

Quarterly Financial Results for the 1st Quarter, Ended June 30, 2019 (Japanese GAAP, Consolidated)

August 8, 2019

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 9, 2019 Scheduled date of dividend distribution: —

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

1. Consolidated Business Performance for the 1st Quarter, Ended June 30, 2019

(from April 1, 2019 to June 30, 2019)

(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. 2019 – Jun. 2019	148,822	(2.3)	7,004	(30.0)	5,495	(39.9)	3,491	(44.5)
Apr. 2018 – Jun. 2018	152,271	5.5	10,000	37.9	9,139	27.8	6,285	32.0

Note: Comprehensive income (loss): ¥1,336 million (-81.9%) three months ended June 30, 2019
¥7,389 million (-28.8%) three months ended June 30, 2018

	Net income per share	Fully diluted net income per share
Apr. 2019 – Jun. 2019	¥ 53.53	¥ 53.45
Apr. 2018 – Jun. 2018	95.90	95.78

Note: The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. However, net income per share and fully diluted net income per share have been calculated as though the share consolidation took place on April 1, 2018.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of June 30, 2019	¥ million 658,313	¥ million 358,638	50.8%
As of March 31, 2019	659,587	360,726	51.1

(Reference) Shareholders' equity: ¥334,506 million as of June 30, 2019
¥336,992 million as of March 31, 2019

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2018 – Mar. 2019	¥ —	¥ 9.00	¥ —	¥ 55.00	¥ —
Apr. 2019 – Mar. 2020	—				
Apr. 2019 – Mar. 2020 (Forecasts)		50.00	—	50.00	100.00

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

The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. The 2nd Quarter dividend per share for the fiscal year ending March 31, 2019 shows the amount before the consolidation of shares and the annual dividend per share is shown as “—.”

3. Forecast for Consolidated Business Performance for the Year Ending March 31, 2020
(from April 1, 2019 to March 31, 2020)

(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	4.7	40,000	11.0	35,000	11.9	23,000	3.4	354.00

Note: Revisions to consolidated business performance forecasts during the quarter under review: No

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: Yes
 - 2. Changes other than 1. above: No
 - 3. Changes in accounting estimates: No
 - 4. Restatements: No

Note: For details, please refer to the section entitled “(3) Notes to the Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements” on page 9.

(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, 2019	68,000,000 shares	March 31, 2019	68,000,000 shares
June 30, 2019	2,778,690 shares	March 31, 2019	2,778,423 shares
June 30, 2019	65,221,484 shares	June 30, 2018	65,545,402 shares

Note: The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. However, the number of shares issued at the end of the period, the number of shares of treasury stock at the end of the period, and the average number of shares during the period have all been calculated as though the share consolidation took place on April 1, 2018.

(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 4.

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1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

The global economy has started to show clear signs of deceleration, due to the impacts of intensified U.S.-China trade frictions triggered by protectionist U.S. trade policies. The impact of these trade tensions have not only affected the Chinese economy, but have also rippled out to technologically interconnected global supply chains.

In this business environment, the Kaneka Group's business performance for the first quarter (April 1, 2019 to June 30, 2019) was as follows. Due to slowing demand in Asia and Europe, along with sluggish conditions in the automotive and electronics industries, consolidated net sales amounted to ¥148,822 million (down 2.3% year on year), and operating income was ¥7,004 million (down 30.0% year on year). Ordinary income was ¥5,495 million (down 39.9% year on year). Net income attributable to owners of parent was ¥3,491 million (down 44.5% year on year).

Operating performance by business segment was as follows:

1) Material Solutions Unit

In the Vinyls and Chlor-Alkali business, sales of PVC resins and specialty PVC resins were lackluster in Japan and overseas. In caustic soda, approval issues for exports to India were resolved, but overseas market conditions did not improve, causing a large negative impact on earnings.

