583	734	7.5%
Nutrition Solutions Unit	160,930	158,968	△ 1,962	△1.2%	6,531	5,930	△ 600	△9.2%
Others	1,114	2,040	926	83.1%	520	1,464	944	181.4%
Adjustment	-	-	-	-	△ 20,853	△ 22,992	△ 2,139	-
<b>Total</b>	<b>596,142</b>	<b>621,043</b>	<b>24,901</b>	<b>4.2%</b>	<b>36,888</b>	<b>36,041</b>	<b>△ 846</b>	<b>△2.3%</b>

## Material

In the Vinyls and Chlor-Alkali business, performance was weak for specialty PVC resins overseas, and caustic soda was significantly affected by approval issues in India.  
In the Performance Polymers business, increased global production capacity contributed to increased business performance.

## Quality of Life

In the Performance Fibers business, business performance increased as the market in Africa for hair accessories regained vitality.  
In the E & I Technology business, sales of new products expanded in new markets where technological innovation continues.  
The PV & Energy management business turned to profit in 4Q as structural reforms advanced and sales of high-efficiency photovoltaic module products expanded.  
The Foam & Residential Techs business was affected by natural disasters.

## Health Care

In the Medical Devices business, domestic and overseas sales of new products increased, offsetting the negative impact of revisions to medical reimbursement prices in Japan.  
The Pharma business saw steady expansion in sales of biopharmaceuticals.

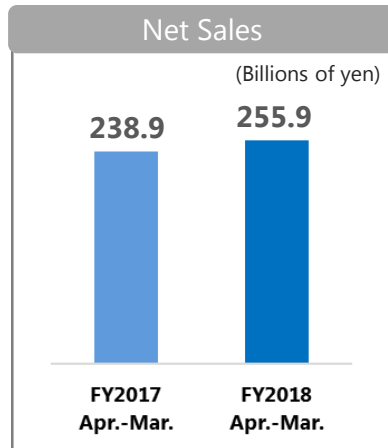
## Nutrition

The Foods & Agris business was affected by a weak domestic market and unseasonable weather.  
In the Supplemental Nutrition business, sales of the reduced form of coenzyme Q10 expanded, mainly in the U.S. market.

## Material Solutions Unit

**Net Sales** ¥ 255.9 billion (year-on-year + 7.1 %)

**Operating Income** ¥ 26.0 billion (year-on-year  $\Delta$  4.2 %)



### Vinyls and Chlor-Alkali

- Sales of products such as PVC resins and paste PVC were solid in Japan, but specialty PVC resins were lackluster overseas
- Caustic soda saw exports to India impacted significantly by approval issues.

### Performance Polymers (MOD)

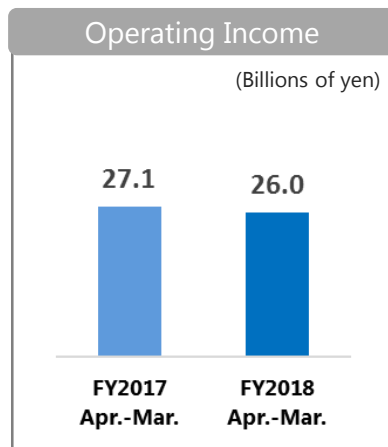
- Sales of modifiers were strong on a robust contribution from the second production line in Malaysia.
- Adoption of epoxy masterbatch as a structural adhesive for automobiles and for other applications advanced, and the Group decided to increase production capacity. In addition, the Group is pushing forward with the construction of integrated production facilities spanning from resins to prepreg to further accelerate business development in composites for the aviation and aerospace industry.

### Performance Polymers (MS)

- Regarding modified silicone polymers, a new production facility in Malaysia contributed in earnest amid growing global demand, while a smooth start-up for enhanced production capacity in Belgium that came online in December 2018 also contributed to earnings.

