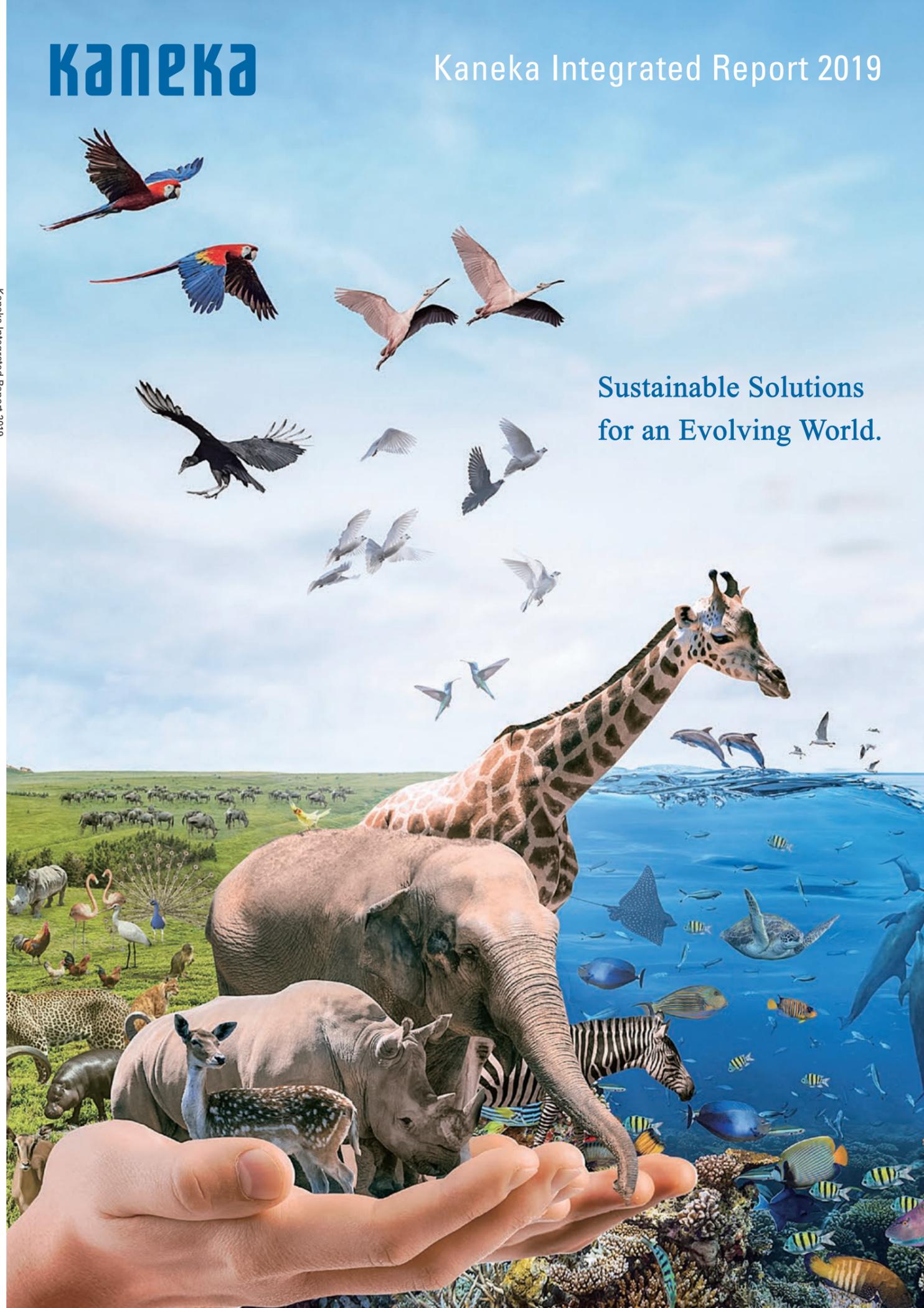


Sustainable Solutions
for an Evolving World.

Kaneka

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This product is made of FSC™-certified and other controlled material.
Environment-friendly vegetable oil ink is used for printing.



KANEKA thinks “Wellness First”.

Kaneka brings the environment to its ideal state,
develops its business in a “wellness-first” direction,
energizes people, adds vibrancy to business,
and helps build a happier society.
To make the world more wellness-first.
Kaneka takes an innovative approach to science,
and seeks to fulfill people’s dreams by offering
a wide variety of solutions.

From the Editorial Team

Kaneka Integrated Report 2019, covering both financial and non-financial information, has been issued to enhance the understanding of our stakeholders regarding the Kaneka Group's value creation in the medium to long term. It is created based on the New Medium-term Management Plan as of May 15, 2019. For product registered trademarks and other trademarks, please refer to our website. <https://www.kaneka.co.jp/en/esg/report/trademarks>

Organizations Covered in This Report

This report covers Kaneka Corporation and its consolidated subsidiaries both in Japan and other countries. The data on Responsible Care activities encompass the parent and all 61 Group production subsidiaries. In this report, “Kaneka” refers specifically to Kaneka Corporation. “Kaneka Group” encompasses Kaneka Corporation and Group companies (its consolidated subsidiaries). References to “Group company/companies” do not include Kaneka Corporation.

Notes Regarding Future Prospects

Statements in this report regarding performance forecasts and other future prospects are based on currently available information and certain assumptions that we consider reasonable, and Kaneka Corporation does not guarantee their achievement. Actual results may differ greatly due to various factors.

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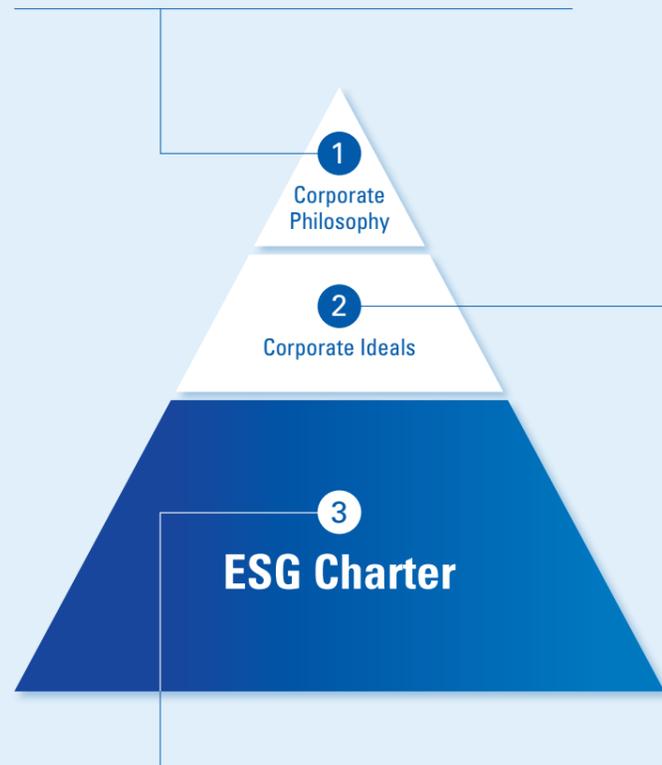
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Management Philosophy Structure “Declaration of Kaneka United”

With people and technology growing together into creative fusion, we will break fresh ground for the future and tie in to explore New Values. We are also committed to challenge the environmental issues of our planet and contribute to upgrading the quality of life.



Toward an Even More Impressive and Productive Future

Hold in your hands the future you have always dreamed of. We are a highly perceptive and collaborative value-creating group or, as we like to say, a “Dreamology Company.”*

We want to look at the future from the same perspective as our customers. The future that Kaneka visualizes is one that connects us with our customers.

* “Dreamology” is an expression coined from ‘dream’ and ‘ology’ (science). Our “Dreamology Company” is a “highly perceptive and collaborative value-creating group.”

Five “ties”

1. Tie to the future

As a research and development company brimming with creative energy and passion, we will create future-oriented businesses that leap beyond current market needs and back them up with new product development, thus protecting the global environment and contributing to the quality of life.

2. Tie to the world

We are determined to become a truly global enterprise with diverse human resources working together on a global scale. Our presence will be felt in markets around the world, including newly emerging ones.

3. Tie with value

We are proud of our unity and identity as the Kaneka Group and will take on the challenges of value creation and business innovation through close collaboration.

4. Tie for innovation

We will never cease to pursue innovation, fusing wisdom from both internal and external sources without getting caught up in organizational compartmentalization and conventional ways of doing things.

5. Tie with people

We in the Kaneka Group believe that the wellspring of corporate growth resides in human resources and will continue to seek innovation as we cultivate and nurture our valued employees.

Putting the Corporate Philosophy Into Practice

1. We offer solutions characterized by value to global markets and contribute to the evolution of lifestyles and the environment through innovative chemistry.

- ① We bring innovation to lifestyles and the environment by harnessing the unlimited potential of chemical materials to help communities achieve sustainability. (Earthology Chemical Solution)
- ② By adopting a unified approach to food and medicine that is defined by a focus on chemistry, we provide innovative solutions that empower people to live healthier lives. (Active Human Life Solution)

2. We fulfill our social responsibility by empowering individual employees to put our corporate philosophy into practice through serious, forward-looking effort.

- ① We actively contribute to our communities by cultivating understanding of the cultures and customs of the countries and regions where we do business and by pursuing corporate activities that are deeply rooted in those communities.
- ② We operate our businesses in a fair and impartial manner based on the principles of free competition and legal compliance.
- ③ We’re committed to communicating with shareholders and other stakeholders and to making information about our operations available in a timely and appropriate manner.
- ④ We strive to foster an organizational culture that respects the personalities and uniqueness of all employees so that they can enjoy good health, feel motivated, and make the most of their abilities.
- ⑤ Reflecting a commitment to make safety the top priority in our operations, we work to create safe and healthy workplaces, ensure product safety, and protect and preserve the environment.

In 2018, Kaneka Group established the ESG Charter, aiming to evolve its ESG management.

As good citizens, we look towards the same future as all stakeholders from the same viewpoint.

Kaneka Group’s ESG Activities

Working to resolve social issues to keep the world well

Providing Valuable Solutions

Pursuing Social Responsibility



The New Economy Is Here !

We will materialize discontinuous growth by accelerating portfolio transformation



Kimikazu Sugawara
Chairman and Representative Director

Awareness of the times

Through the technological innovation such as digital transformation (DX) and “data-ism,” our society and business environment are being transformed at speed that exceeds what most people have imagined. Looking at the dramatic changes in a short period of time, we feel as if the future society in the 22nd century has already begun in 2019.

On the other hand, efforts to implement a sustainable society in the field of energy, resources, and food-problem are accelerating on a global scale. At the same time, awareness of, and interest in the environmental protection issues such as microplastics problem and carbon dioxide emissions are growing and spreading rapidly worldwide. With the Old Economy, a conventional and obsolete materials and solutions getting less competitive, companies that fail to move into the New Economy are at risk to withdraw from their markets.

Kaneka’s purpose

What is Kaneka’s purpose, its *raison d’être* (meaning of existence) ?

Kaneka is making a fresh start from this point of view.

Discontinuous growth is the only path for companies to survive by speeding up the innovation and the social implementation of new businesses. Companies must propose and provide solutions to crucial social issues by anticipating the future society needs and changes, not merely solving the existing problems.

We’ve defined our purpose (meaning of existence) as “to solve social issues and realize a sustainable society by providing innovative materials as solutions through the break-through technology and global network.”

Based on our key strength: “highly competitive technological and global development capabilities to create innovative products continuously” we will solve social issues by identifying future social needs and proposing solutions.

Management strategies to realize the purpose

We aim for the goal of “Wellness First” to make the world healthy.

- We’ve identified three areas in which the world faces crises: “Environment / Energy”, “Food”, and “Wellness”.
- We will generate cash flow from core businesses and invest it to drive R&D and create new businesses. In this way, we will reform our portfolio.

Top Message

Issues of portfolio transformation (Accelerating the implementation of goals)

Earthology Chemical Solution

“We bring innovation to lifestyles and the environment by harnessing the unlimited potential of chemical materials to help communities achieve sustainability.”

We will promote social implementation of PHBH and solar technology to launch large-scale of new businesses.

- We're strengthening the profitability of core businesses: Vinyls and Chlor-Alkali SV, Performance Polymers (MOD) SV, and Performance Polymers (MS) SV. Foam& Residential Techs SV will strengthen its profitability and offer a line of products to meet the weight reduction needs of automobiles and so on. We'll keep and enlarge the profitability of Performance Fibers SV.
- E & I Technology SV will improve quality of life by providing new solutions to intelligent and multifunctional devices for automobiles, homes, medicine, and telecommunications infrastructure.

Active Human Life Solution

“By adopting a unified approach to food and medicine that is defined by a focus on chemistry, we provide innovative solutions that empower people to live healthier lives.”

- Foods & Agris SV will transform itself to adapt the New Economy by launching and growing new businesses such as dairy products and create innovative products to deliver nutritional value in collaboration with our supplement business.
- Medical Devices SV will enlarge its business globally and attain high profitability. We will hasten the social implementation of regenerative medicine and cell therapy.
- Pharma & Supplemental Nutrition SV will develop global API market and grow bio-pharmaceuticals business centered on Kaneka Eurogentec S.A.

Strengthening the management platform (measures to accelerate discontinuous growth)

Transformation of the management system is a significant theme that management is working on. We are achieving the results of this approach with the progress of new businesses, trying a large number of things and putting in place the ones that work. I've been urging employees to move forward quickly to transform our portfolio, by saying “Change with Purpose, Grow with Result.” This phrase reflects my belief in the importance of the following priorities:

- “Backcasting” from our vision and target to focus on what we need to do now.
- “Confidence (everyone believes we will win);” “Strategy (refine a detailed game plan);” “One Team (form a scrum of connected teammates);” and “Momentum (challenge a high goal courageously and create a strong momentum for a big leap).”

Kaneka Tower

- Kaneka Tower is a fundamental structure of our management model. We're taking advantage of the strengths (DNA) we've cultivated since our founding to evolve our ability to create businesses (inner strengths) and to develop markets (outward strengths) with our excellent execution capability at the frontline so that business innovation can be carried out autonomously in response to changing times.
- We will inspire all employees facing the actual business fields through two workshops (Change and Growth Triangle, and Kaneka 1on1).

The Triple Package as Management System Transformation

This is our business philosophy platform for realizing change and growth. We will boost effectiveness by docking our management hardware and software.

Change and Growth Triangle

The triangle of an awareness of the times, actions, and goal precisely embodies the framework of our management plan. We will clearly define results by identifying objectives, measures to achieve goals including technological innovation, and operate them considering the importance of scale and speed.

Reforms of R&B structures

- In 2019, we reorganized our R&D organization to R&B Division in an attempt to transform R&D into R&B (Research & Business). The purpose of research at Kaneka is to create major new businesses by delivering solutions to social issues. We've been focusing on obtaining the breakthrough technologies necessary to achieve that goal.

To that end, we will:

- Accelerate the speed of social implementation of new businesses.
- Improve the productivity of R&B significantly by grouping research themes into clusters based on the degree of difficulty and the speed.
- Bring in state-of-the-art technologies and combine them with Kaneka's own technologies to advance themes and sales of new products. We will allocate more resources for research of life science and electronics business fields.

Work Culture Innovation: Kaneka 1on1

- The concept of the “Human Driven Company” forms the backbone of our management philosophy. Kaneka 1on1 is a workshop for facilitating personal growth through work. It's also the backbone of the “Trial & Error experiment driven company” that supports our ability to pursue business innovation through the Kaneka Tower.
- We're working urgently to redesign operations that is suitable for this new era and reform our work culture. We will develop a highly productive organization and people to improve operation efficiency by utilizing digital tools.
- We will promote production innovations such as automation and manpower saving through

the use of IoT and robotics to create a Human Driven Company and a community, where algorithms and human power resonate, and improve the competitiveness of manufacturing.

Enhancing our corporate governance

We are committed to “Wellness First” health management, in which each and every employee is mentally and physically healthy, and our corporate activities and attitudes are sound. What is important for top management is to discern and commit a vision of what a society should be, improve corporate attitude, and realize corporate governance in response as necessary.

Strengthening business executive functions is a key point amid the ongoing paradigm shift and our growing business. We will make innovation a “scope of compass” and settle the health management at the frontline of business to open up the unknown. To that end, we will reinforce the executive functions to monitor and find choke points, while each function reflecting the “perspective knowledge”.

I believe that it is crucial to continue self-reformation of management and establish series of structures to achieve our management goals and take our corporate governance to the next level.

Our goal is to realize a type of “governance system of Federal States”.



Two major systems as the backbone of management

As the backbone of management, two major systems increase social and corporate value



Trial & Error experiment driven company

We try new things without fear of failure. We enjoy answers produced from accumulated experiments.

We continue to be a "Trial & Error experiment driven company," creating unique solutions.

