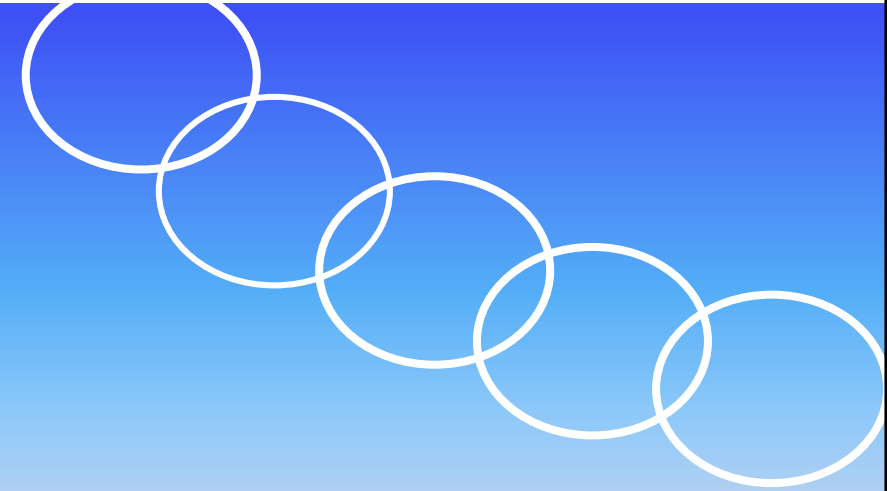


# Quarterly Financial Summary

## 3rd Quarter, Ended December 31, 2019



February 12, 2020  
**Kaneka Corporation**

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# Summary

(Billions of yen)

	FY2018 3Q(Apr.-Dec.)	FY2019 3Q(Apr.-Dec.)	Difference	
			Amount	%
Net sales	467.6	452.5	Δ 15.1	Δ 3.2%
Operating income	26.6	18.9	Δ 7.7	Δ 29.0%
Ordinary income	22.9	15.1	Δ 7.8	Δ 34.0%
Net income attributable to owners of parent	14.7	9.2	Δ 5.4	Δ 37.1%
Net income per share	¥223.90	¥141.55		

\* The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018 . However, net income per share has been calculated as though the share consolidation took place on April 1, 2018

- The global economy is entering the age of the networked society, where economic activity is connected on a global scale. From this perspective, during the three months from October to December 2019 (the “3rd quarter”), the intensified U.S.-China trade friction became a major cause of economic deceleration as its impact spread out to technologically interconnected global supply chains. A loss of momentum in economic conditions for the 3rd quarter was also due to the U.K.’s exit from the E.U., and heightened geopolitical risks such as tensions between the U.S. and Iran.
- Entering the 4th quarter, the economic recovery gradually found firmer footing, as U.S.-China trade friction eases, the effects of the U.K.’s exit from the E.U. fade, and the situation in the Middle East settles, as well as expectations of political stabilization in the U.S. However, the outbreak of novel coronavirus in January has seen concern over the risk of a downturn spreading to an unexpected degree. The situation could have a grave impact on the global economy.
- The Kaneka Group’s business performance has seen decreases in sales and profit, centered on the Material Solutions Unit, due to the impacts of weak demand in Asia and Europe and sluggish conditions in the automotive and electronics industries. The slowdown in the economies of overseas markets where the Company has been focusing its efforts was a major factor in these results.
- The Kaneka Group’s business performance for the first nine months under review (April 1, 2019 to December 31, 2019) was as follows. Consolidated net sales amounted to ¥452,467 million (down 3.2% year on year), and operating income was ¥18,891 million (down 29.0% year on year). Ordinary income was ¥15,139 million (down 34.0% year on year). Net income attributable to owners of parent was ¥9,232 million (down 37.1% year on year).