### New businesses

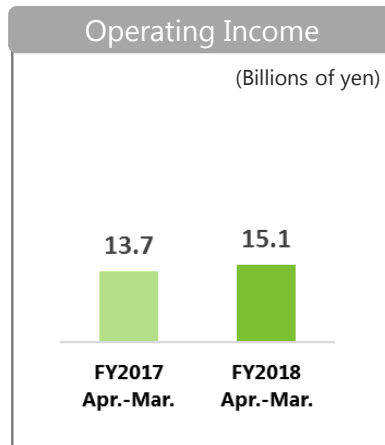
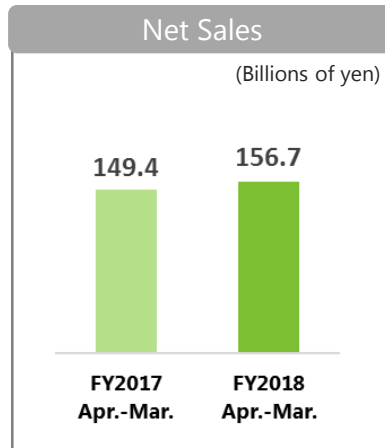
- Kaneka Biodegradable Polymer PHBH was approved by the European Commission in January 2019 and previously by the FDA as a material for packaging such as fruit and vegetable bags amid global strengthening of regulations regarding disposable plastics. Moreover, the review of PHBH by the European Commission for use for all food applications has now been completed, and such use is expected to become possible in the EU by autumn 2019.
- In Japan, inquiries about PHBH as a solution to the microplastics issue are rapidly increasing, projects with convenience stores and other major customers are advancing, and PHBH is being adopted for use in a wide range of products, including straws and shopping bags. The Group is moving quickly to consider a full-fledged mass production plant to prepare for demand growth.



## Quality of Life Solutions Unit

**Net Sales** ¥ 156.7 billion (year-on-year + 4.9 %)

**Operating Income** ¥ 15.1 billion (year-on-year + 9.9 %)



### Performance Fibers

- Demand for hair accessories in the African market has continued to steadily expand.
- the Group is strengthening its brand capabilities in high-functionality hair accessories to spearhead new demand creation in Africa and other markets, with earnings making recovery and expanding.
- In the flame-retardant material field, demand for uniforms has expanded.

### E & I Technology

- Market share for ultra-heat-resistant polyimide films increased alongside enhanced sophistication of smartphones, but the business was affected by a market slowdown.
- The Group is actively launching unique new products in new markets experiencing ongoing technological revolution, such as new PIXEO products, colorless polyimide film, and polyimide varnish for use in organic electroluminescent displays, 5G smartphones, and so forth. Going forward, the Group will continue to deliver innovative materials that underpin the information society.

### Foam & Residential Techs

- Expandable polystyrene resins and products and extruded polystyrene foam boards were affected by diminished hauls stemming from natural disasters such as typhoons and earthquakes, weak demand associated with delays in civil engineering and construction work, and surging distribution costs.
- In polyolefin foam, the Group started operations at a plant in Thailand to strengthen the global supply framework, but the business was affected by a decline in automobile sales volumes in China. The Group will also bolster its operating base through steps such as enhancing production capacity in Belgium and introducing new processes.

### PV & Energy management

- Sales of high-efficiency photovoltaic module products expanded steadily thanks to positive reception in the market. The Group is preparing to increase production in response to an expansion in demand.
- The business restored operating profitability in the fourth quarter with improved profitability in line with advancement of business structural reforms.
- the Group's proprietary photovoltaic modules for electricity-generating windows and walls are drawing attention as net zero energy management system materials for houses and buildings. The Group will strengthen these as a solutions business addressing global environmental issues and energy problems.

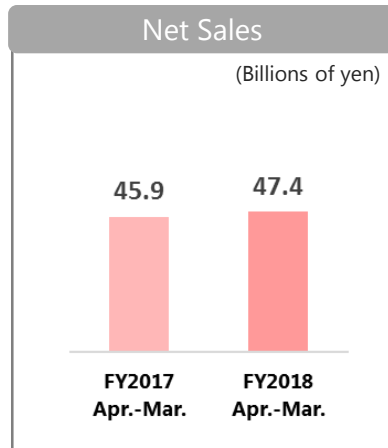
## Health Care Solutions Unit

Net Sales ¥ 47.4 billion (year-on-year + 3.5 %)

Operating Income ¥ 10.6 billion (year-on-year + 7.5 %)

Composition ratio of sales

7.6%

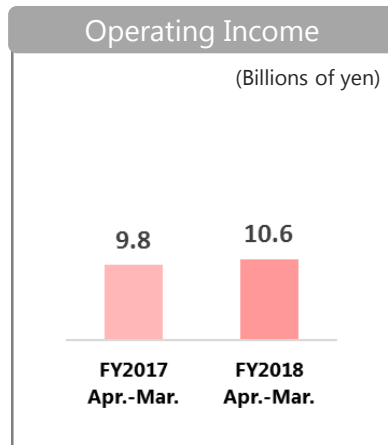


### Medical Devices

- Sales of new products, such as high-functionality balloon catheters and digestive system catheters, proceeded steadily. Moreover, sales increased in overseas markets, offsetting the negative impact of revisions to medical reimbursement prices in Japan.
- The Group will work to expand sales in therapeutic fields such as balloon catheter coated with drugs and electrode catheter, as well as take steps to expand business in new medical domains including fractional flow reserve (FFR) product, such as concluding a new investment and strategic agreement with a U.S. medical equipment company.