Kaneka Tower (Key basic structure of our management model)

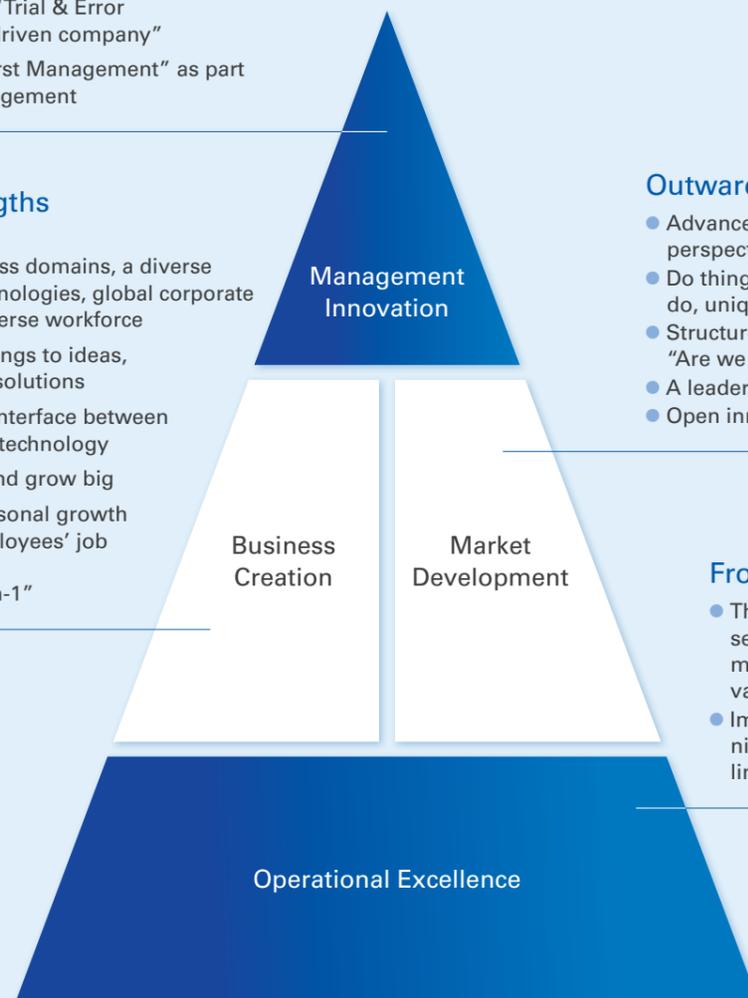
Valuing the Kaneka Tower as Kaneka's DNA, we aim to deepen our ESG management

Ability to grow tall

- Kaneka as a "Trial & Error experiment driven company"
- "Wellness-First Management" as part of ESG management

Inner strengths

- Diversity
Broad business domains, a diverse range of technologies, global corporate activities, diverse workforce
- Shift from things to ideas, materials to solutions
- Serve as an interface between markets and technology
- Start small and grow big
- Facilitate personal growth through employees' job performance "Kaneka 1-on-1"



Outward strengths

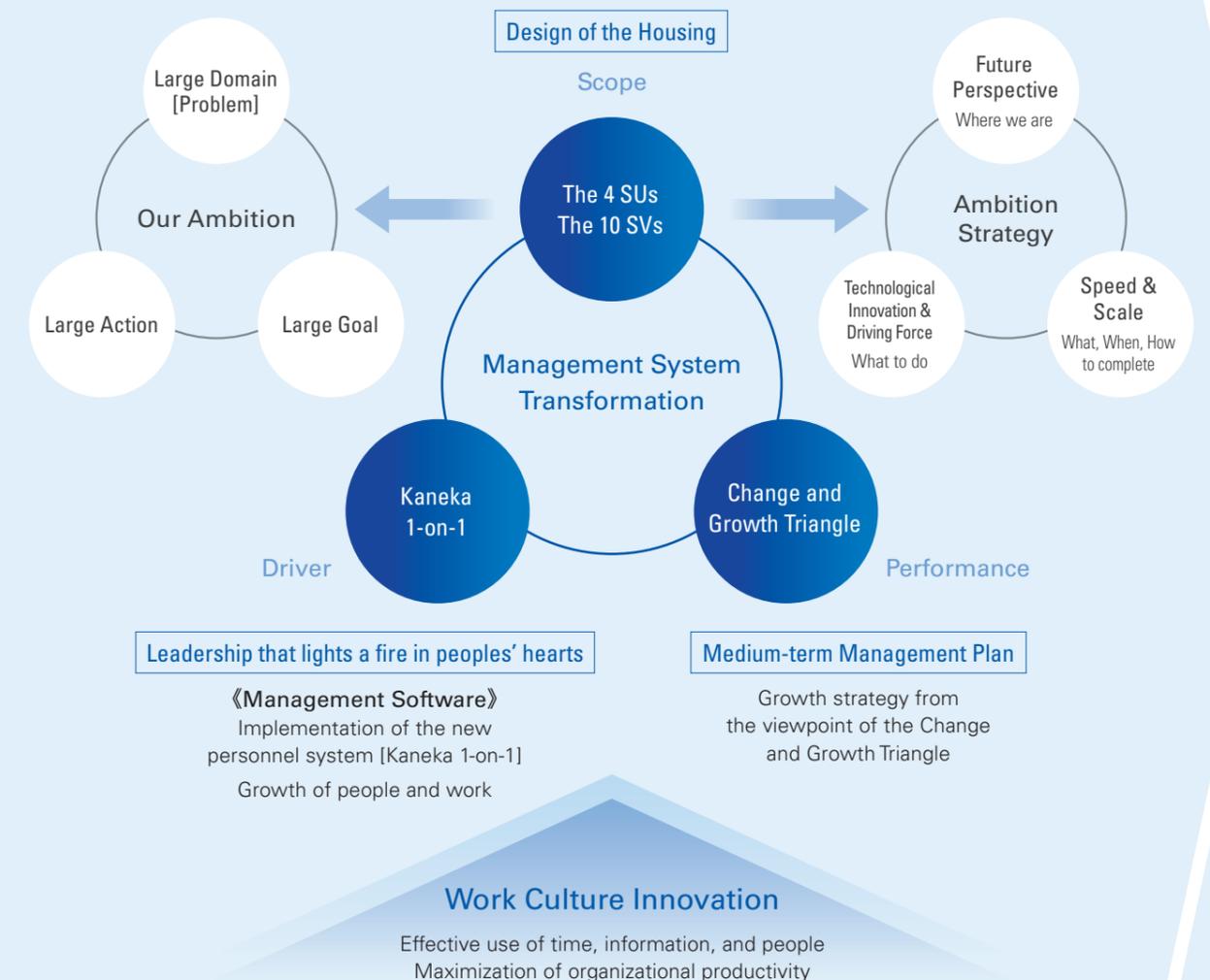
- Advance initiatives with a global perspective
- Do things that only Kaneka can do, uniqueness
- Structure customer needs; Ask "Are we playing a useful role?"
- A leader who will face challenges
- Open innovation

Frontline execution

- Think by exercising all five senses on the frontline, make decisions and create value
- Implement Value Communication to link the front-lines together

The Triple Package as Management System Transformation

Further accelerate transformation to a solution provider based on a new management system



KANEKA's ESG

Providing visionary solutions for people, quality of life, and the environment



By providing valuable solutions globally, we will continue growing and building a reputation for contributing to the evolution of people's lives and the environment throughout the world.



Contribute to the advancement of life and the environment of people world wide through chemistry

Earthology Chemical Solution

We bring innovation to lifestyles and the environment by harnessing the unlimited potential of chemical materials to help communities achieve sustainability.

Material SU

- Vinyls and Chlor-Alkali SV
- Performance Polymers (MOD) SV
- Performance Polymers (MS) SV

Quality of Life SU

- Foam & Residential Techs SV
- E & I Technology SV
- PV & Energy management SV
- Performance Fibers SV

Solutions Unit vision

Material Value Creator

To support the advancement of life and the environment by drawing out the richness of the materials

Measures

Contribute to global environmental conservation and comfortable living

- Provide outstanding materials for evolving social infrastructure, mobility (lighter weight, more fuel efficient vehicles), and more
- Provide solutions where materials like biopolymers are of direct help to ecological society

Quality of Life Pathfinder

To produce the leading edge of the enhancement of the quality of life through the power of materials

Contribute to energy-saving and a rich life

- Deliver energy-efficient housing solutions→Create a high quality, sustainable housing market
- Provide unique materials and services that excel regarding both energy-saving and smart application needs

Active Human Life Solution

By adopting a unified approach to food and medicine that is defined by a focus on chemistry, we provide innovative solutions that empower people to live healthier lives.

Health Care SU

- Medical Devices SV
- Pharma & Supplemental Nutrition SV

Nutrition SU

- Foods & Agris SV

Medical Edge Explorer

To create a world in where advanced medical means are available to as many people as possible

Contribute to a society advancing in age and medical sophistication

- Strengthen marketing and product development globally in cutting-edge medical fields including biopharmaceuticals, and regenerative medicine and cell therapy
- Proactively utilize open innovation and U.S. R&B bases
- Provide solutions that deliver value by fusing devices and medicine

Nutrition Value Chain Innovator

To re-innovate food and health

Contribute to health and a plentiful, varied diet

- Provide a broad range of solutions that help diversify and enrich people's diets
- Offer solutions that help prevent disease and promote health, and enhance the food materials lineup
- Deliver solutions that assist production in the fields of agriculture, livestock, and fishery

KANEKA thinks “Wellness First.”

Expanding technology for people and society to provide new value on a global scale

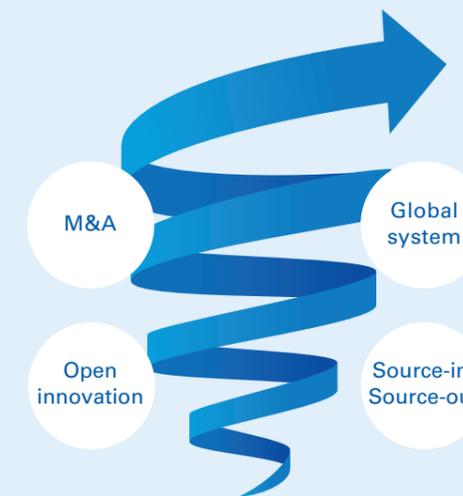
Creative fusion of people and technology

Business is conducted by people, and our technology underpins various products. We will provide new value on a global scale by encouraging healthy and vibrant people to repeat value communication from the perspective of B-to-B-to-C and the more social perspective of B-to-B-to-C-to-S in combination with our technology.



Create added value through open innovation

- Energy saving
- Ocean pollution control
- Social infrastructure
- Informatization
- Food production support
- Health promotion
- Medical sophistication



Combine technologies from different industries

In addition to management system reform, M&A-based discontinuous growth is also essential for achieving our long-term vision. By breaking away from our self-sufficiency policy and adopting open innovation, we will pursue technological innovation and cluster our business and products based on external technologies. Thus, we will acquire cutting-edge technologies and accelerate new business development to continue creating added value.

Three Crises Resolution of social issues

KANEKA thinks “Wellness First.”

Environment / Energy

Through the development of marine biodegradable polymer materials and a photovoltaic system installable on building walls, we aim to create a society where everyone can use clean and sustainable resources and energy.



Biodegradable Polymer PHBH



Building integrated photovoltaics (BIPV)

Food

By developing food production support products and producing high-value-added dairy products through cooperation with dairy farmers, we realize a society where safe, secure and highly nutritious food is available to everyone and where food producers are also satisfied.



KANEKA PEPTIDE



Milk for Bread / Café au lait for Bread

Wellness

By developing safe and highly effective supplements and other products to maintain and improve physical health, we realize a society where everyone has access to adequate medical services and can continue to live a vibrant and healthy life.



Kaneka Ubiquinol



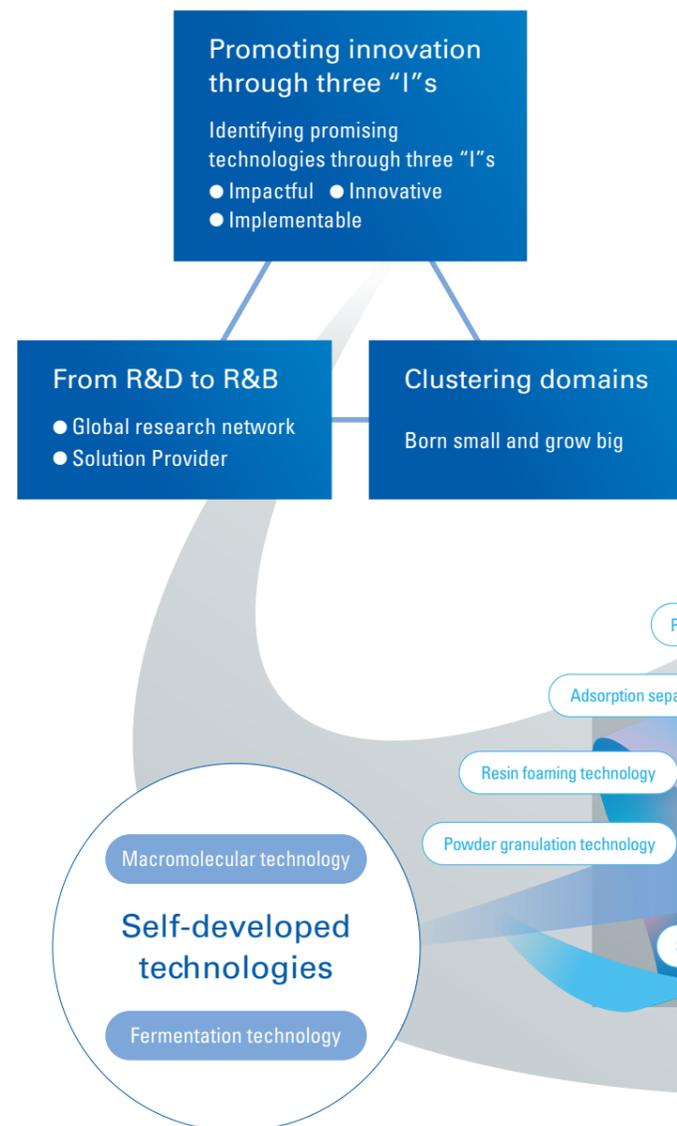
Floradapt (Lactic acid bacteria)

Resolving social issues through R&B (Research & Business)

We have set the purpose of our R&D activities as “resolving social issues at the earliest opportunity possible by pursuing value from the perspectives of markets and customers through the proactive use of leading-edge technologies” and have redefined R&D as R&B (Research & Business).

We will work to ensure sustainable growth as a solution provider by sharpening our ability to identify technologies that help to resolve social issues and by developing overwhelmingly competitive technologies and materials and realizing their social implementation.

Actions to embody the concept of Kaneka as “Trial & Error experiment driven company”



Key technologies and key drivers for the future

Polyimide resin Ultra-heat-resistant polyimide film	Heat-resistant composite materials Aerospace and aircraft materials	Biodegradable plastics Biodegradable polymer
Energy management Photovoltaic modules integrated into roofing tiles	OLED Lighting devices Organic EL lighting	Next-generation breeding technology Genome edited crop
Food production support New high-performance fertilizer	Catheters Drug-coated balloon catheter	Regenerative medicine and cell therapy iPS cells / Stem cells

Thermosetting resin Compounding / processing technology

Environment / Energy

- Biodegradable materials for food and product packaging and containers
- Next-generation mobility materials (vehicles, aircraft, spacecraft)
- Next-generation information terminal materials
- High-efficiency photovoltaic models and see-through photovoltaic models that realize 100% renewable energy

Three Crises
Resolution of social issues
Social implementation of new materials and systems

Food

- Environmental stress-tolerant crops / Hypoallergenic crops
- High-performance fertilizer that accelerates the growth of crops and boosts their resistance to environmental stress, including climate change

Wellness

- Health maintenance / Frailty*1 prevention
- Refractory disease: Innovative treatment
- Circulatory disease: Minimally invasive treatment*2

*1 A state where physical and mental weakness appears associated with decline in motor and cognitive functions caused by aging and decline in daily living function due to the impact of comorbid chronic diseases. It is possible to maintain and improve daily living function through appropriate intervention and support.