In the Performance Polymers business, modifiers were negatively impacted by declining demand due to a weak global economy, despite an increase in the sales ratio of modifiers for non-PVC use, a new application. Adoption of epoxy masterbatch as a structural adhesive for automobiles advanced. In response to surging demand, the Group is carrying out construction work to increase production capacity. In addition, the Group is pushing forward with the construction of integrated production facilities spanning resins to prepreg to further accelerate business development in composites for the aviation and aerospace industry. The Group has made steady progress on getting those production facilities up and running.

In modified silicone polymers, demand has been increasing globally. In this environment, sales of modified silicone polymers trended firmly with the Group making progress on the development of new applications in Europe. In addition, enhanced production capacity came online in Belgium in December 2018, contributing to earnings.

Kaneka Biodegradable Polymer PHBH was approved in Europe, in addition to approval by the FDA in the U.S., as a packaging material for fruit and vegetable bags and other uses amid global strengthening of regulations regarding disposable plastics. Moreover, the use of PHBH for all food applications is expected to become possible throughout the EU by autumn 2019. PHBH attracted significant interest as a solution to the microplastics issue at the G20 Osaka summit in June 2019, leading to a sharp increase in product inquiries. PHBH is being increasingly adopted for use in a wide range of applications such as straws, shopping bags and packaging materials by major customers such as convenience stores and cosmetics manufacturers. The Group plans to start operating a 5,000-ton plant at the end of 2019. It also plans to decide on the construction of a full-fledged mass production plant within 2019 to address further growth in demand.

2) Quality of Life Solutions Unit

In the Performance Fibers business, demand for hair accessories in the African market has continued to expand steadily, with sales volume reaching a record-high for the first quarter. Going forward, the Group will strengthen its brand capabilities in high-functionality hair accessories to spearhead new demand creation in Africa and other markets. In the flame-retardant material field, the Group will strive to drive growth in sales for use in uniforms.

In the Foam & Residential Techs business, expandable polystyrene resins and products saw a recovery in earnings as the Group passed high raw materials costs onto sales prices. Meanwhile, extruded polystyrene foam boards were impacted by surging distribution costs, in addition to weak

demand associated with delays in civil engineering and construction work. In polyolefin foam, although the business was affected by a decline in automobile sales volume in China, demand for polyolefin foam is expected to expand over the medium term based on the heightened need for lightweight materials. Accordingly, following on from the start of operations at a plant in Thailand, the Group will bolster its operating base through steps such as enhancing production capacity in Belgium and introducing new processes.

In the PV & Energy management business, sales of high-efficiency photovoltaic module products expanded steadily thanks to positive reception in the market. The Group is putting a framework in place to boost production in response to growing demand for those products. Additionally, profitability has improved in step with advances in business structural reforms. In new applications, 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.

In the E & I Technology business, ultra-heat-resistant polyimide films and high thermal conductive graphite sheets were strongly affected by a slowdown in the smartphone market. However, sales increased for 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.

3) Health Care Solutions Unit

In the Medical Devices business, sales of new products, such as high-functionality balloon catheters and digestive system catheters, proceeded steadily. Moreover, sales increased in overseas markets. Additionally, this year, the Group plans to launch new products in Japan and overseas. The Group will work to expand sales in therapeutic fields such as drug-coated balloon catheters and electrode catheters, as well as take steps to expand business in new medical domains including the fractional flow reserve (product of a U.S. medical equipment company with which the Group has formed a new investment and strategic agreement).

In the Pharma business, the sales volume of small molecule pharmaceuticals declined in the first quarter owing to timing differences in shipments to major customers. Meanwhile, sales have been firm for biopharmaceuticals made by Kaneka Eurogentec S.A. With the completion of work on bolstering production capacity, the Group is developing new products together with customers in the run-up to the full-scale start of operations next year.