### Pharma

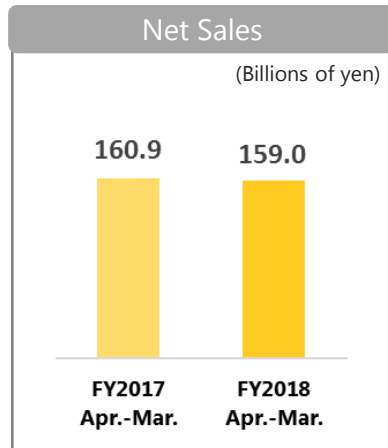
- Sales of biopharmaceuticals made by Kaneka Eurogentec S.A. are expanding steadily. The Group is working to bolster production capacity as planned, and is taking steps to cultivate new markets to consolidate earnings expansion after the start of operations.
- It is leveraging the newly installed continuous manufacturing equipment for producing pharmaceutical intermediates and active pharmaceutical ingredients to accelerate comprehensive business expansion in the Pharma field.
- The Kaneka U.S. Innovation Center is serving as a base for the creation of new business.



## Nutrition Solutions Unit

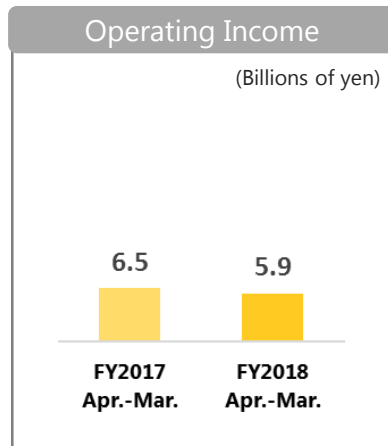
**Net Sales** ¥ 159.0 billion (year-on-year  $\Delta$  1.2 %)

**Operating Income** ¥ 5.9 billion (year-on-year  $\Delta$  9.2 %)



### Foods & Agris

- The Group worked to stimulate demand through proactive proposal-based sales to major suppliers of bakery products, convenience stores, and food manufacturers. Nevertheless, the business was substantially affected by unseasonable weather, in addition to a lackluster domestic market for confectionery and bakery products.
- In Indonesia, the tasty Japanese bread and confectionery culture is entering a period of expansion, and steady progress is being made on the new processed oil products factory the Group decided to build.
- In the dairy products business, the Group launched fermented butter and “Café au lait for bread” in spring 2019 to follow the popular “Milk for Bread” product. Going forward, it will strengthen its digital marketing activities such as online mail-order sales, enhance the product lineup with yoghurt and other new dairy products, and move quickly to consider construction of a new dairy product plant.
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### Supplemental Nutrition

- Sales of the mainstay reduced form of coenzyme Q10 continued to grow, mainly in the U.S. market.
- The Group is steadily expanding sales in the European market of lactic acid supplements that are regarded highly for their uniqueness and produced by a Spanish lactic acid company, which is now a consolidated subsidiary. Along with commencing sales in the U.S. from January, the Group has begun considering sales in Japan.
- Going forward, it will enhance its lineup of functional food products and expand business globally.



(Billions of yen)

	March 31, 2018	March 31, 2019	Difference
<b>Assets</b>			
Current Assets	306.3	314.2	8.0
Noncurrent Assets	333.5	345.3	11.8
<b>Total assets</b>	639.8	659.6	19.8
<b>Liabilities</b>			
Interest bearing debt	113.1	120.5	7.4
Others	180.0	178.3	△ 1.7
<b>Total liabilities</b>	293.2	298.9	5.7
<b>Net assets</b>			
Shareholders' equity	326.2	337.0	10.8
Others	20.4	23.7	3.3
<b>Total net assets</b>	346.6	360.7	14.1
<b>Total liabilities and net assets</b>	639.8	659.6	19.8
<b>Shareholders' equity ratio</b>	51.0%	51.1%	
<b>Net assets per share</b>	¥4,976.67	¥5,166.88	

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

- Total assets increased due to an increase in property, plant and equipment through continued proactive capital investment and an increase in inventories accompanying an increase in net sales.