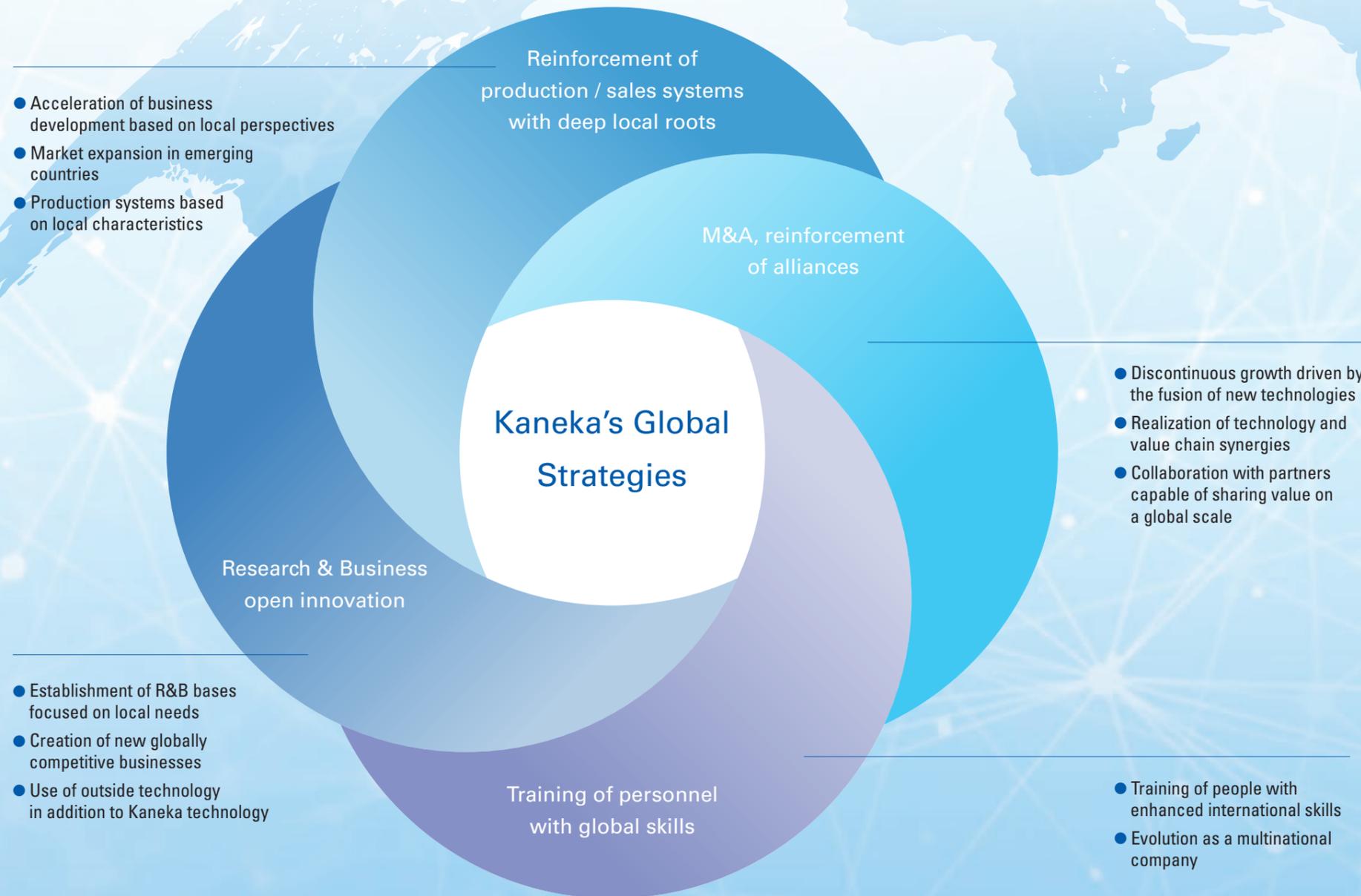
*2 Treatment that reduces burden on the patient's body.

Think Global, Act Local

Kaneka Group has always promoted business operations, leading the way in advance of other companies, on a world scale.

We are currently accelerating technological and material development tailored to regional characteristics around the world, with an emphasis on glocalization (local-based global business).

We will continue to promote business operations rooted in the local community and offer valuable solutions to the world market in a timely manner, aiming to become a company with a global presence.



Americas

Kaneka Americas Holding, Inc. (Regional headquarters)

- Create and expand new businesses in the Health Care, Nutrition (Lactic acid bacteria) and Aerospace fields
- Aggressively conduct M&A and open innovations
- Strategically utilize the Kaneka US Innovation Center and the Kaneka US Material Research Center
- Further strengthen production and sales foundations in existing businesses



Kaneka US Innovation Center



Kaneka US Material Research Center

Europe

Kaneka Europe Holding N.V. (Regional headquarters)

- Expand production capacity in growth fields and conduct M&A (Health Care, Material, QoL)
- Strategically use Kaneka's European Photovoltaics Research Laboratory
- Actively expand solutions business into new and untouched businesses and fields



Kaneka's European Photovoltaics Research Laboratory (Belgium)

Asia

Kaneka Asia Co., Ltd. (Regional headquarters)

- Maximize returns on large-scale capital investment
- Aggressively expand sales in China, ASEAN countries, and India
- Expand business in the Health Care and E & I fields

Wellness and growth of individual employees as a source of innovation and value creation

Being a “Human-Driven Company” is the DNA of Kaneka. Considering that it is individual employees who generate the results and value of work and realize innovation, we are involved in various activities to ensure that employees and organizations can maintain health and achieve high productivity.

Development of leadership that lights a fire in peoples’ hearts —Human resource development with a focus on Kaneka 1-on-1



- I. Set the business goals and implement
- II. Communicate with each boss about progress for goals

Off-JT

- Hitotsubu-no Tane Momi Juku
- Kaneka Creative Corner
- The Leadership Challenge Workshop
- Language training
- e-Learning, etc.



The growth of people and the results of work are like the two sides of one coin. We aim to simultaneously realize human resource development and goal achievement through Kaneka 1-on-1.

We regularly conduct workshops and coaching training programs, measure their effects, and provide feedback to improve value communication.

We also conduct training programs for employees, including those at group companies within and outside Japan, to develop future executive candidates and leaders who strongly lead businesses and operations. Some participants in the programs have been appointed to division chief and executive positions at overseas group companies.

Development of leaders

Program Name	Content	Fiscal 2016 No. of participants	Fiscal 2017 No. of participants	Fiscal 2018 No. of participants	Total from the start of the program No. of participants
Hitotsubu-no Tane Momi Juku	Lectures and exercises by the top management and first-class instructing staff targeted at future leaders and management personnel	13	12	12	49
Kaneka Creative Corner	Lectures and exercises by the top management and first-class instructing staff targeted at future leaders of national staff	10	12	12	34
The Leadership Challenge Workshop	Acquiring and practicing leadership skills and follow-up	(outside Japan) 102	(outside Japan) 24	(outside Japan) 21	(outside Japan) 428
		(in Japan) 197	(in Japan) 236	(in Japan) 288	(in Japan) 951

* Aggregated data for Kaneka and group companies in and outside Japan.

Work culture innovation

To make effective use of time, information, and human resources and maximize the productivity of organizations and employees from the perspectives of “Life in Work” and “Work in Life,” we have formed the Work Culture Committee under the ESG Conference to streamline business processes and change office environments. We also work to enhance value communication and create a robust organization where members are united toward the same purpose.

We have promoted the reform of working practices by introducing various systems that allow employees to choose a flexible working style, includ-

ing the adoption of telecommuting. We have also introduced shorter and staggered work hours programs and a babysitting expense aid system to help employees achieve a better work life balance. We will create a more flexible working environment in anticipation of the continuing declining birthrate and aging population.

We will continue to review and expand existing systems and create a more employment-friendly corporate culture to ensure for all employees a satisfying work and personal life.

Diverse workforce

Active promotion of female employees

We are trying to resolve various social issues as a solution provider. Promoting the participation of personnel with diverse values in the workplace is one of the important initiatives for this.

For female employees, we have advanced efforts to increase their recruitment (employment rate of women who graduated from technical colleges and universities: 33%) and expand the range of occupational opportunities (active assignment of women to manufacturing divisions as well as R&D, sales, and staff divisions) for the past several years. We are building a corporate culture where women actively participate in the workplace and promoting the proactive appointment of female managers to expand opportunities for women to demonstrate their abilities in business and management, thereby turning ideas unique to women into solutions.

Hiring and support of employees with various nationalities

Of approximately 11,000 employees of the Kaneka Group, approximately 3,000 with foreign nationalities are engaged in operations worldwide, playing an active role.

Under the circumstances where we are expanding our business globally, we further increase the recruitment of employees with foreign nationalities. We also focus on developing future global leaders by having them gain experience in countries other than their home country through the Study Abroad Program and the Overseas Trainee Dispatch Program.

Human Resource Strategies – Human Driven Company

Employment of persons with disabilities

The employment rate of persons with disabilities in Kaneka in fiscal 2018 was 2.17%. We will expand the range of occupational opportunities to increase the recruitment of persons with disabilities, reinforce efforts to create a welcoming workplace, and support employment efforts by group companies, aiming to increase their employment rate in the entire Kaneka Group.

Employment of senior citizens

Considering senior employees after retirement age to be a great asset to the company, we accommodate those who wish to continue their employment up to age 65.

We conduct career design training for 50- and 55-year-old employees to encourage them to keep working with enthusiasm after age 60.

In anticipation of the advent of the 100-year life-span, we are planning to create a new system where senior employees can autonomously shape their careers and work with high motivation.

Provision of opportunities to become more aware of lifestyle modification

We consider it most important that all employees at the Kaneka Group and their family members lead colorful lives in good health, mentally and physically.

To this end, we provide various opportunities (contents) to help individual employees raise their health awareness and change their behavior, so that they can improve self-care awareness and establish a healthy lifestyle. Many employees actively participate in these activities.

- Toward increasing awareness of lifestyle modification, distribution of a wearable device to all interested employees so that energy intake and consumption and sleeping hours can be visualized
- Implementation of the Walking Challenge event, commending those who show excellent performance in terms of walking distance
- Introduction of healthy menus, including smart meals, at canteen
- Provision of hands-on programs, including an office yoga program and a seminar on sleep
- Abolition of office smoking areas and prohibition of smoking during working hours to eliminate passive smoking

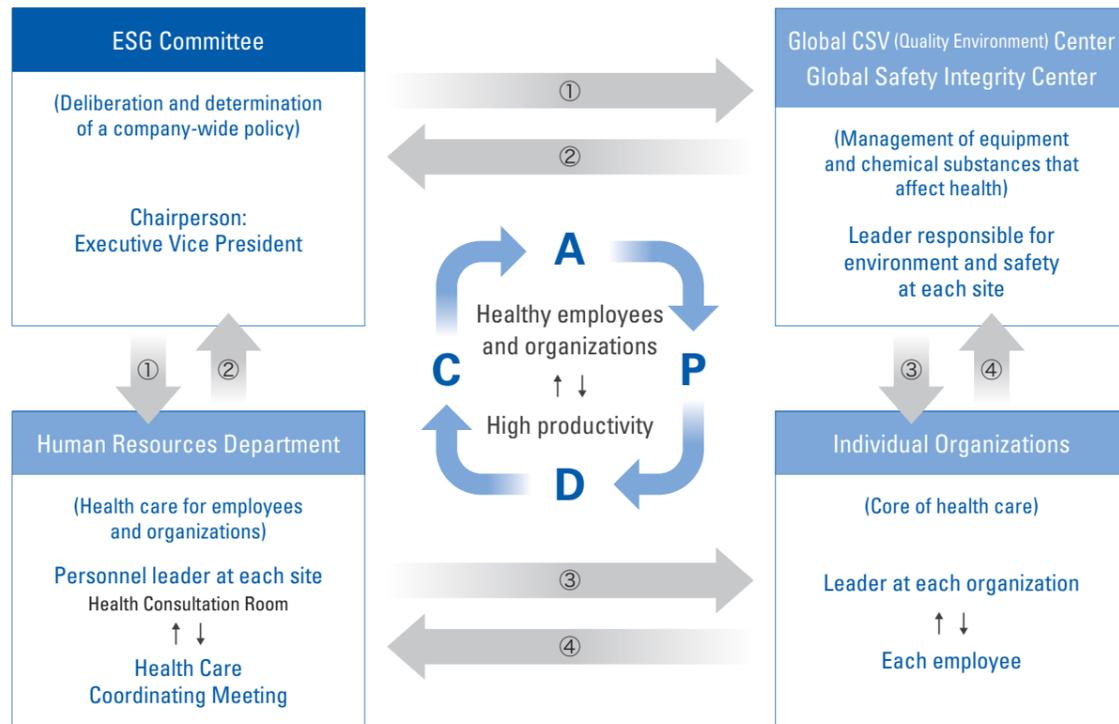


Wearable device distributed to employees

Lifestyle visualized through application software

Wellness of employees

System toward health maintenance and promotion



① Approval / Instruction ② Report / Proposal ③ Monitoring / Health improvement guidance ④ Consultation

In 2018, we established the Health Care Promotion Standards to improve the health care system on a company-wide basis.

Running on a company-wide basis

We are making various efforts to encourage running to help employees enhance health awareness, maintain and improve fitness, and increase physical strength.

- Conducting a running training session and a seminar on running to support those who wish to improve their full marathon time, to start some form of exercise to improve their health, and to make running a habit
- Continuing to hold the long-distance relay race "Run, Run, Run. Kaneka," in which employees from Kaneka group companies in Japan and overseas and our partner companies gather together

No. of participants in the race

Fiscal year	2016	2017	2018
No. of participants	950	2,031	2,288

- Sponsoring the Hokkaido Marathon



Office yoga program provided



Time trial to participate in the Hokkaido Marathon



Long-distance relay race "Run, Run, Run. Kaneka 2018"

Businesses supporting Kaneka's next growth phase

Radical business transformation through intensive investment in priority areas

We position new large-scale and leading-edge businesses as driving forces to lead the next phase of our growth. "Biodegradable polymer PHBH" and the "Probiotics business" are designated as our priority product and business, representing our intensive efforts at the frontline of research, manufacturing, and marketing.

New large-scale businesses

Driving-force of business transformation

- Organic EL Lighting
- Biodegradable Polymer PHBH
- Opto-Electrochemicals
- Regenerative medicine and cell therapy, etc.

Case

1



Biodegradable Polymer PHBH

→ P27



Leading-edge businesses

Multiple business

- E & I Technology / Pharma
- Medical Devices
- Supplemental Nutrition / Agris
- PV & Energy management

Case

2



Probiotics Business

→ P31



New large-scale + Leading-edge businesses

Foundation businesses

Foundation businesses

Strengthen Only One, Global No.1

- Vinyls and Chlor-Alkali / Performance Polymers
- Foam & Residential Techs / Performance Fibers / Foods



Case Study

Biodegradable Polymer PHBH

We apply Kaneka Biodegradable Polymer PHBH (“PHBH”), which is 100% plant-based and biodegradable in sea water, to daily life, leading to innovation in lifestyles and the environment to help communities achieve sustainability.



In recent years, marine pollution caused by microplastics has become a global social issue due to its impact on ecosystems.

PHBH, developed through fusion of our long-cultivated fermentation and micromolecular technologies, will be a major factor in resolving marine plastic problems facing the world. Further broadening the application of our 100% plant-based and marine biodegradable polymer technology, we are developing easy-to-use products that help to resolve social issues together with partner companies that share our principles.

Timely action to change risks into opportunities

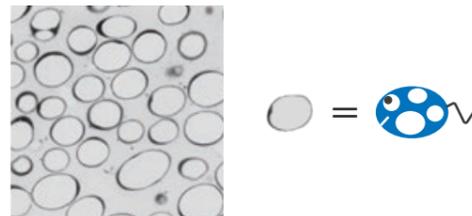
Since our foundation, we have deployed our know-how with fermentation methods as one of our core technologies. Broadening the application of our culturing technology, fostered by many years of research on yeast, through company-wide, cross-sectional projects, we have established a mass-production method for Kaneka Ubiquinol. We have also developed various raw materials for pharmaceuticals and functional food materials. We are currently working to realize a bio-economy society through manufacturing using smart cells (finely-designed biological cells), making use of rapidly-developing synthetic biological technologies.

PHBH has been developed due to the fusion of fermentation and chemical processes that we realized as a chemical company with the technical ability to run large-scale plants and expertise in advanced biotechnology.

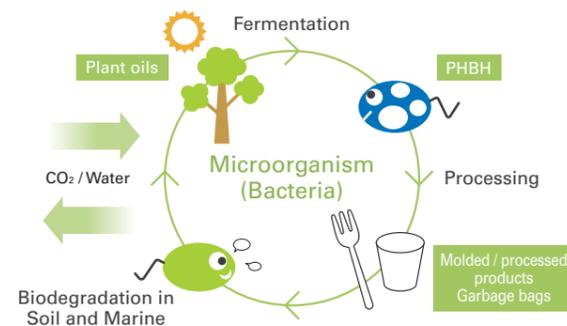
PHBH is a 100% plant-based polymer extracted from microorganisms that process plant oils. It is produced through the cultivation of microorganisms and is biodegradable by them.