# Net Sales, Operating Income by Segments

(Millions of yen)

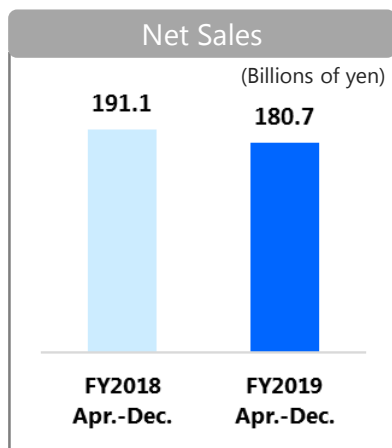
	Net sales				Operating income			
	FY2018 3Q(Apr.-Dec.)	FY2019 3Q(Apr.-Dec.)	Difference		FY2018 3Q(Apr.-Dec.)	FY2019 3Q(Apr.-Dec.)	Difference	
			Amount	%			Amount	%
Material Solutions Unit	191,126	180,661	Δ 10,464	Δ5.5%	19,623	14,669	Δ 4,954	Δ25.2%
Quality of Life Solutions Unit	119,632	118,652	Δ 980	Δ0.8%	11,804	11,363	Δ 440	Δ3.7%
Health Care Solutions Unit	35,093	33,251	Δ 1,841	Δ5.2%	7,352	6,048	Δ 1,304	Δ17.7%
Nutrition Solutions Unit	120,954	119,096	Δ 1,857	Δ1.5%	4,077	3,976	Δ 101	Δ2.5%
Others	809	805	Δ 3	Δ0.5%	371	394	22	6.0%
Adjustment	-	-	-	-	Δ 16,609	Δ 17,559	Δ 949	-
<b>Total</b>	<b>467,615</b>	<b>452,467</b>	<b>Δ 15,147</b>	<b>Δ3.2%</b>	<b>26,619</b>	<b>18,891</b>	<b>Δ 7,728</b>	<b>Δ29.0%</b>

- The Kaneka Group's business performance has seen decreases in sales and profit, centered on the Material Solutions Unit, due to the impacts of weak demand in Asia and Europe and sluggish conditions in the automotive and electronics industries. The slowdown in the economies of overseas markets where the Company has been focusing its efforts was a major factor in these results.

# Business Performance by Segments

**Material  
Solutions Unit**

**Net Sales**                      **¥ 180.7 billion** **【year-on-year  $\Delta$ 5.5%】**  
**Operating Income**            **¥ 14.7 billion** **【year-on-year  $\Delta$ 25.2%】**



## Vinyls and Chlor-Alkali

- Market conditions for caustic soda remain sluggish, as the slowdown in the Chinese economy is still exerting a strong influence.
- Sales of PVC resins and specialty PVC resins increased since overseas demand remained firm, notably in India despite lackluster market conditions in Japan.
- The Vinyls and Chlor-Alkali Solutions Vehicle recovered to the same level as the previous fiscal year in the 3rd quarter, and is expected to recover further in the 4th quarter. However, with the impact of the global economic deceleration throughout the year, the Solutions Vehicle has yet to make a full recovery.

## Performance Polymers (MOD)

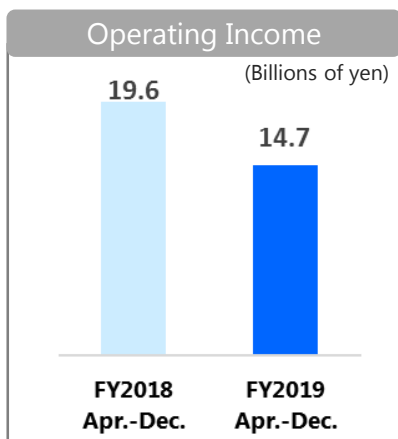
- Modifiers have been strongly affected by declining demand and trading volume in Japan and overseas due to the U.S.-China trade friction.
- Working to create a new high-value-added market through development of new, large-scale products and investment.
- The special properties of epoxy masterbatch technology, which meets cutting edge market needs such as structural adhesive for automobiles and electronics applications, have been highly rated and sales are increasing sharply. To meet vigorous demand which outstrips the capacity of our plants, the Group has been working to increase production through debottlenecking measures, and aiming to complete construction of additional capacity that will double it, with the aim of starting operations in July 2020.

