kaneka

FINANCIAL SECTION 2018

Year Ended March 31, 2018

KANEKA CORPORATION

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

The Kaneka Group's business performance in the fiscal year from April 1, 2017 to March 31, 2018 (FY2018) was driven by a strong contribution from production capacity increases at its main overseas production facilities in Europe, the U.S., Malaysia, and so forth. Growth in net sales was also led by the launch of distinctive new products resulting from R&D activities. As a result, operating results all increased year on year. Consolidated net sales were ¥596,143 million (up 8.7% year on year).

OPERATING EXPENSES AND OPERATING INCOME

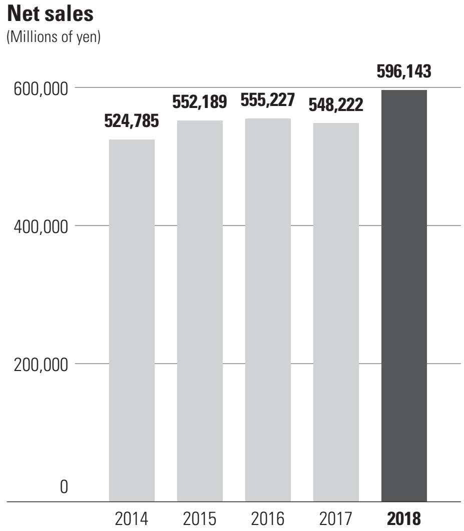
During FY2018, the cost of sales increased by 10.8% to ¥426,959 million. The cost of sales ratio increased from 70.3% to 71.6%. SG&A expenses increased 2.0% to ¥132,294 million, and the ratio of SG&A expenses to sales decreased from 23.7% to 22.2%. Operating income during FY2018 increased 11.2% to ¥36,889 million.

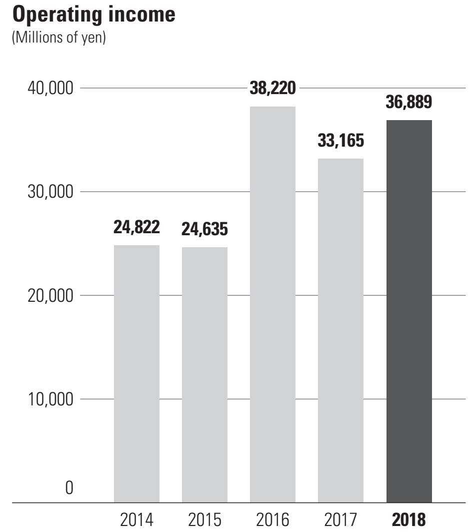
NET INCOME

For the year, the Group recorded net income attributable to owners of parent of ¥21,572 million, up 5.3% from the previous fiscal year.

FINANCIAL CONDITION

As of March 31, 2018, total assets were ¥641,010 million, up ¥48,110 million from March 31, 2017, due mainly to increases in notes and accounts receivable and property, plant and equipment. The ratio of net income attributable to owners of parent to total assets (ROA) was 3.4%, down 0.1% from the previous fiscal year. Interest-bearing debt stood at ¥113,138 million, up ¥3,056 million from March 31, 2017. Net assets increased ¥25,048 million to ¥346,599 million, reflecting an increase in retained earnings. As a result, the equity ratio came to 50.9%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.35.





CASH FLOWS

Cash and cash equivalents at March 31, 2018 were ¥47,414 million, ¥6,396 million more than at March 31, 2017.

Net cash provided by operating activities was ¥49,751 million, ¥1,631 million more than in the previous fiscal year. The main contributors to the increase were income before income taxes and non-controlling interests of ¥31,085 million and depreciation and amortization of ¥30,323 million, which were partially offset by income taxes paid of ¥7,310 million.

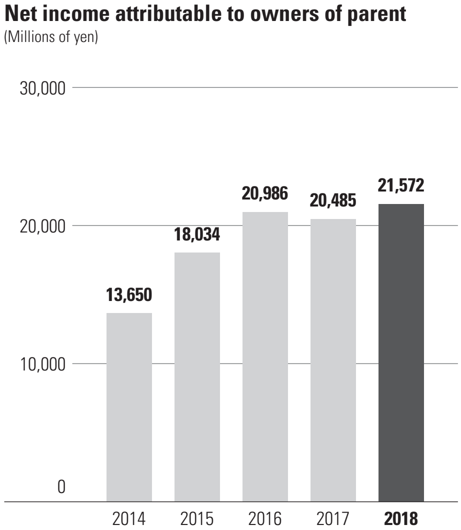
Net cash used in investing activities amounted to ¥38,796 million, ¥2,426 million more than in the previous fiscal year. The principal use of cash was ¥34,113 million for the purchase of property, plant and equipment.

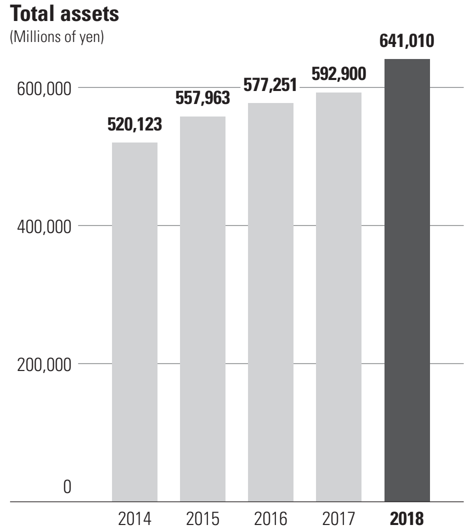
Financing activities used net cash of ¥5,391 million, ¥8,222 million less than in the previous fiscal year. This mainly reflected cash dividends paid of ¥5,934 million and purchase of treasury stock of ¥2,618 million, and proceeds from loans payable of ¥3,160 million.