(Billions of yen)

	FY2017 Apr.2017-Mar.2018	FY2018 Apr.2018-Mar.2019
Cash flows from operating activities	49.8	<b>41.1</b>
Cash flows from investing activities	△ 38.8	<b>△ 47.2</b>
Free cash flow	11.0	<b>△ 6.1</b>
Cash flows from financing activities	△ 5.4	<b>△ 1.0</b>
Net increase (decrease) in cash and cash equivalents (*)	6.4	<b>△ 7.4</b>
Cash and cash equivalents at end of period	47.4	<b>40.0</b>

\* 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 ¥41.1 billion, mainly due to net income and depreciation and amortization.
- Net cash used in investing activities was ¥47.2 billion, reflecting aggressive capital expenditure.

(Millions of yen, except where indicated otherwise)

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2018 share consolidation basis*
Net income	18,033	20,985	20,484	21,571	22,238	22,238
Net income per share: (yen)	53.52	62.98	61.72	65.69	339.15	67.83
Dividend per share: (yen)	16	18	18	18	100	20
Consolidated payout ratio	29.9%	28.6%	29.2%	27.4%	29.5%	29.5%
Number of treasury shares acquired: (thousands of shares)	2,000	1,964	2,000	3,000	400	2,000
Monetary amounts of treasury shares acquired	1,594	1,805	1,803	2,561	1,741	1,741
Consolidated total return ratio	38.7%	37.2%	38.0%	39.3%	37.3%	37.3%
Number of treasury shares cancelled: (thousands of shares)	—	—	—	—	2,000	10,000

\* The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018.

- Dividend increase : a bonus dividend of ¥10 to commemorate the 70th anniversary of the merger into the Kaneka Group.

(Annual ¥90 → Annual ¥100)

- Acquisition of Treasury Shares : 400,000 shares ( ¥ 1,741 million)
- Cancellation of Treasury Shares : 2,000,000 shares (March,2019)

- Regarding the global economy, the International Monetary Fund (IMF) revised down its outlook for global economic growth for 2019 to 3.3% in April 2019. Global economic deceleration is expected to continue, reflecting U.S.-China trade friction, geopolitical risk, and so on.
- The Japanese economy is expected to see growth in demand associated with the Olympics, but impact from the consumption tax increase is a concern.
- While the creation of new social values rooted in technological innovations and changing business models present major business opportunities for chemical companies, the overall economic picture is likely to be marked by the advance of an uncertain business environment and the Group will work to transform its portfolio by developing technologies for revolutionary materials.

## <Consolidated business forecast for the fiscal year ending March 31, 2020>

(Billions of yen)

	FY2018 result	FY2019 forecast	Difference
<b>Net sales</b>	621.0	<b>650.0</b>	29.0 ( 4.7%)
<b>Operating income</b>	36.0	<b>40.0</b>	4.0 ( 11.0%)
<b>Ordinary income</b>	31.3	<b>35.0</b>	3.7 ( 11.9%)
<b>Net income attributable to owners of parent</b>	22.2	<b>23.0</b>	0.8 ( 3.4%)

\* The forecasts are based on exchange rates of ¥110 to the U.S. dollar, ¥125 to the euro and a domestic naphtha price of ¥45,000 per kiloliter.

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# Consolidated Business Forecasts by Segments

(Billions of yen)

	Net Sales			Operating Income		
	FY2018 result	FY2019 forecast	Difference	FY2018 result	FY2019 forecast	Difference
Material Solutions Unit	255.9	267.0	11.1	26.0	26.5	0.5
Quality of Life Solutions Unit	156.7	170.0	13.3	15.1	19.0	3.9
Health Care Solutions Unit	47.4	52.0	4.6	10.6	11.0	0.4
Nutrition Solutions Unit	159.0	160.0	1.0	5.9	6.5	0.6
Others	2.0	1.0	△ 1.0	1.5	0.5	△ 1.0
Adjustment	-	-	-	△ 23.0	△ 23.5	△ 0.5
<b>Total</b>	<b>621.0</b>	<b>650.0</b>	<b>29.0</b>	<b>36.0</b>	<b>40.0</b>	<b>4.0</b>

- In the fiscal year ending March 2020, the Group aims to raise profitability (increase the operating margin from 5.8% to 6.2%) through portfolio transformation.

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