## Performance Polymers (MS)

- In modified silicone polymers, sales trended firmly in Europe, where enhanced production capacity in Belgium contributed immensely to earnings.
- The Performance Polymers (MS) Solutions Vehicle is a unique product that has strong potential for technological differentiation, and the Group is working steadily to develop the Asian market as a new frontier.
- New production lines in the Malaysian plant that opened in 2018 are pushing up earnings.

## New Business

- Kaneka Biodegradable Polymer PHBH has been featured as a solution to the issue of microplastics by international bodies such as the G20 and in the media, including CNN. This has led to a flood of inquiries from global corporations with a high interest in environmental issues.
- As an innovative material that has the potential to change social systems, PHBH is being increasingly adopted for use in a wide range of applications, such as straws, shopping bags, and packaging materials for customers including cosmetics manufacturers and convenience stores such as Seven-Eleven Japan Co., Ltd.
- A large number of new projects have started overseas with major brand holders.
- Sales inquiries have vastly exceeded the capacity of the 5,000-ton plant that was completed in December 2019, and the Group has commenced preparations for the construction of a full-scale mass production plant with a capacity of 20,000 tons.



# Business Performance by Segments

Quality of Life

Net Sales

¥ 118.7 billion 【year-on-year  $\Delta$ 0.8%】

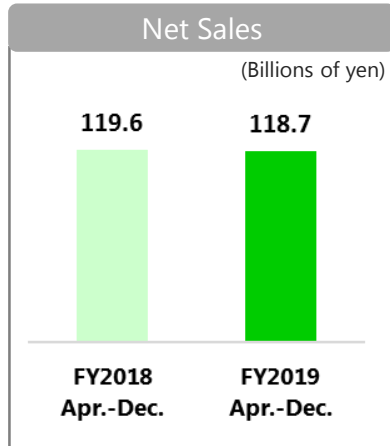
Solutions Unit

Operating Income

¥ 11.4 billion 【year-on-year  $\Delta$ 3.7%】

Composition  
ratio of sales

26.2%



## Performance Fibers

- The African market has expanded considerably, and the Group has made headway on developing new sources of demand in advanced countries as well, which has been driving earnings in this segment.
- To meet surging demand, the Group will bolster production through debottlenecking measures, while examining options for expanding facilities at the Takasago Plant, where production capacity can be ramped up the fastest.

## Foam & Residential Techs

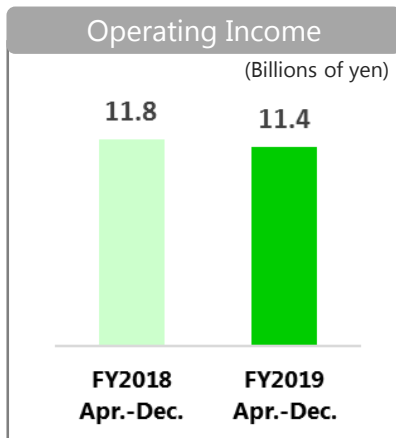
- Earnings from expandable polystyrene resin and extruded polystyrene foam board increased as the launch of new products such as thin high thermal insulation coupled with expanded demand. The Group is taking steps to reinforce the business platform with a view to increasing profitability, such as reorganizing sites to improve distribution efficiency.
- In polyolefin foam, global demand increases amid a rise in needs for energy saving, weight reduction, and safety in the automotive and mobility fields. The Group will accelerate the strengthening of its business platform, such as strengthening production capacity in Thailand and Belgium and introducing new processes.

## PV & Energy management

- Discussions have begun about making renewable energy, particularly solar power systems, the main power source in Japan's energy policy amid concerns over global warming.
- Sales of these products have been growing steadily, primarily to major homebuilders.
- The Group and Taisei Corporation have jointly developed innovative construction methods with multifunctionality and design properties enabling exterior walls and windows to generate electricity, and highly efficient, see-through photovoltaic cells using this technology have been adopted for the New National Stadium Japan.
- The Group is working without delay to build a framework to boost production in response to growing demand for these new products, which are net zero energy management system materials for houses and buildings.