While considering how to apply PHBH, with these

Characteristics and life cycle of PHBH



PHBH accumulated in microorganisms (Electron micrograph)



features, we focused on the fact that microbeads* were becoming a major social issue and began to collect data on marine degradability, following trends in legal restraints in Europe, where plastic issues had been rigorously addressed. Thus, our timely action succeeded in transforming the risk to the global environment caused by microplastics issues into business opportunities.

* Microbeads are plastics produced in a micro size of 1mm or less, used as scrub materials in facial cleansers, tooth paste, and cosmetics.



Takeshi Chiba, Ph.D.
General Manager
BDP Technology Laboratories

Foreseeing market needs to develop products tailored to each market

Marine plastic issues, one of the major agenda items at the G20 Osaka Summit held in June 2019, have become recognized throughout the world, including Japan, and specific measures and restraints have been implemented.

We began to operate a PHBH production facility, with the capacity of approximately 1,000 tons a year, at the Takasago Manufacturing Site in May 2011, earlier than other companies.

Since it was impossible to replace all plastics with PHBH, we drew a road map for its application and production capacity for it from the perspectives of technology and the most effective measures to resolve marine plastic issues.

We planned to gradually market PHBH by 2020, applying it to checkout bags, beverage labels, straws, and cutlery, while developing these products in conformity with market needs in each country. For instance, in Europe, products are often required to be biodegradable in soil due to social infrastructure and customs concerning composting of garbage. We also plan to develop and introduce products substituted for PET bottles by 2025, first developing disposable products related to food and beverages and then expanding the product range.

In our plan, in accordance with the expansion of PHBH product lineup, production capacity is increased by five times to 5,000 tons per year by the end of 2019 and will be gradually expanded to 100,000 to 200,000 tons per year by 2030. We believe that no other companies have comparably concrete plans to mass-produce PHBH.



Kenji Kurosawa
Marketing Manager
Green Planet Project (Japan)

Road map to develop and disseminate PHBH products and a plan to increase product capacity



Aiming to ensure stable quality and supply through manufacturing fueled by technology

Our attempt to develop technology that manufactures polymers industrially through fermentation was unprecedented, world-wide. Despite achieving

positive results in the laboratory, we were initially unable to obtain similar success at a mass production scale at the plant. We repeatedly adjusted cultivation conditions and manufacturing technology, verifying the obtained results every day. In addition, we had to disassemble and wash manufacturing equipment several times a day at first, when mass production was impossible. Currently, we still have to do the same maintenance work, but only once every six months. Through so many trials and modifications it became possible to manufacture polymers with a guaranteed level of quality.

Aiming to further enhance production capacity, we will improve operational technology and incorporate AI and IoT technology to create a cost-competitive and highly productive manufacturing base.



Yoichi Kitadani
Manager
BDP Production Group
Takasago Manufacturing Site

Business model focusing on sharing principles and values as well as marketing products

For the development of PHBH, it was important for us to find companies that could share the principles of resolving marine plastic issues. Based on this, we aim to embody a new partnership-type business model to promote joint development with B-to-C companies that are sensitive to the needs of consumers and society and have a strong brand image, brand holders, and process manufacturers.

To correctly inform people of the function of PHBH and expand its application, it is important to obtain certification and pass screening criteria, including legal restraints related to food hygiene and new chemical substances, in each country. PHBH is permitted to be sold for use in major countries, including Japan, the United States, and European countries.



Sosuke Takemura
Group Leader
Strategy & Business
Green Planet Project

Status of the acquisition of certification related to PHBH

	Japan	Europe	U.S.	Food Contact
Bio-based				U.S. Listed in Inventory of Food Contact Substance Notifications with U.S. Food & Drug Administration
Compost (Industrial)				Europe (EU) Listed in the positive list of Commission Regulation (EU) No. 10/2011
Compost (Home)				Japan Listed in the positive list for food utensils, containers and packaging by Japan Hygiene Olefin and Styrene Plastics Association
Marine				
Soil				

<Some grades>

Realizing economic value and creating a sustainable management system

Through PHBH, we pay attention to values benefitting society and are actively expanding such values through sharing with other companies and stakeholders.

In Japan, PHBH has been adopted in straws for Seven Cafés at about 10,000 Seven-Eleven stores. We are also jointly developing cosmetic containers with Shiseido Japan Co., Ltd. Outside Japan, PHBH has been adopted for wide-ranging purposes, including fruit and vegetable bags, garbage bags, seedling pots, and coffee capsules. It is also being newly adopted by many global brand holders for various purposes, including cutlery, checkout bags, home delivery bags, cup lids, paper coating materials, and food trays. Our current production capacity of 5,000 tons per year can barely satisfy these demands when operated at full capacity. We are therefore planning to build a plant with a capacity of 20,000 tons per year.

Under our mission of "Kaneka thinks 'Wellness First'", we are engaged in our unique wellness-first management. We believe that PHBH is one of the

symbolic products that help us provide socially valuable products to produce economic value and create a sustainably developing system. We will contribute further to society in the future.



TOPICS

Various products made of PHBH provided at the G20 Osaka Summit

At the International Media Center of the G20 Osaka Summit held in June 2019, Japan's advanced technologies and efforts to resolve environmental issues were introduced to the media from various countries. At our booth, we exhibited various molded products, such as spoons and forks made of PHBH, as materials proposed to resolve marine pollution issues, and samples showing biodegradability in seawater. Compostable garbage bags and cutlery made of PHBH were used at the Summit venue.

In his address at the Science and Technology in Society forum held in October 2019, Prime Minister Shinzo Abe expressed high expectations for our PHBH.



Stationeries made of PHBH introduced and distributed at the G20 Summit



Case Study

Probiotics Business

We are creating new value in the field of lactic acid bacteria with an immunity improvement function as one of our innovative solutions empowering people to live healthier lives.

Our fermentation technology, one of the core technologies that we have cultivated since our foundation, has made possible bakery yeast and functional food materials, such as Kaneka Ubiquinol. The development of these products is strongly supported by the management and individual employees who seek to develop new materials that meet safety requirements and are supported by clear data proving positive effects for humans, thereby helping people live healthy and active lives.

To expand a new business, in 2018 the Spanish company AB-Biotics S.A. ("AB-Biotics"*1), engaged in original research on lactic acid bacteria, became a Kaneka Group company. By combining AB-Biotics's probiotics products with our functional food materials and dairy products, we bring unique products to the market, developing a new business to contribute to people's wellness.

*1 AB-Biotics was founded in 2004 by Sergi Audivert and Miquel Àngel Bonachera, as students at University Autònoma de Barcelona. Having actively engaged in R&D since its foundation, it currently has operations in more than 60 countries with over 200 core patents.

Diversity of intestinal bacteria being lost from the human body, and the roles of lactic acid bacteria

Approximately 1,000 kinds and 100 trillion individual intestinal bacteria live in the human intestinal tract, mainly in the large intestine. Categorized into three groups: beneficial, harmful, and neutral, they are

closely related with each other, maintaining an intricate balance, and are deeply involved in human health.

However, it is said that the original diversity of intestinal bacteria in people living in urban areas today

Features of AB-Biotics's functional lactic acid bacteria

Possesses more than 550 original bacteria strains

Clear effects, such as reduced risk of heart disease, intestinal environment improvement, periodontal disease reduction, and infection prevention

Effect	Product name	Product features
Cardiovascular	AB LIFE	Reduces LDL cholesterol by 24%
Immune system	AB IMMUNO	Reduces influenza infections
GI (Gastro Intestinal)	I3.1	Comprehensively alleviates symptoms of IBS (irritable bowel syndrome), in addition to alleviating IBS related pain.
Oral	AB DENTALAC	Efficiently reduces periodontal disease bacteria
Children	AB KOLICARE	Reduces crying in 68% of infants with baby colic
Women	AB INTIMUS	Reduces the recurrence rate of infectious diseases

is being lost, due to the effects of antibiotic drugs and artificial additives. It has been proved that a decrease in diversity, or a decline in the number of kinds of bacteria, is associated with various diseases. Lactic acid bacteria, among others, play an important role in restoring the balance of intestinal bacteria.

Lactic acid bacteria have recently attracted attention for their new effects, such as allergy symptom relief and infection prevention as well as the effects of improving the intestinal environment and immunity. Their application is rapidly expanding to dairy products, including yogurt, functional foods, and supplements.

Establishing an advantage through inimitable combination of strains

Among many companies in lactic acid bacteria-related markets, AB-Biotics, a subsidiary of Kaneka, possesses advanced R&D capability, with more than 550 original probiotics*2 strains from human healthy intestinal samples. One of the distinctive features of its strains is that they have clear effects and mechanism in humans, including improving the intestinal environment and decreasing risks of cardiovascular, periodontal, and infectious diseases.

A key feature of probiotics products produced by AB-Biotics and Kaneka is that several kinds of highly effective strains for specific targets, such as immunity improvement, can be combined. Even if symptoms are identical, their causes vary among individuals. The supply of products with diverse effects and mechanisms can increase the ratio of those who can enjoy their benefits, leading to higher effectiveness. We believe that this gives an advantage over competitive products.

*2 Probiotics: Live microbial community and foods containing it, giving beneficial effects to the human body by improving the intestinal environment and controlling intestinal function and the immune system.



Takahiro Ueda
Manager
Nutrition Strategic Unit
Pharma & Supplemental Nutrition Solutions Vehicle

Kaneka's knowledge and technologies enhancing added value



Kaku Nakagawa, Ph.D.
Officer
Nutrition Strategic Unit
Pharma & Supplemental Nutrition Solutions Vehicle

Having engaged in R&D on fermentation products and plant extracts for 40 years, we have accumulated a wealth of knowledge and know-how based on scientific evidence from clinical tests. The collaboration between us and AB-Biotics, with extensive knowledge of lactic acid bacteria, makes it possible to increase our portfolio of more effective lactic acid bacteria products supported by scientific evidence.

Use of our know-how in fermentation production in AB-Biotics's production of probiotics products leads to cost reduction. It also generates many synergies, including expanding the application of our pharmaceuticals and foods and marketing products on a global basis, thereby enhancing added value. Although we have different areas of expertise, we are engaged in R&D on lactic acid bacteria toward product commercialization, sharing the mission to disseminate safer products supported by scientific evidence to society in order to support wellness.

Grasping the market's features to pursue value for customers

The U.S. market for lactic acid bacteria is the world's largest, making it the most important market for us. We have therefore launched an organization dedicated to lactic acid bacteria on the West Coast of the U.S to focus on business development. We also work on introducing our brand "Floradapt" at exhibitions and academic conferences.

Since the U.S. does not have a universal health insurance system, people in America are highly aware of self-medication*3. Meeting needs for preventive health care, the market share of lactic acid bacteria products is steadily increasing as products available at reasonable prices. Considering that needs for preventive health care will grow in Japan, we expect stable growth in this market.

Ways of consuming lactic acid bacteria products, their required functions, and their categorization vary among countries. In Japan, more than 90% of products are yogurt-based, many of which highlight their functionality. In the U.S., yogurt is a product with a strong focus on palatability, and more than one-third of lactic acid bacteria products are consumed as supplements. The situation in Europe is midway between the two. While a variety of new functions are pursued in Japan, including lowering uric acid and neutral fat levels, in the U.S. emphasis is placed on categorization such as products for women and the elderly. We will pursue value tailored to customers, considering differences in marketability.

*3 Taking responsibility for one's own health and treating slight physical disorders by oneself.



Hiroyuki Miyaji
Senior Manager
Nutrition Strategic Unit
Pharma & Supplemental Nutrition Solutions Vehicle



Our probiotics product brand, "Floradapt" series

Original position established in terms of function and taste

Products offered by us and AB-Biotics are supported by clear evidence. In the U.S., functionality can be described based on clinical data but in Japan it is necessary to pass rigorous screening to gain authorization for Foods with Function Claims, and notification to the Consumer Affairs Agency is essential. We will clearly describe functionality through function claims in the supplement market so that product effectiveness and efficacy can be easily understood by consumers.

In the food market, including dairy products, consumers do not repeat purchase of the same

product if it tastes unpalatable, in spite of its effectiveness. Accordingly, in January 2018 we established a technical tie-up with Pur Natur, a Belgian company marketing its organic dairy products in European countries, to bring to the Japanese market our unique functional yogurt products with good taste, a feature of Pur Natur's products, and effectiveness, a feature of AB-Biotics's products.

In the B-to-B market, we aim at differentiation from others by considering what value should be provided to consumers in cooperation with clients as well as simply marketing probiotics products. We also conduct presale of products through Kaneka Your Health Care Co., Ltd., a Kaneka Group company engaged in the mail order business, to have consumers recognize their commercial value, thereby encouraging clients in the B-to-B market to choose our products.



From Japan to the world, with our steadfast mission to contributing to healthy longevity

As human longevity increases, thanks to medical advances in Japan and the world, in the future it will become crucial to live a long healthy life. In particular, as a country with long life-expectancy, Japan is on the leading edge of this trend. We plan to create a model project for contributing to healthy longevity and expand it on a global scale.

We aim to further contribute to society by not only developing and marketing better probiotics products, but also incorporating them into our solutions as materials contributing to our "wellness-first management" and healthy longevity.



Our co-creation further spurring a highly competitive edge Message from the founders of AB-Biotics

AB-Biotics was founded in 2004 by Sergi Audivert (right) and Miquel Àngel Bonachera (left), as students at University Autònoma de Barcelona.

Having actively engaged in R&D since our foundation, we currently have operations in more than 60 countries with over 200 core patents. Becoming a member of the Kaneka Group in 2018 has improved the motivation of our staff members and has accelerated our business growth through various types of cooperation. We expect that your many years of manufacturing experience and global market expansion capabilities will help improve our competitiveness and productivity, generating a wide range of synergetic effects. We will do our best to show a strong presence in the health care field.



On our way of developing the market in the U.S with unprecedentedly valuable probiotics products

In North America, which has the largest health food market, we are engaged in market expansion, setting up a dedicated team, with probiotics products based on AB-Biotics's evidence serving as the core of differentiation. With the "Floradapt" brand launched in 2018, we are involved in sales promotion, customer development, scientific research enhancement, and responses to pharmaceutical regulations to become a provider of finished products with higher added value. Since lactic acid bacteria are hard to handle and technology accumulation is required for quality control, it is important to create an on-site manufacturing and supply system. We are therefore promoting collaboration with local business operators to enhance competitiveness. We aim to build a new pillar of our health food business by establishing our position in the U.S. market, overcoming any obstacles through support from the U.S. team and other global support.