4) Nutrition Solutions Unit

In the Foods & Agris business, sales have expanded due to proactive proposal-based sales to major suppliers of bakery products, convenience stores, and food manufacturers, despite the impact of a lackluster domestic market for confectionery and bakery products. Meanwhile, in Indonesia, the tasty Japanese bread and confectionery culture is entering a period of expansion, and steady progress is being made on construction of a new factory. In the dairy products business, the "Milk for Bread" and "Café au lait for bread" products have steadily gained a positive market reception. With the launch of "Belgian Yogurt Pur Natur" in August, the Group has been working to enhance the lineup of dairy products and will move quickly to consider construction of a new dairy product plant. In addition, the Group will contribute to productivity improvements for dairy farmers and the development of recycling-oriented dairy farming through these activities.

In the Supplemental Nutrition business, sales of the mainstay reduced form of coenzyme Q10 remained firm, mainly in the U.S. market. The Group is steadily expanding sales in the European market of lactic acid supplements produced by AB-Biotics, S.A., a consolidated subsidiary in Spain. These lactic acid supplements are regarded highly for their unique properties. Following on from the U.S., the Group plans to launch these lactic acid supplements in Japan. Going forward, the Group will enhance its lineup of functional food products and expand business globally.

(2) Consolidated Financial Position

Total assets were ¥658,313 million as of June 30, 2019, down ¥1,274 million compared with March 31, 2019, due to a decrease in notes and accounts receivable-trade. Liabilities totaled ¥299,674 million, up ¥813 million due to an increase in notes and accounts payable-trade. Net assets were ¥358,638 million, down ¥2,088 million due to a decrease in foreign currency translation adjustment.

(3) Consolidated Business Forecasts

Regarding the global economy, U.S.-China trade frictions have had a large impact on the global market even as trade talks have continued. There has been growing uncertainty in monetary policy and economic trends around the world, and the global economy has been showing clear signs of deceleration. The Japanese economy has seen continued growth in internal demand supported by the Olympics. However, the global economic slowdown is having a broader impact on the country. There are stronger expectations for a global economic downturn.

Under these conditions, as the automobiles, electronics and other markets slow down, the Group will move quickly to transform its business portfolio as it strives to establish a fundamentally strong, diversified business model and enhance the competitiveness of its products.

Considering the above, the Group has not revised its forecasts for consolidated business performance announced on May 14, 2019.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2018 Term ended March 31, 2019	FY2019 1st Quarter Term ended June 30, 2019
Assets		
Current assets		
Cash and deposits	40,905	37,659
Notes and accounts receivable-trade	147,993	139,678
Short-term investment securities	232	225
Merchandise and finished goods	61,609	65,167
Work in process	9,365	9,484
Raw materials and supplies	41,459	42,903
Other	13,918	16,489
Allowance for doubtful accounts	(1,237)	(1,231)
Total current assets	314,245	310,375
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	79,815	80,452
Machinery, equipment and vehicles, net	106,395	107,443
Other, net	65,710	68,107
Total property, plant and equipment	251,922	256,004
Intangible assets		
Goodwill	3,981	3,764
Other	9,443	9,309
Total intangible assets	13,424	13,073
Investments and other assets		
Investment securities	61,273	59,814
Other	18,982	19,302
Allowance for doubtful accounts	(260)	(257)
Total investments and other assets	79,994	78,859
Total noncurrent assets	345,342	347,937
Total assets	659,587	658,313

	(Millions of yen)	
	FY2018	FY2019 1st Quarter
	Term ended March 31, 2019	Term ended June 30, 2019
Liabilities		
Current liabilities		
Notes and accounts payable-trade	84,797	86,175
Short-term loans payable	67,668	63,754
Current portion of bonds	10,000	10,000
Income taxes payable	2,864	2,006
Provision	128	15
Other	48,453	51,985
Total current liabilities	213,912	213,937
Noncurrent liabilities		
Long-term loans payable	45,122	44,298
Net defined benefit liability	34,985	34,676
Provision for directors' retirement benefits	266	268
Other	4,574	6,493
Total noncurrent liabilities	84,948	85,737
Total liabilities	298,861	299,674
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,784	32,726
Retained earnings	272,944	272,838
Treasury stock	(11,601)	(11,603)
Total shareholders' equity	327,173	327,008
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	19,642	18,890
Deferred gains or losses on hedges	(110)	(128)
Foreign currency translation adjustment	(4,008)	(5,759)
Remeasurements of defined benefit plans	(5,705)	(5,505)
Total accumulated other comprehensive income	9,818	7,497
Subscription rights to shares	431	414
Noncontrolling interests	23,302	23,717
Total net assets	360,726	358,638
Total liabilities and net assets	659,587	658,313