## E & I Technology

- Polyimide films and graphite sheets were strongly affected by a slowdown in the smartphone market.
- Working with end digital device manufacturers on joint development of materials that cannot be imitated by other companies, such as CMOS sensor materials used for supporting autonomous driving systems in automobiles. The Group will strengthen R&D activities for unique new products that will support digital transformation, such as organic electroluminescent displays and 5G smartphones, for which demand is expected to grow going forward.



# Business Performance by Segments

**Health Care  
Solutions Unit**

**Net Sales**

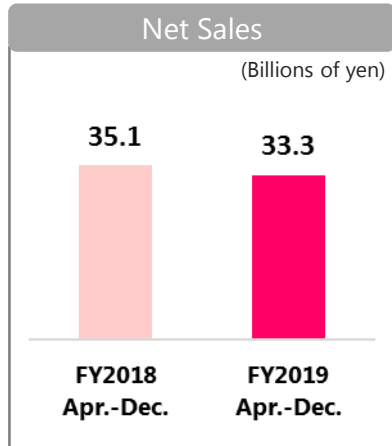
**¥ 33.3 billion 【year-on-year  $\Delta$ 5.2%】**

**Operating Income**

**¥ 6.0 billion 【year-on-year  $\Delta$ 17.7%】**

Composition  
ratio of sales

**7.3%**

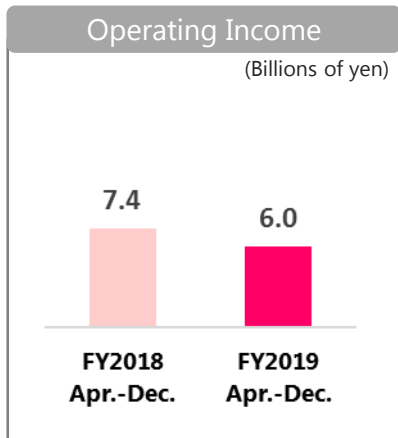


## Medical Devices

- Sales of new products such as high -functionality catheters are increasing in the Japanese and overseas markets. The Group is looking to increase the capacity of its Vietnam plant to meet surging demand.
- The embolization coil that was launched in Japan in November has seen steady sales growth, and is also scheduled for launch in the U.S.
- Going forward, the Group aims to aggressively expand its business in new therapeutic fields such as drug-coated balloon catheters, electrode catheters, and fractional flow reserve products.
- To achieve rapid expansion, the Group will actively seek capital and business alliances with U.S. and European medical equipment companies.

## Pharma

- A large shipment of small molecule pharmaceuticals was shifted to the 4th quarter, which had a major impact on the 3rd quarter operating results of the Health Care Solutions Unit.
- Sales of active pharmaceutical ingredients used in generic pharmaceutical products and biopharmaceuticals are expanding steadily.
- Increased production capacity at Osaka Synthetic Chemical Laboratories, Inc. will begin to contribute to earnings going forward. Construction to bolster production capacity at Kaneka Eurogentec S.A. is now complete, and preparations for full-scale operations are proceeding swiftly.