List of Directors



Kimikazu Sugawara
Chairman of the Board
(Representative Director)



Mamoru Kadokura
President
(Representative Director)



Minoru Tanaka
Executive Vice President
(Representative Director)



Shinichiro Kametaka
Member of the Board,
Senior Managing
Executive Officer



Shinobu Ishihara
Member of the Board,
Senior Managing
Executive Officer



Akira Iwazawa
Member of the Board,
Managing Executive
Officer



Kazuhiko Fujii
Member of the Board,
Managing Executive
Officer



Yasuaki Nuri
Member of the Board,
Managing Executive
Officer



Katsunobu Doro
Member of the Board,
Managing Executive
Officer



Jun Enoki
Member of the Board,
Managing Executive
Officer



Takeo Inokuchi
Independent Member
of the Board



Mamoru Mohri
Independent Member
of the Board

Audit & Supervisory Board Members

Hideyuki Matsui
Masami Kishine
Hiroshi Fujiwara (Outside)
Yasuhiro Uozumi (Outside)

Managing Executive Officers

Atsushi Kawakatsu
Ikuo Aoi
Fuminori Hoya
Masaaki Kimura
Yoshiki Takeoka
Yasuhiro Sumi
Shinji Mizusawa
Takamune Yasuda
Kazuo Ochiai
Hitoshi Yahara
Minetoshi Marufuji
Kan Okabe

Executive Officers

Haruhiko Maki
Riichi Nishimura
Toshio Komori
Masahiro Ueda
Takuo Ishibashi
Yasuyoshi Ueda
Osamu Ishida
Etsuo Yoshiike
Naoki Furukawa
Hiroyuki Deguchi

Corporate Governance

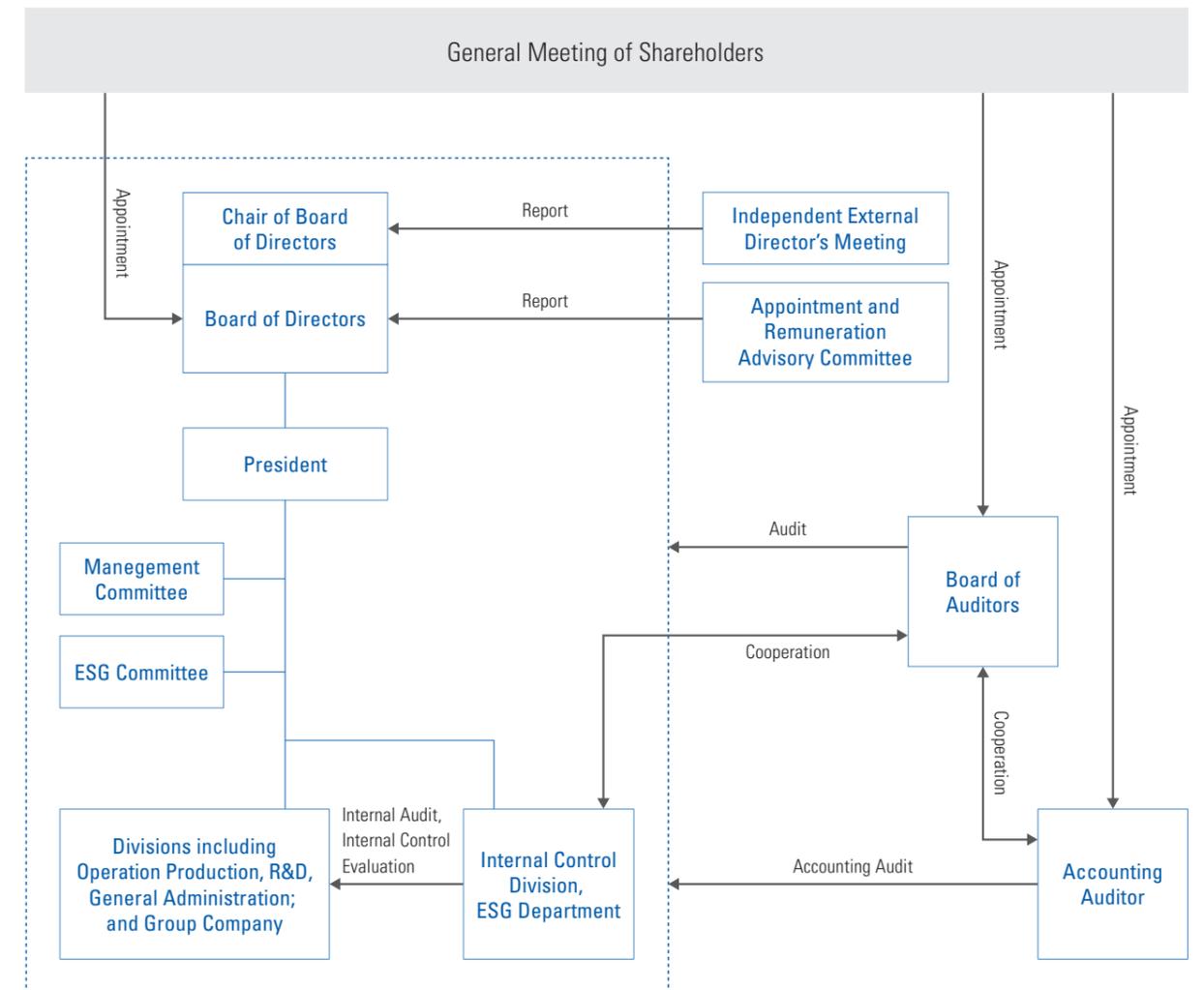
For details, see our website.
<https://www.kaneka.co.jp/en/esg/governance/corporate/>

Basic Policy

Guided by our Corporate Philosophy, Kaneka aims to achieve sustainable growth, improve medium- to long-term corporate value, and build trust among all stakeholders, including shareholders, investors, cus-

tomers, local communities, vendors, and employees, realizing optimum corporate governance to fulfill our social responsibility.

Diagram of Corporate Governance System



Corporate Governance

Corporate Governance Structure

Organizational Design

We currently have two independent external directors and two independent external auditors. Since both the overseeing of business operations by the Board of Directors and auditing by the Board of Auditors are functioning well, Kaneka has chosen to be a Company with Board of Auditors under the Companies Act.

Directors and the Board of Directors

The Board of Directors seeks to ensure efficient and effective corporate governance in order to realize the company's sustainable growth and increase corporate value in the medium to long term.

The Board of Directors exercises its oversight functions on overall management to ensure fairness and transparency, as well as to appoint management positions, evaluate and determine remuneration, evaluate serious risks and determine strategies to counter them, and make the best decisions on important business operations. The Board of Directors makes resolutions on important matters related to the management of the Kaneka Group after deliberation by the Management Committee, which includes the president. There are at most 13 members on the Board of Directors. Of these, two are independent external directors to strengthen the oversight function. Directors serve for a period of one year to clearly define management responsibilities.

Auditors and the Board of Auditors

Auditors and the Board of Auditors seek to ensure healthy and sustainable corporate growth and to establish a structure with good corporate governance that can gain social trust by checking on the performance of directors in regard to their duties.

The Board of Auditors comprises four members, two of whom are independent external auditors in principle, and performs audits in coordination with the Accounting Auditor and the ESG Department Internal Control Division's. Auditors are given space to periodically exchange views with the president, and monitor the state of business operations when necessary, by attending key meetings of the Board of Directors and those of the Management Committee, which decides on the implementation of important matters, as well as division head meetings.

Appointment and Remuneration Advisory Committee / Independent External Director's Meeting

The Appointment and Remuneration Advisory Committee discusses the remuneration of Directors and the appointment of Director and Auditor candidates to report to the Board of Directors. The Independent External Director's Meeting discusses the effectiveness of the Board of Directors to report to the Chair of the Board of Directors.

Implementation of Business Operations

Kaneka has adopted the executive officer system to harmonize the oversight function of directors with the implementation function of business operations, which also facilitates decision-making and clearly defines roles. The Board of Directors decides on key management strategies and business operations of the entire Kaneka Group, while executive officers assume responsibility for business operations. Division heads, including executive officers appointed by the Board of Directors, are given extensive authority over daily business execution. Monthly division head meetings are held to enable the directors and auditors to directly hear progress reports from each division head. The Internal Control Division of the ESG Department evaluates the effectiveness of internal control and conducts an internal audit.

Standards for Independence of External Directors/Audit & Supervisory Board Members

We have defined the Standards for Independence of External Directors/Audit & Supervisory Board Members to guarantee the independence of independent external directors and auditors in practice. The standards are disclosed in our notice of convocation general meeting of shareholders, corporate governance report, etc.

Selection Criteria for Directors

At Kaneka, directors are selected by the Board of Directors, on the basis of character, judgment, expertise and experience as well as ethics without limitations on gender, age, nationality and other attributes, after deliberation by the Appointment and Remuneration Advisory Committee, which is comprised of representative directors and independent external directors.

Analysis and Evaluation of Effectiveness of the Board of Directors

Kaneka regularly implements an analysis and evaluation of the effectiveness of the Board of Directors, and discloses a summary of the evaluation results. Specifically, the Chair of Board of Directors periodically receives reports from the Independent External Director's Meeting and opinions from the internal directors. Based on these reports, the current status of operations of the Board is evaluated. In the evaluation process in fiscal 2018, the Independent External Director's Meeting held discussions focusing on the operation of the Board of Directors (number of meetings held, frequency, length, contents of information provided beforehand, contents of agendas, deliberations, etc.), role of external directors, and risk management. Based on the discussion results, the Board of Directors conducted a self-evaluation. As a result, it has been confirmed that the Board of Directors functions effectively in making decisions on important matters for the Group such as risk management and supervising business execution. We will continue to enhance the effectiveness of our Board of Directors through effectiveness evaluations.

Our Efforts to Strengthen the Governance Capacity

2006	<ul style="list-style-type: none"> Introduced the executive officer system Changed the number of directors from 21 to 13 Formulated the Basic Policy on Internal Control System
2011	<ul style="list-style-type: none"> Appointed an outside director
2013	<ul style="list-style-type: none"> Formulated the Criteria for Independence of Outside Directors
2015	<ul style="list-style-type: none"> Increased the number of outside directors from 1 to 2 Formulated the Basic Policy on Corporate Governance Established the Appointment and Remuneration Advisory Committee Established the Independent Outside Officers Meeting
2016	<ul style="list-style-type: none"> Commenced the effectiveness evaluation on the Board of Directors
2019	<ul style="list-style-type: none"> Revised part of the Basic Policy on Corporate Governance

Business Risks and Uncertainties

 For details, see our website. <https://www.kaneka.co.jp/en/esg/governance/risk/>

Basic Policy

Our basic risk management policy is that each division identifies operational risks and other types of risks that it may face, takes appropriate preventive measures, and responds appropriately in cooperation with other relevant divisions if a risk manifests itself.

For preventive measures against potential risks including those related to ethics and legal compliance, the Compliance Subcommittee of the ESG Committee oversees the development and implementation of the company-wide plans.

When a risk occurs or is likely to occur, the ESG Committee handles the risk in cooperation with the relevant divisions.

We regularly check whether the above-mentioned activities are implemented properly to prevent our risk management system from falling into mere formality, and strive to maintain and improve its effectiveness.

Business-Related Risks

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, 2019 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
2. Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)
3. Risks of price fluctuations of raw materials and fuels
4. Risks associated with product liability, industrial accidents and large scale disasters
5. Risks associated with the protection of intellectual property rights
6. Impact of environment related regulations
7. Risks associated with legal action
8. Other risks

See the Financial Section for more details

Strengthening of Information Security

Kaneka Group has established a Basic Information Management Policy, and works to disseminate it to all employees, thereby ensuring appropriate management of information.

Basic Information Management Policy

1. Observance of laws/regulations and rules

The trust and confidence of society and customers is the most precious asset the Group must protect. Complying with laws and regulations, social norms, and internal regulations/procedures is the basic principle that all individuals engaged in business activities should follow.

2. Protection of confidential information

Confidential information concerning manufacturing processes, research, sales, etc. is the source of the Group's competitiveness. All individuals engaged in business activities must be fully aware of this, and must not leak such information or use it for illicit purposes. In particular, data requiring strict handling, such as personal information and information entrusted as confidential from other entities, must be identified as such and managed strictly by the person in charge of information management at each company.

3. Establishment of systems/structures

In order to sustain and expand the Group's business, it is essential to make effective use of information and increase the efficiency of business operations. In addition to establishing rules regarding information security and continuing to improve information systems to ensure safe, effective use of information, the persons responsible for information management should be determined to ensure appropriate information management.

4. Implementation of training and awareness-raising programs

With the strengthening of Group management and increased use of external resources, people with diverse values and ethics are involved in Kaneka's business operations. To ensure smooth cooperation with these members, efforts should be made to raise awareness of information security risks and to enhance and continue training on information security including ethical aspects.

To protect its information assets from risks including cyberattacks, Kaneka Group continues striving to enhance security levels, by utilizing the knowledge of external experts. Since fiscal 2018, measures have been taken to reduce risks associated with rapid change in the information security environment, including reviewing existing facilities and introducing various security tools. Stratified training programs, audits, drills, and e-learning education are held regularly to improve employees' information security literacy.

Compliance

 For details, see our website. <https://www.kaneka.co.jp/en/esg/governance/compliance/>

Basic Policy

Viewing compliance as an important management issue, we implement various initiatives to ensure all directors and employees comply with all applicable laws and regulations.

Compliance Awareness Raising

Our corporate Intranet provides ready access to our Compliance Guidebook, which provides a clear explanation of our Ethical Code of Conduct as well as the laws and regulations to be observed by all of our directors and employees. Additionally, a variety of training sessions and meetings, and activities of the Compliance Subcommittee ensure that we strictly adhere to our compliance policies.



Compliance Guidebook

Self-Check in Training Session

The compliance online course for all employees, launched in 2014, was expanded to include Group companies in Japan in 2016; employees from 43 companies participated in fiscal 2018.

Training sessions on the Antimonopoly Act are conducted regularly with all of managerial officers from the Kaneka and Group companies in Japan who are involved in sales, purchasing, and business development, all of whom are required to submit a pledge.

Internal Audits and Establishment of Consultation Hotlines

The scope of ESG evaluation audits, which are carried out for all Group companies in Japan, the U.S. and Europe, was expanded to include those in China in fiscal 2018. Going forward, Group companies outside Japan will be included as well.

We have also set up compliance consultation hotlines both internally and with outside law firms in order to answer inquiries from those within the Group. We strive to respond quickly to provide a rapid resolution to any concerns that may arise.



A compliance training session

Intellectual Property

 For details, see our website. <https://www.kaneka.co.jp/en/esg/intellectual-property/>

Basic Policy

Kaneka's Intellectual Property Department, operating directly under the President, secures intellectual property rights such as patents for our R&D results, aiming to provide prompt solutions to help resolve social issues.

From the global perspective, the intellectual property staff are allocated to each site in the Americas, Europe, and Asia, with the Department serving as a center, to respond directly to local issues.

The Department formulates and implements intellectual property strategies for each division, including establishment of patent portfolios covering upstream to downstream business, in cooperation with the business and R&D divisions.

Our invention incentive programs include patent application incentives, patent master incentives for the acquisition of a certain number of registered patents, and overseas patent registration incentives. Increasing application incentives for employees actively creates intellectual property.

We respect the intellectual property rights of other companies and, to avoid disputes, we conduct careful patent searches, securing patent clearance at each phase of development including theme proposal, commercialization, and specification changes.

Establishment of Patent Portfolio and Execution of Patent Rights

In fiscal 2018, we acquired patent rights mainly in priority areas contributing to our "Wellness-First Management." In Japan, patents were registered for resin compositions with superior moldability, made of marine biodegradable Kaneka Biodegradable Polymer PHBH, for "Kaneka Luce," an organic EL lighting device with a tiltable/rotatable light-emitting surface, and for margarine containing fermented butter.

Outside Japan, we acquired patent rights for hybrid organic EL elements that produce a color closer to natural light, for a plant-growth promoting agent following "Kaneka Peptide," and for a manufacturing method of oxidized and reduced forms of coenzyme Q10, mainly in the U.S.

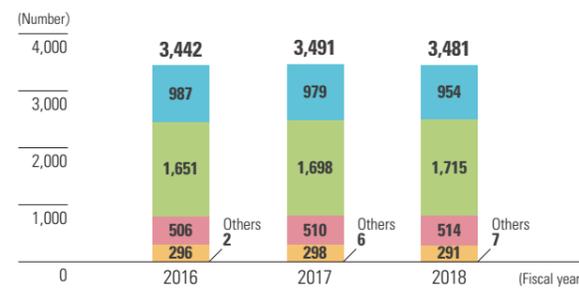
Executing intellectual property rights, we administratively prosecuted three companies that illegally produced and sold wig products under the name of "Kanealon" in China and confiscated labels and products infringing on our trademark right. In Europe, based on patent rights, we issued warnings to six companies involved in distributing and selling reduced

form of coenzyme Q10, blocked the marketing of infringing products, and replaced them with our regular products.

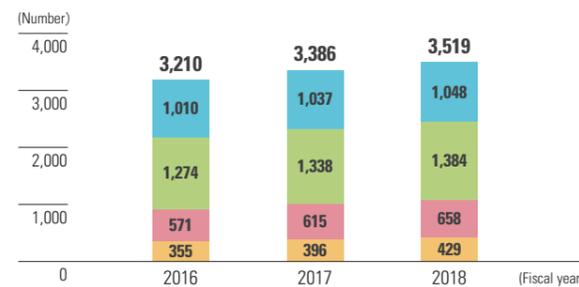
Number of Patents Held

More than 200 domestic patents were newly registered in fiscal 2018, as in last year, toward transforming our business portfolio. Meanwhile, some product patents expired, so the total number of domestic patents remained almost the same. Foreign patents continued to increase in all SUs, reflecting our recent efforts to strengthen our foreign patent portfolio. Consequently, domestic and foreign patents held by the Group as of the end of fiscal 2018 numbered 3,481 and 3,519, respectively. In particular, globalization of businesses significantly increased the number of foreign patents in the Health Care and Nutrition SUs, our new priority areas.

Number of National Patents Held



Number of Foreign Patents Held



■ Nutrition SU ■ Health Care SU
■ Quality of Life SU ■ Material SU

ESG Promotion

 For details, see our website. <https://www.kaneka.co.jp/en/esg/promotion/prm/>

Basic Policy

In 2018, Kaneka Group established the ESG Charter to evolve its ESG management. Aiming to provide valuable solutions globally with a focus on chemistry, the ESG Charter serves as an action agenda for each employee to materialize our Corporate Philosophy.

ESG Promotion System

In line with the ESG Charter, the ESG Committee is addressing environmental, social, and governance issues, coordinating the Compliance Subcommittee, the Safety & Human Health Subcommittee, the Earth Environment Subcommittee, and the Product Safety Subcommittee.

In fiscal 2018, the ESG Committee met twice, and the four Subcommittees met individually (Compliance: twice, Safety and Human Health: twice, Earth Environment: twice, and Product Safety: once).

The ESG Committee assessed the implementation status of each Subcommittee's activities, shared information on key issues, deliberated the fiscal 2019 action policy plan, and decided on necessary management measures.