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income		(Millions of yen)	
	FY2018 1st Quarter	FY2019 1st Quarter	
	From April 1, 2018 to June 30, 2018	From April 1, 2019 to June 30, 2019	
Net sales	152,271	148,822	
Cost of sales	108,859	107,029	
Gross profit	43,411	41,793	
Selling, general and administrative expenses	33,410	34,788	
Operating income	10,000	7,004	
Non-operating income			
Dividends income	720	720	
Foreign exchange gains	139	—	
Equity in earnings of affiliates	—	33	
Other	209	173	
Total non-operating income	1,069	927	
Non-operating expenses			
Interest expenses	493	470	
Loss on retirement of noncurrent assets	674	381	
Equity in losses of affiliates	18	—	
Foreign exchange losses	—	575	
Other	744	1,010	
Total non-operating expenses	1,930	2,437	
Ordinary income	9,139	5,495	
Extraordinary losses			
Patent protection court cost	355	463	
Total extraordinary losses	355	463	
Income before income taxes	8,784	5,031	
Income taxes—current	2,741	1,746	
Income taxes—deferred	(607)	(487)	
Total income taxes	2,134	1,258	
Net income	6,650	3,772	
Net income attributable to noncontrolling interests	364	280	
Net income attributable to owners of parent	6,285	3,491	

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2018 1st Quarter From April 1, 2018 to June 30, 2018	FY2019 1st Quarter From April 1, 2019 to June 30, 2019
Net income	6,650	3,772
Other comprehensive income		
Valuation difference on available-for-sale securities	494	(785)
Deferred gains or losses on hedges	(46)	(17)
Foreign currency translation adjustment	(45)	(1,831)
Remeasurements of defined benefit plans, net of tax	338	201
Share of other comprehensive income of associates accounted for using equity method	0	(2)
Total other comprehensive income	739	(2,435)
Comprehensive income	7,389	1,336
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,103	1,170
Comprehensive income attributable to noncontrolling interests	285	166

(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

(Changes in Accounting Principles)

At the Group's subsidiaries adopting IFRS, IFRS 16 Leases (hereinafter, "IFRS 16") has been applied from the three months ended June 30, 2019. Accordingly, lessees will, in principle, recognize all leases as assets and liabilities on the balance sheet. In applying IFRS 16, the Group has applied the method where the cumulative effect of applying this standard is recognized at the date of initial application in accordance with the transitional treatment of the standard. As a result, the ending balances of "Property, plant and equipment," "Other" under current liabilities and "Other" under noncurrent liabilities in the three months ended June 30, 2019 increased by ¥2,453 million, ¥271 million and ¥2,191 million, respectively. The application of IFRS 16 had a negligible impact on earnings for the three months ended June 30, 2019.

(Segment Information)

I 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	151,963	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.

II Term from April 1, 2019 to June 30, 2019

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	60,176	38,468	10,949	38,908	148,502	320	148,822	—	148,822
Intersegment	252	3	—	5	260	285	546	(546)	—
Total	60,429	38,471	10,949	38,913	148,763	606	149,369	(546)	148,822
Segment profit	5,590	3,728	1,905	1,200	12,424	180	12,605	(5,600)	7,004

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	12,424
Segment profit of Others	180
Elimination of intersegment transactions	4
Companywide expenses (Note)	(5,623)
Other adjustments	18
Operating income in the quarterly consolidated statements of income	7,004

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