# Business Performance by Segments

**Nutrition**

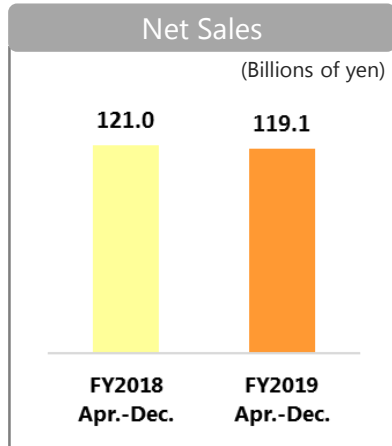
**Net Sales**

**¥ 119.1 billion** [year-on-year  $\Delta$ 1.5%]

**Solutions Unit**

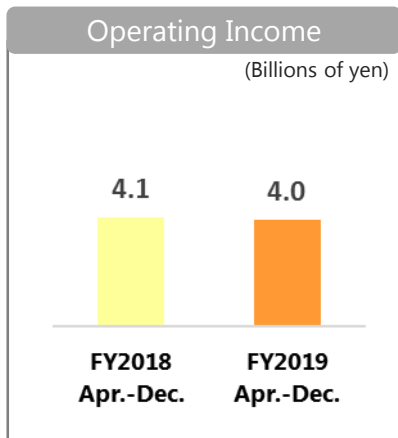
**Operating Income**

**¥ 4.0 billion** [year-on-year  $\Delta$ 2.5%]



## Foods & Agris

- The Group conducted proactive proposal-based sales to major suppliers of bakery products, convenience stores, and food manufacturers. These activities drove expanded sales, leading to earnings growth.
- As tastes continue to diversify, the Company's spice market is growing and the products of Kaneka Sun Spice Corporation have enjoyed adoption in an increasing number of products, contributing to earnings growth.
- In Indonesia, where the tasty bread and confectionery culture of Japan is entering a period of booming expansion, the Group's new factory is on schedule to start operations in May 2020, which will expand earnings.
- The Group has garnered a positive reception in the market for its "Milk for bread lovers," "Café au lait for bread lovers" and "Belgian Yogurt Pur Natur," products, and will use their momentum to quickly start a new dairy product business.
- The Group will move quickly to consider construction of a new dairy product plant, and aims to partner with dairy farmers to develop recycling-oriented dairy farming.



## Supplemental Nutrition

- Amid growing public awareness around health, the Group made AB-Biotics, S.A., of Spain a wholly owned subsidiary as a step towards creating a new, Kaneka-style supplement business model centered on its branded reduced form of coenzyme Q10. AB-Biotics' lactic acid supplements are regarded highly for their unique properties, and their global sales are increasing.
- The Group will cooperate with the food business and carefully distribute scientific information about the effects of the supplements, aiming to diversify its supplement products.
- The Group will quickly establish production of lactic acid in the U.S. and rapidly set up sales in the U.S. and Japan.



# Consolidated Balance sheet

	(Billions of yen)		
	March 31, 2019	December 31, 2019	Difference
<b>Assets</b>			
Current Assets	314.2	314.0	Δ 0.3
Noncurrent Assets	345.3	351.6	6.3
<b>Total assets</b>	659.6	665.6	6.0
<b>Liabilities</b>			
Interest bearing debt	120.5	126.0	5.5
Others	178.3	179.1	0.8
<b>Total liabilities</b>	298.9	305.1	6.3
<b>Net assets</b>			
Shareholders' equity	337.0	337.9	0.9
Others	23.7	22.5	Δ 1.2
<b>Total net assets</b>	360.7	360.4	Δ 0.3
<b>Total liabilities and net assets</b>	659.6	665.6	6.0
<b>Shareholders' equity ratio</b>	51.1%	50.8%	
<b>Net assets per share</b>	¥5,166.88	¥5,180.50	

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

- Total assets increased due to an increase in property, plant and equipment.
- Liabilities increased due to an increase in notes and accounts payable-trade and loans payable.
- Net assets decreased due to a decrease in foreign currency translation adjustment.

# Consolidated Business Revised Forecasts

- During the 3rd quarter, geopolitical risks and the slowdown of economic momentum started by the U.S.-China trade friction expanded on the global scale. Globally interconnected corporate activities have also suffered an inevitable significant setback from these impacts.
- The Company's earnings were expected to improve in the 3rd quarter, after reaching a bottom in the 2nd quarter. Regrettably, however, the recovery has been subdued at a lower level than planned. For the 4th quarter, encouraging signs of economic recovery have emerged with a background of progress in dialogue between the U.S. and Chinese government and subsidence of geopolitical risks. However, the coronavirus issue has expanded with unexpected speed and scale. It is having a grave impact on the recovery of the global economy and business momentum. While there are clear signs of increasing momentum in earnings recovery in each business unit for the 4th quarter after bottoming out in the 2nd quarter, a sense of uncertainty in business sentiment and recognition of the uncertain business environment are growing day by day. Under these conditions, the Company has factored in a certain level of risk of a downturn due to the impact of the coronavirus, and in so doing has revised its earnings forecast downward.