In April 2019, the ESG Conference was newly established to set policy directions to promote ESG management, wellness-first management, and work culture innovation, aiming to enhance sustainable corporate value.

ESG Inspections

To inspect the legal and regulatory compliance status of the Kaneka Group and to improve its occupational safety and health performance, ESG inspections are carried out, comprising ESG safety and quality inspections and ESG evaluation audits, targeting all Group companies within and outside Japan.

In fiscal 2018, we conducted ESG safety and quality inspections at all parent Manufacturing Sites, 15 sites of 13 Group companies in Japan, and six sites of six Group companies outside Japan, focusing on serious risk management, compliance, 3Ss, and company-wide implementation of basic safety actions.

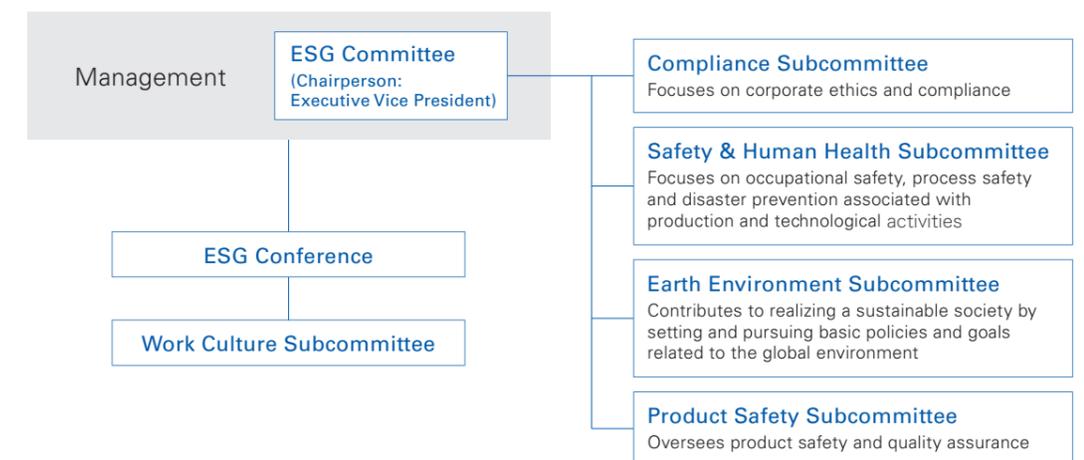
We also conducted ESG evaluation audits relating to competition laws, including the Antimonopoly Act, for all business operations divisions, 28 Group companies in Japan, and 14 outside Japan.

ESG Education

We engage in educational activities to promote ESG within the company through training sessions and our Intranet.

In fiscal 2018, training sessions were conducted four times for new employees and twice for mid-career employees.

Diagram of ESG Promotion System



Environment

 For details, see our website. <https://www.kaneka.co.jp/en/environment/esg/env/>

Basic Policy

In keeping with our ESG Charter, we at the Kaneka Group will contribute to realizing sustainable development and the enrichment of society by conserving resources and reducing environmental impacts at each stage of the entire product lifecycle.

Important matters pertaining to the protection of the global environment are decided by the ESG

Committee. Meanwhile, issues on global environment protection are shared and further discussed at the management meeting, the Plant Management Committee, and other meetings. The medium-term management plan also focuses on strengthening initiatives on important matters to further improve our ESG management.

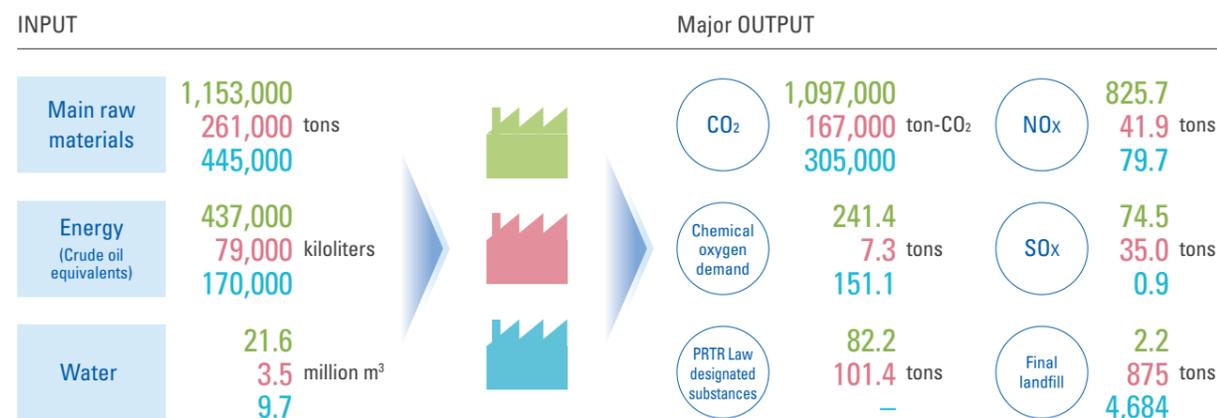
Material Balance in Production Activities

Kaneka Group is working to reduce environmental impacts by aggregating the status of energy and resource inputs and material outputs through emissions and products to grasp production activity volume, targeting Kaneka and Group companies within

and outside Japan. In fiscal 2018, while the inputs remained unchanged from the previous fiscal year, the outputs showed a decrease of NOx by 41.1 tons (4.1%) and of final landfill waste by 476.7 tons (7.8%).

Material Balance in Production Activities (FY 2018)

Kaneka Group companies in Japan 46 Group Companies outside Japan 15



Biodiversity

Considering the impacts of our businesses on ecosystems, we at Kaneka strive to develop technologies, materials and products that have less environmental impacts, as well as to mitigate environmental impacts of our production.

As part of our corporate social responsibility efforts, we also collaborate with stakeholders outside the company in biodiversity conservation activities.

Since 2012, we have been involved in the Kaneka Forestry for the Future project aimed at conserving a private forest in Taka Town, Hyogo Prefecture. Employees at the Takasago Manufacturing Site thin out the forest in spring and autumn for more efficient CO₂ absorption. The carbon sink since the start of the

project amounts to 1.93 tons-CO₂. Since 2012, we have operated the Settsu-no-mori Kaneka Biotope on the premises of the Osaka Manufacturing Site in collaboration with the Settsu Firefly Society, to create a firefly habitat in Settsu City. When fireflies appear, we hold a firefly viewing gathering, inviting local residents. Employees at the Shiga Manufacturing Site have joined the Walnut School's efforts to conserve the Konooka Biotope, a precious natural environment of Lake Biwa, as a steering committee member. We learn the importance of natural environment, interacting with seasonal creatures and nature together with local residents.



Kaneka Forestry for the Future (Takasago Manufacturing Site)



Settsu-no-mori Kaneka Biotope (Osaka Manufacturing Site)



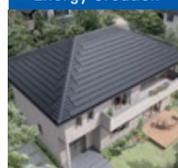
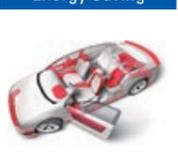
Walnut School (Shiga Manufacturing Site)

Eco-Friendly Products

Kaneka Group is engaged in various environmental initiatives. Focusing on eco-friendly management from fiscal 2017, we will define, enhance, and expand our

eco-friendly products*.

* Products that can contribute to reducing global environmental impacts at the stages of customer use, disposal and recycling, compared to conventional products

Energy Creation	Energy Storage	Energy Saving	Energy Saving	Waste Reduction	Chemical Pollution Prevention
					
Product name VISOLA SoltileX GRANSOLA	Product name Residential electricity storage systems	Product name Kaneppearl	Product name Eperan	Product name PHBH	Product name KANEKA Surfactin
Intended use Solar power generation systems	Intended use Residential stationary batteries	Intended use Residential/automotive foams	Intended use Automotive parts Package cushioning materials	Intended use Biodegradable Polymer (Packaging materials, garbage bags, foams)	Intended use Biosurfactant, Cleaning agents
Reason for environmental contribution Creating energy with houses equipped with this product	Reason for environmental contribution Storing energy by houses equipped with this product	Reason for environmental contribution Saving energy as insulation and lightweight residential/automotive materials	Reason for environmental contribution Saving energy as lightweight automotive parts	Reason for environmental contribution A naturally derived and biodegradable polymer that has little environmental impact when discarded	Reason for environmental contribution A naturally derived and biodegradable material friendly to the environment

TOPICS

Development of T-Green Multi Solar, an exterior system that generates electricity utilizing the outer wall and window surfaces of buildings

We have developed, in partnership with Taisei Corporation, the exterior system "T-Green Multi Solar," which generates electricity through photovoltaic laminates integrated into wall and window surfaces of buildings. With high efficiency in generating electricity, its multi-functionality (providing natural light, high visible light transmission, heat shielding and thermal insulation), and flexibility in building design, the system also functions as an independent emergency power source during times of disaster.

We will actively propose this system as an energy-creation technology towards realization of urban-type ZEBs (Zero Energy Buildings) to companies engaged in environmental management, companies reinforcing their BCPs, public facilities acting as bases during disasters, and condominium residences aiming to strengthen their LCP (Life Continuity Performance).

* "T-Green" is a registered trademark of Taisei Corporation.



Sample of utilization (The exterior of a small-to medium-sized building)

Environment

Climate Change

We are undertaking efforts to address climate change, with the Earth Environment Subcommittee established under the ESG Committee. We are working to promote energy-efficient use to reduce CO₂ emissions through various measures, for example by utilizing our own environmental capital investment program.

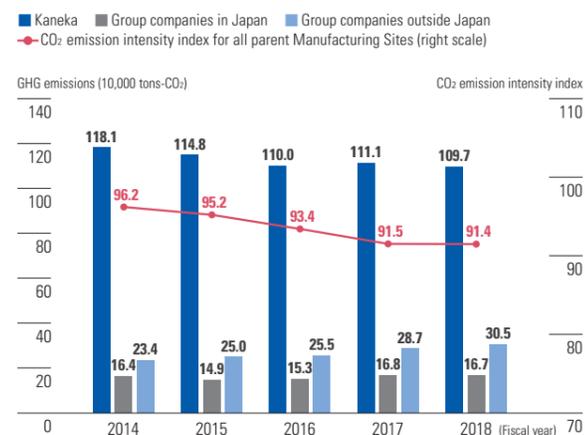
We also use carbon-Life Cycle Analysis (cLCA) to calculate CO₂ emission reduction benefits by quantitatively assessing CO₂ emissions throughout product lifecycle, making comparisons with similar products. We also calculate indirect greenhouse gas (GHG) emissions (Scope 3) associated with our business activities through supply chains.

The energy-origin CO₂ emission intensity index*1 for all parent Manufacturing Sites in fiscal 2018 was 91.4, achieving our fiscal 2020 target of 93.2 in advance.

Our greenhouse gas (GHG) emissions*2 decreased 1.3% from the previous year to 1,097,000 metric tons of CO₂, mainly through reducing the CO₂ emission coefficient of electricity.

We will continue to streamline our production processes through innovation to reduce CO₂ emissions.

GHG Emissions and Energy-origin CO₂ Emission Intensity Index (Baseline year: 2013)



*1 A ratio of energy-origin CO₂ emissions per unit of output of a product, which is indexed against the baseline year of fiscal 2013 as 100.

*2 GHG emissions, calculated in accordance with the Act on Promotion of Global Warming Countermeasures, are the total amount of energy-origin CO₂ emissions, non-energy origin CO₂ emissions, and the CO₂ equivalent of methane and N₂O emissions.

Pollution Control and Waste Reduction

Kaneka engages in production activities in compliance with the standards specified in the Air Pollution Control Act and the Water Pollution Control Act as well as the criteria included in agreements made with local governments.

We will continue to comply with these standards and reduce the emission of volatile organic compounds (VOC) and chemical substances subject to the Pollutant Release and Transfer Register (PRTR) Act, including six toxic air pollutants set independently by us.

Since waste reduction leads to maintaining and improving the global environment through resource savings, cost cutting, and CO₂ emission reduction, Kaneka Group promotes the 3Rs (Reduce, Reuse, and Recycle) company-wide, and has achieved zero emissions*3 for 13 years consecutively. We also facilitate continuous improvement activities through process analysis using Material Flow Cost Accounting (MFCA).

*3 Zero emission defined by Kaneka: The final landfill waste must be less than 0.5% of the generated waste.

Safety / Quality

For details, see our website. <https://www.kaneka.co.jp/en/esg/social/safety-quality/>

Occupational Safety, Process Safety and Disaster Prevention

Placing the top priority for management on safety, we have established the Basic Policy on Safety, under which all employees as well as all persons working at the Kaneka Group and our partner companies aim for no accidents and no disasters.

To share the importance of safety, members of top management inspect plants to check the on-site situation and create an opportunity to talk with employees.

Through our safety-related efforts, the actual safety situation is evaluated by the Safety and Human Health Subcommittee to clarify important matters related to safety that should be addressed in the following fiscal year, which are finally decided by the ESG Committee.

Key challenges worked on in fiscal 2018 were: (1) promoting establishment of safety efforts on a global scale, (2) enhancing awareness of danger and risk identification capabilities, (3) familiarizing the operation of company-wide risk management, and (4) creating a corporate culture where employees enjoy good health and feel motivated.

We will work to achieve no-accident and no-disaster operations by determining the real causes of individual accidents and disasters, making employees thoroughly aware of basic safety actions, implementing risk assessment, instructing employees to make preoperative risk predictions, and sharing information on accidents and disasters.

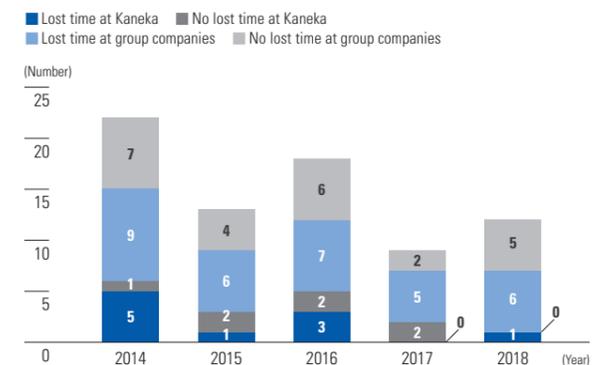
Basic Safety Policies

- **Safety forms our management foundation, and is the basis of all corporate activities.**
We take action with priority given to ensuring safety in all activities in the company.
- **Safety is the foundation of local and worldwide communities' confidence in Kaneka.**
We do our best to develop their trust.
- **Safety is based on our belief that "All accidents can be prevented."**
We always move forward without being satisfied with lukewarm results.
- **Safety is the responsibility of every employee in accordance with his/her duties.**
We fulfill our responsibilities by mutually clarifying the duties we have assumed.
- **Safety must be maintained continuously.**
We ensure safety through steady efforts on a daily basis.

Efforts to Ensure Zero Accidents

In 2018, 12 occupational accidents occurred in the Kaneka Group, of which seven resulted in lost work time, and five did not. Although occupational accidents have been decreasing for the past five years, we have promoted safety activities in compliance with the Zero Accident Principles to boost personal safety awareness. The accident frequency rate has decreased throughout the Kaneka Group due to reducing the number of occupational accidents at Group companies within and outside Japan. Kaneka's accident frequency and severity rates have reached zero. Group companies that achieve good safety performance are commended by the President based on the internal standards. By sharing excellent safety activity examples, we aim to raise safety awareness to achieve zero accidents.

Accidents Resulting/Not Resulting in Lost Time



The number of occupational accidents includes those among employees at Kaneka and partner companies working in the Kaneka Group.

Accident Frequency Rate and Accident Severity Rate

Area	All Kaneka Group		Kaneka		Group Companies in Japan and Overseas	
	2017	2018	2017	2018	2017	2018
Accident Frequency Rate	0.31	0.23	0.00	0.00	0.47	0.36
Accident Severity Rate	0.01	0.02	0.00	0.00	0.01	0.03

Accident Frequency Rate: An index that shows the frequency of occupational accidents that caused death and/or injury by indicating the number of casualties per total 1 million actual working hours

Accident Severity Rate: An index that shows the level of severity of occupational accidents by indicating the number of lost work days per total 1,000 working hours. Both rates are calculated targeting employees at Kaneka and Group companies.

Safety / Quality

Implementation of Disaster Drills

Disaster drills are conducted annually in cooperation with local governments at all parent Manufacturing Sites to improve disaster coping skills in case of emergency situations.

In fiscal 2018, we implemented comprehensive disaster drills based on a scenario of a large-scale earthquake followed by a fire caused by hazardous material leakage.



Comprehensive disaster drill held in cooperation with the local government

Comprehensive Disaster Drills

Manufacturing Site	Date	No. of Participants	Details
Takasago Manufacturing Site	December 14, 2018	2,079	The Manufacturing Site held a joint firefighting drill with the Takasago City Fire Department based on the scenario of an earthquake resulting in a fire caused by combustible gas leakage.
Osaka Manufacturing Site	October 25, 2018	1,101	The Manufacturing Site held a joint firefighting drill with the Settsu City Fire Department based on the scenario of an earthquake resulting in a fire caused by combustible gas leakage.
Shiga Manufacturing Site	November 14, 2018	479	The Manufacturing Site held a firefighting drill based on the scenario of an earthquake resulting in a fire in a production building.
Kashima Manufacturing Site	October 18, 2018	130	The Manufacturing Site held a firefighting drill based on the scenario of an earthquake resulting in a fire caused by high-pressure gas leakage (West area).
	November 17, 2018	230	The Manufacturing Site held a damage expansion prevention drill with the East Industrial Complex Joint Facility Team on the scenario of an earthquake resulting in high-pressure gas leakage (East area).

Mental Health Care

Mental health care activity is necessary to maintain employees' mental health. In addition to providing care to those with high stress levels, identified through stress checks (which were introduced in 2016), we continue efforts to improve the workplace environment based on the stress check results. Such efforts involve conducting stress check group analysis for each workplace, identifying problems based on the analysis results, and working to solve the identified problems.

We also provide opportunities to help employees relieve stress, including a seminar on sleep.



Seminar on how to have good quality sleep

Product Responsibility

The Product Safety Subcommittee under the ESG Committee and its implementation bodies, namely the Product Safety Review Conference and Quality Management Conference, are responsible for all matters relating to product safety and quality assurance within the Kaneka Group.

Quality Management

We at the Kaneka Group strive to benefit society and satisfy our customers, through providing a stable supply of safe and reliable products. To that end, we undertake quality management activities to ensure the safety and quality of our products at all stages of design, development, manufacturing and sales.

In fiscal 2018, related activities included the following:

- We checked product inspection implementation at all parent Manufacturing Sites and found no serious compliance violations.
- We held four Quality Management conferences, inviting persons in charge of quality management in each business division, to instill the policy and instructions of the Product Safety Subcommittee, exchange views, and share information on product quality.
- We undertook a range of activities to build the capacity of our employees, including through outside seminars and in-house lectures by external experts.

Product Safety Review Conference

Due to expanded business operations and diversified activities of the Group, we need to conduct an increasing number of reviews of our new services and products targeted at general consumers.

To respond to emerging opportunities in a timely and speedy manner, in fiscal 2018 the Product Safety Review Conference and its administration office carried out related pre-consultations (hearings).

Chemical Substance Management

Internationally, regulatory systems are becoming more stringent in order to achieve appropriate management of chemical substances related to consumer products. We strictly follow Japanese and international laws and regulations, and also actively offer information for the proper handling of our products, through displaying the Globally Harmonized System of Classification and Labelling of Chemicals (GHS*) labels and providing a safety data sheet for products.

* GHS: A worldwide system for classifying and labelling chemicals according to their hazardous properties

Audits and Inspections

Companies within the Kaneka Group regularly undergo reviews and audits by external organizations, based on established standards and criteria such as the ISO 9001 standards.

In addition, we are working to improve our performance through ESG safety and quality inspections and internal auditing.

In fiscal 2018, related activities included the following:

- We conducted an inspection with external experts in the fields of functional food and food, electrical and electronic materials, and high-performance resin.
- We continued to clarify the strengths and weaknesses of our product quality through quantitative evaluation and conducted an audit at all Group companies in Japan through self-inspection using an audit checklist.
- We continued to develop and train internal auditors to further improve internal audit capabilities.

Implementation of internal audits led to enhancing the self-inspection and improvement capabilities of each Group company.

We will optimize the quality management system with the Product Safety Subcommittee serving as a center and through the improvement of frontline execution.

Consolidated Financial Statements

Consolidated Balance Sheets

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2019 and 2018

Assets	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current assets:			
Cash and cash equivalents	¥ 39,970	¥ 47,414	\$ 360,123
Notes and accounts receivable - trade	147,993	142,195	1,333,391
Inventories	112,434	104,215	1,013,010
Short-term loans receivable from unconsolidated subsidiaries and affiliates	1,722	1,735	15,515
Other current assets	13,365	11,684	120,415
Allowance for doubtful accounts	(1,238)	(973)	(11,154)
Total current assets	314,246	306,270	2,831,300
Property, plant and equipment:			
Land	31,355	32,545	282,503
Buildings and structures	199,621	194,565	1,798,549
Machinery, equipment and vehicles	577,115	564,428	5,199,703
Construction in progress	26,339	12,712	237,310
Other	3,697	3,728	33,309
	838,127	807,978	7,551,374
Less accumulated depreciation	586,205	570,503	5,281,602
Property, plant and equipment, net	251,922	237,475	2,269,772
Intangible assets:	13,425	9,892	120,957
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	4,115	5,514	37,075
Other	57,640	63,857	519,326
Long-term loans receivable	1,100	1,229	9,911
Deferred tax assets	6,864	5,669	61,843
Other	10,537	10,145	94,938
Allowance for doubtful accounts	(261)	(270)	(2,352)
Total investments and other assets	79,995	86,144	720,741
	¥ 659,588	¥ 639,781	\$ 5,942,770

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, 2019, which was ¥110.99 to U.S. \$1.00.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current liabilities:			
Short-term loans payable	¥ 63,982	¥ 50,356	\$ 576,466
Current portion of long-term loans payable	3,687	9,298	33,219
Current portion of bonds payable	10,000	—	90,098
Notes and accounts payable:			
Trade	84,797	84,914	764,006
Construction	11,545	8,373	104,018
Other	18,682	18,971	168,321
Income taxes payable	2,865	4,481	25,813
Accrued expenses	13,764	13,514	124,011
Other current liabilities	4,590	4,975	41,357
Total current liabilities	213,912	194,882	1,927,309
Noncurrent liabilities:			
Bonds payable	—	10,000	—
Long-term loans payable	45,123	45,848	406,550
Net defined benefit liability	34,985	37,325	315,209
Provision for directors' retirement benefits	266	297	2,397
Deferred tax liabilities	2,137	1,441	19,254
Other noncurrent liabilities	2,438	3,389	21,965
Total noncurrent liabilities	84,949	98,300	765,375
Contingent liabilities			
Net assets			
Shareholders' equity:			
Capital stock			
Authorized—150,000,000 shares			
Issued —68,000,000 shares	33,047	33,047	297,748
Capital surplus	32,784	32,799	295,378
Retained earnings	272,944	264,964	2,459,176
Less treasury stock, at cost—2,778,423 shares in 2019			
4,456,938 shares in 2018	(11,602)	(18,684)	(104,532)
Total shareholders' equity	327,173	312,126	2,947,770
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	19,643	24,731	176,980
Deferred gains or losses on hedges	(110)	(109)	(991)
Foreign currency translation adjustments	(4,008)	(3,035)	(36,111)
Remeasurements of defined benefit plans	(5,706)	(7,527)	(51,410)
Total accumulated other comprehensive income	9,819	14,060	88,468
Subscription rights to shares	432	301	3,892
Non-controlling interests	23,303	20,112	209,956
Total net assets	360,727	346,599	3,250,086
	¥ 659,588	¥ 639,781	\$ 5,942,770

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Consolidated Statements of Income

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Net sales	¥ 621,044	¥ 596,143	¥ 548,222	\$ 5,595,495
Cost of sales	446,255	426,960	385,362	4,020,677
Gross profit	174,789	169,183	162,860	1,574,818
Selling, general and administrative expenses	138,747	132,294	129,695	1,250,086
Operating income	36,042	36,889	33,165	324,732
Other income (expenses):				
Interest and dividend income	1,921	1,602	1,783	17,308
Interest expenses	(2,014)	(1,692)	(1,428)	(18,146)
Gain on sales of investment securities	1,515	—	1,602	13,650
Gain on sales of property, plant and equipment	428	—	626	3,856
Loss on disposal of property, plant and equipment	(2,521)	(1,745)	(2,534)	(22,714)
Foreign exchange gains (losses), net	(334)	455	(2,270)	(3,009)
Equity in earnings of affiliates, net	30	147	118	270
Gain on negative goodwill	—	954	—	—
Litigation expenses	(1,684)	(1,088)	(963)	(15,173)
Restructuring charges	(1,851)	(1,782)	—	(16,677)
Gain on step acquisitions	444	1,430	—	4,000
Environmental expenses	—	(567)	—	—
Provision of allowance for doubtful accounts	—	(638)	—	—
Settlement received	1,052	—	—	9,478
Gain on contribution of securities to retirement benefit trust	1,608	—	—	14,488
Other, net	(2,727)	(2,880)	(1,407)	(24,569)
Income before income taxes and non-controlling interests	31,909	31,085	28,692	287,494
Income taxes				
Current	7,894	8,372	7,089	71,124
Deferred	40	(83)	88	360
Net income	23,975	22,796	21,515	216,010
Net income attributable to non-controlling interests	1,737	1,224	1,030	15,650
Net income attributable to owners of parent	¥ 22,238	¥ 21,572	¥ 20,485	\$ 200,360

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Consolidated Statements of Comprehensive Income

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Net income	¥ 23,975	¥ 22,796	¥ 21,515	\$ 216,010
Other comprehensive income:				
Valuation difference on available-for-sale securities	(5,164)	2,440	5,047	(46,527)
Deferred gains or losses on hedges	(2)	(47)	(9)	(18)
Foreign currency translation adjustments	(1,178)	2,116	(4,268)	(10,613)
Remeasurements of defined benefit plans	1,800	2,154	1,248	16,218
Share of other comprehensive income of associates accounted for using equity method	(5)	3	(2)	(45)
Total other comprehensive income	(4,549)	6,666	2,016	(40,985)
Comprehensive income	¥ 19,426	¥ 29,462	¥ 23,531	\$ 175,025
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	¥ 17,997	¥ 27,959	¥ 22,597	\$ 162,150
Comprehensive income attributable to non-controlling interests	1,429	1,503	934	12,875

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Consolidated Statements of Changes in Net Assets

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Shareholders' equity				
Capital stock				
Balance at beginning of year	¥ 33,047	¥ 33,047	¥ 33,047	\$ 297,748
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	297,748
Capital surplus				
Balance at beginning of year	32,799	32,813	34,936	295,513
Changes of items during the period				
Change in treasury shares of parent arising from transactions with non-controlling interests	(15)	(14)	(2,123)	(135)
Total changes of items during the period	(15)	(14)	(2,123)	(135)
Balance at the end of current period	32,784	32,799	32,813	295,378
Retained earnings				
Balance at beginning of year	264,964	248,524	234,378	2,387,278
Changes of items during the period				
Dividends from surplus - ¥64.00 per share	(5,906)	(5,934)	(6,329)	(53,212)
Change of scope of consolidation	—	823	—	—
Net income attributable to owners of parent	22,238	21,572	20,485	200,360
Disposal of treasury stock	(0)	(21)	(10)	(0)
Cancellation of treasury stock	(8,352)	—	—	(75,250)
Total changes of items during the period	7,980	16,440	14,146	71,898
Balance at the end of current period	272,944	264,964	248,524	2,459,176
Treasury stock				
Balance at beginning of year	(18,684)	(16,753)	(15,559)	(168,340)
Changes of items during the period				
Purchase of treasury stock	(1,768)	(2,619)	(1,812)	(15,929)
Disposal of treasury stock	498	688	618	4,487
Cancellation of treasury stock	8,352	—	—	75,250
Total changes of items during the period	7,082	(1,931)	(1,194)	63,808
Balance at the end of current period	(11,602)	(18,684)	(16,753)	(104,532)
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	24,731	22,338	17,451	222,822
Changes of items during the period				
Net changes of items other than shareholders' equity	(5,088)	2,393	4,887	(45,842)
Total changes of items during the period	(5,088)	2,393	4,887	(45,842)
Balance at the end of current period	19,643	24,731	22,338	176,980
Deferred gains or losses on hedges				
Balance at beginning of year	(109)	(61)	(52)	(982)
Changes of items during the period				
Net changes of items other than shareholders' equity	(1)	(48)	(9)	(9)
Total changes of items during the period	(1)	(48)	(9)	(9)
Balance at the end of current period	(110)	(109)	(61)	(991)

Continued on the following page.

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Foreign currency translation adjustments				
Balance at beginning of year	(3,035)	(5,105)	(1,082)	(27,345)
Changes of items during the period				
Net changes of items other than shareholders' equity	(973)	2,070	(4,023)	(8,766)
Total changes of items during the period	(973)	2,070	(4,023)	(8,766)
Balance at the end of current period	(4,008)	(3,035)	(5,105)	(36,111)
Remeasurements of defined benefit plans				
Balance at beginning of year	(7,527)	(9,653)	(10,910)	(67,817)
Changes of items during the period				
Net changes of items other than shareholders' equity	1,821	2,126	1,257	16,407
Total changes of items during the period	1,821	2,126	1,257	16,407
Balance at the end of current period	(5,706)	(7,527)	(9,653)	(51,410)
Subscription rights to shares				
Balance at beginning of year	301	271	228	2,712
Changes of items during the period				
Net changes of items other than shareholders' equity	131	30	43	1,180
Total changes of items during the period	131	30	43	1,180
Balance at the end of current period	432	301	271	3,892
Non-controlling interests				
Balance at beginning of year	20,112	16,130	16,285	181,206
Changes of items during the period				
Net changes of items other than shareholders' equity	3,191	3,982	(155)	28,750
Total changes of items during the period	3,191	3,982	(155)	28,750
Balance at the end of current period	23,303	20,112	16,130	209,956
Total net assets				
Balance at beginning of year	346,599	321,551	308,722	3,122,795
Changes of items during the period				
Dividends from surplus- ¥64.00 per share	(5,906)	(5,934)	(6,329)	(53,212)
Change of scope of consolidation	—	823	—	—
Net income attributable to owners of parent	22,238	21,572	20,485	200,360
Purchase of treasury stock	(1,768)	(2,619)	(1,812)	(15,929)
Disposal of treasury stock	498	667	608	4,487
Cancellation of treasury stock	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling interests	(15)	(14)	(2,123)	(135)
Net changes of items other than shareholders' equity	(919)	10,553	2,000	(8,280)
Total changes of items during the period	14,128	25,048	12,829	127,291
Balance at the end of current period	¥ 360,727	¥ 346,599	¥ 321,551	\$ 3,250,086

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, 2019, which was ¥110.99 to U.S. \$1.00.