<Forecast for Consolidated business performance for the fiscal year ending March 31, 2020>

(Billions of yen)

	FY2018	FY2019		Change			
	Result	Previous forecast (Nov.12,2019)	Revised forecast	Vs. previous year		Vs. previous forecast	
				Amount	%	Amount	%
<b>Net sales</b>	621.0	625.0	<b>610.0</b>	△ 11.0	△1.8%	△ 15.0	△2.4%
<b>Operating income</b>	36.0	32.0	<b>28.0</b>	△ 8.0	△22.3%	△ 4.0	△12.5%
<b>Ordinary income</b>	31.3	26.0	<b>22.5</b>	△ 8.8	△28.0%	△ 3.5	△13.5%
<b>Net income attributable to owners of parent</b>	22.2	18.0	<b>15.5</b>	△ 6.7	△30.3%	△ 2.5	△13.9%
<b>Net income per share</b>	¥339.15	¥275.98	<b>¥237.64</b>				

\* The forecasts from January 1, 2020 are based on exchange rates of ¥109 to the U.S. dollar, ¥121 to the Euro and a domestic naphtha price of ¥44,000 per kiloliter.

\* The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. However, net income per share has been calculated as though the share consolidation took place on April 1, 2018

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# Consolidated Business Revised Forecasts by Segments

(Billions of yen)

	Net Sales					Operating Income				
	FY2018	FY2019		Change		FY2018	FY2019		Change	
	Result	Previous forecast (Nov.12 2019)	Revised forecast	Vs. previous year	Vs. previous forecast	Result	Previous forecast (Nov.12 2019)	Revised forecast	Vs. previous year	Vs. previous forecast
Material Solutions Unit	255.9	250.0	<b>245.0</b>	Δ 10.9	Δ 5.0	26.0	22.0	<b>20.0</b>	Δ 6.0	Δ 2.0
Quality of Life Solutions Unit	156.7	163.0	<b>156.0</b>	Δ 0.7	Δ 7.0	15.1	15.5	<b>14.5</b>	Δ 0.6	Δ 1.0
Health Care Solutions Unit	47.4	50.0	<b>49.0</b>	1.6	Δ 1.0	10.6	10.5	<b>10.5</b>	Δ 0.1	-
Nutrition Solutions Unit	159.0	161.0	<b>159.0</b>	0.0	Δ 2.0	5.9	7.0	<b>6.0</b>	0.1	Δ 1.0
Others	2.0	1.0	<b>1.0</b>	Δ 1.0	-	1.5	0.5	<b>0.5</b>	Δ 1.0	-
Adjustment	-	-	-	-	-	Δ 23.0	Δ 23.5	<b>Δ 23.5</b>	Δ 0.5	-
<b>Total</b>	<b>621.0</b>	<b>625.0</b>	<b>610.0</b>	Δ 11.0	Δ 15.0	<b>36.0</b>	<b>32.0</b>	<b>28.0</b>	Δ 8.0	Δ 4.0

- Although the recovery of momentum in the 3rd quarter occurred after the revision of earnings forecasts on November 12, in the 4th quarter business conditions are on a clear track to recovery, barring the corona virus issue. The Solutions Vehicles excluding Foam & Residential Techs and Foods & Agris, which experience seasonal drops in earnings, and Performance Fibers, where the Takasago Plant is undergoing regular maintenance, are showing clear signs of momentum recovery. The Group now expects to see a significant recovery trend in overseas markets for the Material Solutions Unit, a recovery in the smartphone market for the E & I Technology Solutions Vehicle, improvements in the Medical Devices and Pharma & Supplemental Nutrition Solutions Vehicles, which continue to see stable market expansion, and an increase in earnings with progress in structural reforms of the PV & Energy management Solutions Vehicle. The Group will continue making every effort to change its portfolio to increase profitability. While the corona virus issue has been partially factored into the Group's forecast, it is not yet at a level where all of the downside risk to earnings can be projected.

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