Consolidated Statements of Cash Flows

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2019, 2018 and 2017

	Millions of yen			Thousands of U.S. dollars
	2019	2018	2017	2019
Cash flows from operating activities				
Income before income taxes and non-controlling interests	¥ 31,909	¥ 31,085	¥ 28,692	\$ 287,494
Depreciation and amortization	32,151	30,323	27,808	289,675
Gain on step acquisitions	(444)	(1,430)	—	(4,000)
Gain on negative goodwill	—	(954)	—	—
Restructuring charges	1,851	1,782	—	16,677
Settlement received	(1,052)	—	—	(9,478)
Gain on contribution of securities to retirement benefit trust	(1,608)	—	—	(14,488)
Increase (decrease) in net defined benefit liability	2,244	3,026	2,516	20,218
Increase (decrease) in allowance for doubtful accounts	(12)	639	34	(108)
Interest and dividend income	(1,921)	(1,602)	(1,783)	(17,308)
Interest expenses	2,014	1,692	1,428	18,146
Loss (gain) on disposal of property, plant and equipment	445	531	102	4,009
Gain on sales of investment securities	(1,515)	—	(1,602)	(13,650)
Equity in earnings of affiliates, net	(30)	(147)	(118)	(270)
Decrease (increase) in notes and accounts receivable-trade	(5,330)	(12,054)	(4,609)	(48,022)
Decrease (increase) in inventories	(9,869)	(6,176)	(4,057)	(88,918)
Increase (decrease) in notes and accounts payable-trade	(141)	8,568	7,304	(1,270)
Others	142	1,706	19	1,279
Subtotal	48,834	56,989	55,734	439,986
Interest and dividend income received	1,997	1,753	1,904	17,993
Interest expenses paid	(2,009)	(1,681)	(1,405)	(18,101)
Settlement package received	1,052	—	—	9,478
Income taxes paid	(8,761)	(7,310)	(8,113)	(78,935)
Net cash provided by operating activities	41,113	49,751	48,120	370,421
Cash flows from investing activities				
Purchase of property, plant and equipment	(43,987)	(34,113)	(36,726)	(396,315)
Proceeds from sales of property, plant and equipment	1,706	62	1,093	15,371
Purchase of intangible assets	(1,810)	(1,406)	(1,474)	(16,308)
Purchase of investment securities	(1,607)	(1,385)	(76)	(14,479)
Proceeds from sales and distributions of investment securities	1,635	157	1,586	14,731
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,464)	(102)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	227	780	—	2,045
Purchase of stocks of subsidiaries and affiliates	(1,879)	—	—	(16,929)
Payments for transfer of business	—	(332)	—	—
Payments of loans receivable	(1,221)	(934)	(315)	(11,001)
Collection of loans receivable	1,162	896	213	10,469
Others	(1,455)	(1,057)	(569)	(13,109)
Net cash used in investing activities	(47,229)	(38,796)	(36,370)	(425,525)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	13,648	6,702	(2,859)	122,966
Proceeds from long-term loans payable	3,811	5,628	6,251	34,336
Repayment of long-term loans payable	(10,881)	(9,169)	(5,986)	(98,036)
Proceeds from sales and leasebacks	—	232	—	—
Repayments of lease obligations	(128)	(266)	(171)	(1,153)
Proceeds from share issuance to non-controlling shareholders	246	—	54	2,216
Cash dividends paid	(5,906)	(5,934)	(6,329)	(53,212)
Cash dividends paid to non-controlling interests	(351)	(359)	(400)	(3,162)
Purchase of treasury stock	(1,768)	(2,618)	(1,812)	(15,929)
Proceeds from sales of treasury stock	396	475	411	3,568
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(22)	(82)	(2,772)	(198)
Net cash used in financing activities	(955)	(5,391)	(13,613)	(8,604)
Effect of exchange rate change on cash and cash equivalents	(373)	232	(281)	(3,361)
Net increase (decrease) in cash and cash equivalents	(7,444)	5,796	(2,144)	(67,069)
Cash and cash equivalents at beginning of period	47,414	41,018	43,162	427,192
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	600	—	—
Cash and cash equivalents at end of period	¥ 39,970	¥ 47,414	¥ 41,018	\$ 360,123

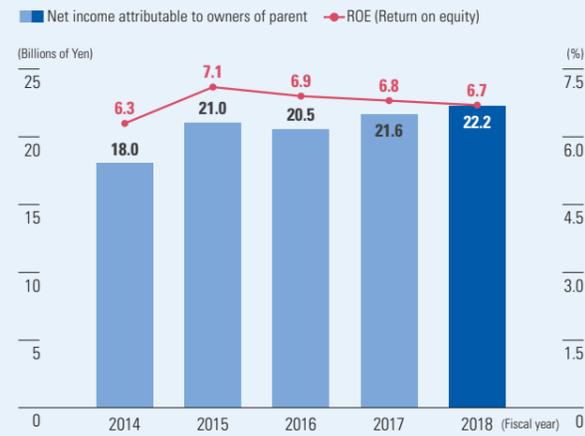
The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2019, which was ¥110.99 to U.S. \$1.00.

Financial Highlights

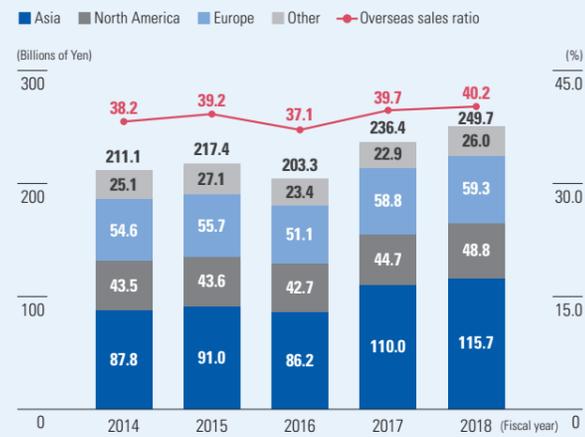
Net Sales / Operating Income



Net Income Attributable to Owners of Parent / ROE



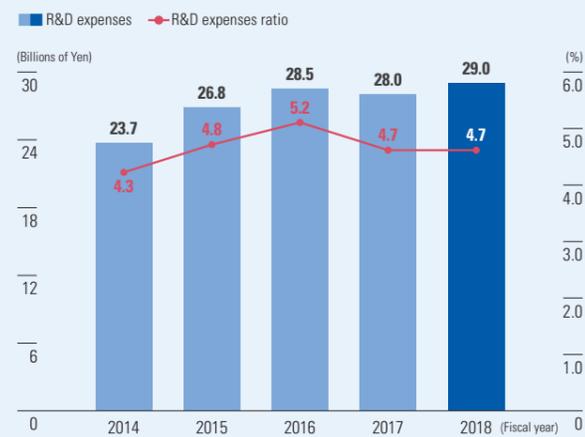
Overseas Sales / Overseas Sales Ratio



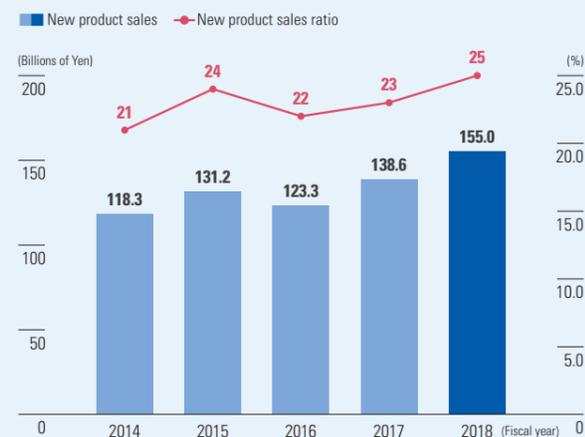
Net Assets / Shareholders' Equity Ratio



R&D Expenses / R&D Expenses Ratio



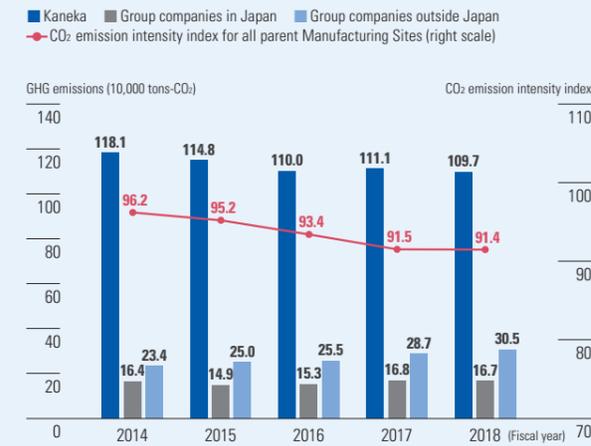
New Product Sales / New Product Sales Ratio



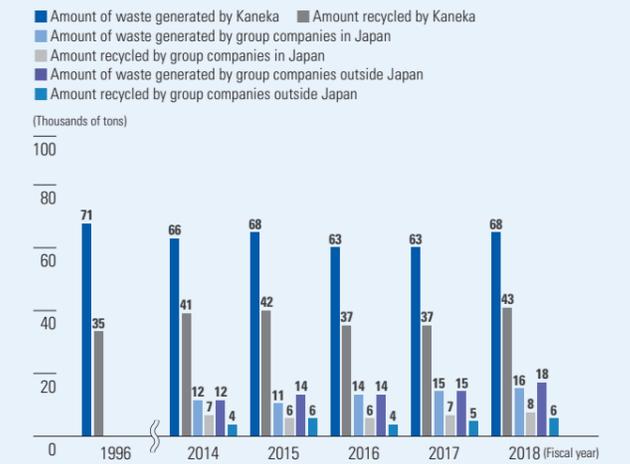
Nonfinancial Highlights

GHG Emissions and Energy-origin CO₂ Emission Intensity Index

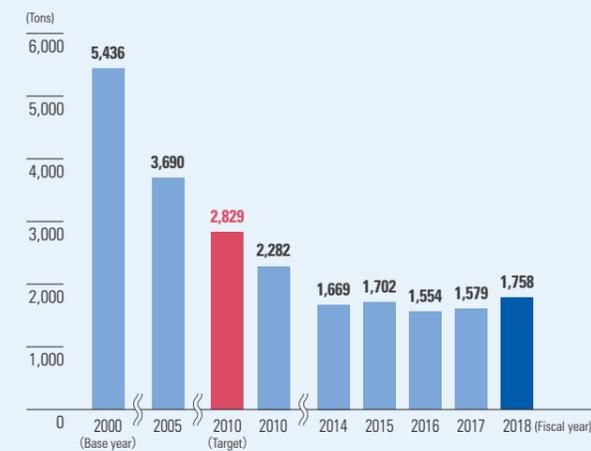
(Baseline year: 2013)



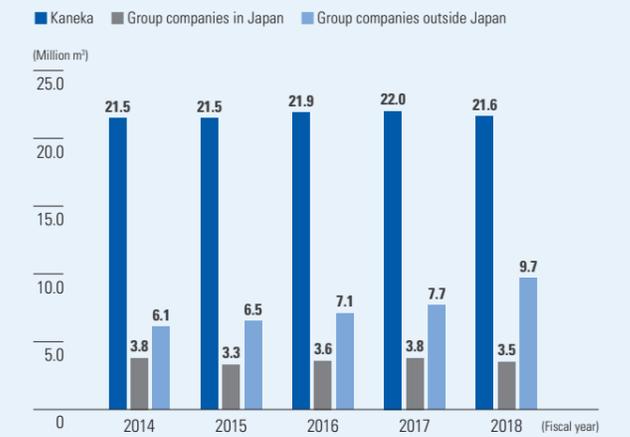
Waste Generated and Recycled



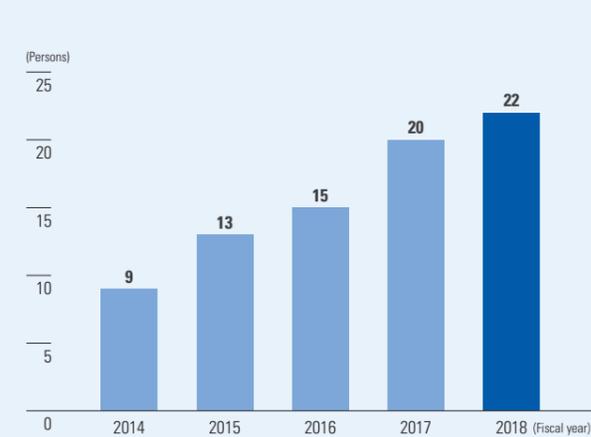
VOC Discharge: Voluntary Plan and Performance



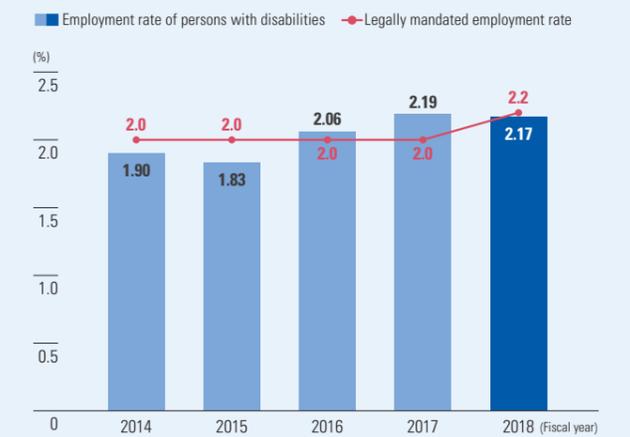
Water Consumption



Number of Female Executives



Employment Rate of Persons with Disabilities

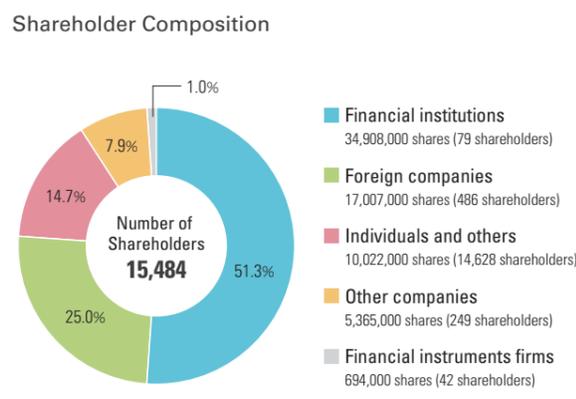


Corporate Profile

Corporate Profile		
Name	KANEKA CORPORATION	
Offices	Tokyo Head Office 1-12-32, Akasaka, Minato-ku, Tokyo 107-6028, Japan Tel: +81-3-5574-8000 Fax: +81-3-5574-8121 Osaka Head Office 2-3-18, Nakanoshima, Kita-ku, Osaka 530-8288, Japan Tel: +81-6-6226-5050 Fax: +81-6-6226-5037	Facilities in Japan Sales Office Nagoya (Aichi Prefecture) Manufacturing Site Takasago (Hyogo Prefecture) Osaka (Osaka Prefecture) Shiga (Shiga Prefecture) Kashima (Ibaraki Prefecture)
Date of Establishment	September 1, 1949	Research Institutes
Paid-in Capital	33,046 million yen (As of March 31, 2019)	Material Solutions New Research Engine BDP Technology Laboratories Biotechnology Research Laboratories Regenerative Medicine and Cell Therapy Laboratories Photovoltaic & Thin Film Device Research Laboratories Process Development Research Laboratories Process Technology Laboratories
Net Sales (Including consolidated subsidiaries)	621.043 billion yen (Fiscal year ended March 2019)	Affiliated Companies
Number of employees (Including consolidated subsidiaries)	10,571 (As of March 31, 2019)	109 Subsidiaries (Including 42 (in Japan) and 41 (outside Japan) consolidated subsidiaries)

Investor Information (As of March 31, 2019)

Common Stock Traded	Tokyo, Nagoya
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch 3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502, Japan
Accounting Auditor	KPMG AZSA LLC Ginsen Bingomachi Bldg., 3-6-5, Kawaramachi, Chuo-ku, Osaka 541-0048, Japan
Authorized Capital	150,000,000 shares
Issued Shares	68,000,000 shares
Number of Shareholders	15,484



* Share numbers are rounded down to the nearest thousand. Percentages are rounded to the nearest decimal point.

Common Stock Price Range (Tokyo Stock Exchange; Yen)

Years ended March 31	2015	2016	2017	2018	2019
High	898	1,278	1,061	1,114	5,620
Low	558	810	643	815	3,640

* The above figures are stock prices quoted at the Tokyo Stock Exchange (First Section). Our shares were consolidated on the basis of one new common share for five existing common shares as of October 1, 2018.

Global Network

EUROPE / AFRICA

- Kaneka Europe Holding N.V.
- Kaneka Belgium N.V.
- Kaneka Pharma Europe N.V.
- Kaneka Eurogentec S.A.
- Kaneka Modifiers Deutschland GmbH
- Eurogentec Deutschland GmbH
- Eurogentec Proteomics GmbH
- Eurogentec Ltd.
- Eurogentec France S.A.S.U.
- Eurogentec Nederland B.V.
- AB-Biotics, S.A.
- Kaneka Africa Liaison Office
- Kaneka's European Photovoltaics Research Laboratory



Kaneka Europe Holding N.V.
Kaneka Belgium N.V.
Kaneka Pharma Europe N.V.



ASIA / OCEANIA

- Kaneka Asia Co., Ltd.
- Kaneka Trading (Shanghai) Co., Ltd.
- Kaneka Eperan (Suzhou) Co., Ltd.
- HiHua Fiber Co., Ltd.
- Kaneka (Foshan) High Performance Materials Co., Ltd.
- Cemedine Shanghai Co., Ltd.
- Dalian Showa Plastic Co., Ltd.
- Kaneka (Malaysia) Sdn. Bhd.
- Kaneka Eperan Sdn. Bhd.
- Kaneka Paste Polymers Sdn. Bhd.
- Kaneka Innovative Fibers Sdn. Bhd.
- Kaneka Apical Malaysia Sdn. Bhd.
- Kaneka MS Malaysia Sdn. Bhd.
- Kaneka Singapore Co. (Pte) Ltd.
- Kaneka Pharma Vietnam Co., Ltd.
- Vina Showa Co., Ltd.
- Kaneka (Thailand) Co., Ltd.
- Asia Cemedine Co., Ltd.
- Showa Global (Thailand) Co., Ltd.
- Cemedine (Thailand) Co., Ltd.
- Kaneka India Pvt. Ltd.
- PT. Kaneka Foods Indonesia
- Kaneka Taiwan Corporation
- Taiwan Cemedine Co., Ltd.
- Kaneka Korea Corporation
- Cemedine Philippines Corporation
- Showa Global Ltd.
- TGA Pastry Company Pty. Ltd.



Kaneka Asia Co., Ltd.
Kaneka Trading (Shanghai) Co., Ltd.

AMERICA

- Kaneka Americas Holding, Inc.
- Kaneka North America LLC
- Kaneka Pharma America LLC
- Kaneka Aerospace LLC
- Anaspec Inc.
- Cemedine North America LLC
- Eurogentec North America Inc.
- Kaneka South America Representative Ltd.
- Kaneka US Material Research Center
- Kaneka US Innovation Center



Kaneka Americas Holding, Inc.
Kaneka North America LLC