Financial Index Trends

	Year ended March 31, 2014	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018
Shareholders' equity ratio	52.8%	53.5%	50.6%	51.5%	50.9%
Shareholders' equity ratio based on market value	40.6%	50.8%	55.4%	46.1%	53.9%
Interest-bearing debt coverage ratio	3.0	3.3	1.9	2.3	2.3
Interest coverage ratio	33.6	27.8	50.9	34.2	29.6

Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:
1. All items were calculated according to financial figures on a consolidated basis.
2. The calculation of the total market value of stock was based on the total number of shares outstanding, excluding treasury stock.
3. "Operating cash flows" refers to cash flows from operations.
4. The scope of interest-bearing debt is all liabilities in the Consolidated Balance Sheets for which interest is payable.
5. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.





BUSINESS RISKS AND UNCERTAINTIES

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, 2018 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

The Kaneka Group maintains its operational advantages by developing and commercializing high value-added products in a host of fields and by consistently cultivating new markets and leveraging its ability to integrate and combine its expertise in core polymer and fermentation technologies and fostering thin-film formation technology, biotechnology and organic synthesis technology. The Kaneka Group is working to ensure a corporate structure that is not affected by the entry of competitors into these markets, which could otherwise result in increased price competition and reduced profitability. Moreover, because the growth of generic products could cause a decrease in the demand for the Group's products and cause the Group to withdraw from or restructure certain operations, we are working to mitigate the potential effects of changes in the economic environment. However, such measures may not be sufficient to withstand a sudden downturn in the economic environment, obsolescence of the Company's technologies or an unexpected drop-off in demand for the Company's products. Such circumstances could seriously affect the Group's financial position and performance.

(2) Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)

For the Kaneka Group, globalization is a key element of its management strategy. However, overseas business operations face various risks, including unexpected changes in laws and regulations, tax systems, including transfer price taxation, and social and political disturbances resulting from terrorism or warfare. If these risks materialize, they may adversely affect the Group's performance and financial position. In addition, fluctuations in foreign exchange rates have the potential to significantly affect the Group's performance because of its revenue structure. Therefore, we employ foreign exchange forward contracts and other hedges in connection with foreign trade transactions to minimize the risk of foreign exchange rate fluctuations. However, sharp fluctuations in exchange rates beyond the coverage of hedge instruments could seriously affect the performance and financial position of the Group.

(3) Risks of price fluctuations of raw materials and fuels

Through the combination of medium- to long-term forward contracts and spot market purchases, the Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels. However, since most of these commodities are subject to price fluctuations in the international market, there are still some risks involved. For example, there may be sharp fluctuations in prices which cannot be offset by cost reductions or price revisions. In particular, price fluctuations in petrochemical materials, fuels and edible oils and fats affect the production of PVC/caustic soda, modifier, expandable plastics and products and foodstuffs could significantly impact the Group's financial position and performance.

(4) Risks associated with product liability, industrial accidents and large scale disasters

The Kaneka Group implements comprehensive strategies to ensure the safe distribution of products that are safe to use. We maintain liability insurance covering the whole Group in the event of a product related accident. However, the possibility remains that unexpected problems with product quality could cause a large-scale product related accident. Moreover, despite our best efforts to ensure safety and prevent accidents by placing the highest priority on safety, risks remain. Although the Kaneka Group continues its business giving priority to safety and complying with laws and regulations, a major natural disaster such as an industrial accident or an earthquake could destroy manufacturing facilities and result in losses beyond the coverage of property insurance. In such circumstances, it is possible that the Group's financial position and performance could be significantly affected.

(5) Risks associated with the protection of intellectual property rights

To maintain its business advantages, the Kaneka Group attaches strategic importance to the protection of its patents on newly developed technologies. However, with globalization and the development of IT technologies, it is not possible for us to completely avoid the risk of external leaks of our proprietary technologies and expertise. Nor is it possible to avoid all disputes with other parties in connection with the conveyance of our intellectual property rights to others or our use of other companies' intellectual property. In such circumstances, it is possible that the Group's competitiveness could be undermined and its financial position and performance significantly affected.

(6) Impact of environment related regulations

To minimize the impact of its business activities on the global environment and the world's ecosystem, the Kaneka Group puts forth its best efforts to reduce its environmental footprint, to save resources and energy, and to prevent global warming throughout the lifecycle of its products. Nevertheless, environmental regulations are tightened every year, and depending on the nature of the regulations, expenses may be incurred in connection with the manufacture, storage and disposal of products that could significantly impact the Group's financial position and performance.

(7) Risks associated with legal action

The Group attaches great importance to compliance management regarding the observance of social rules, including the laws and regulations of the societies in which it conducts business. There are risks, however, of the Group becoming the subject of litigation or administrative measures in connection with operations in Japan or abroad. If a significant action is filed against the Group, it is possible that the Group's financial position and performance could be significantly affected.

(8) Other risks

To promote long-term business relationships, the Kaneka Group holds shares in its business partners and certain financial institutions. In the event that the market value of these shares decreased significantly at the end of the fiscal year, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Financial Instruments. With regard to fixed assets, a substantial worsening in the operating environment could cause further decline in the market value of idle land held by the Group. Consequently, the Group could be required to report impairment loss pursuant to the application of the Accounting Standard for Impairment of Fixed Assets.

For retirement benefit obligations and retirement benefit expenses, actuarial calculations are used each year to determine the discount rate and other core ratios, incorporating the expected rate of investment return on core assets. However, a downturn in the discount rate or a decrease in investment yields on pension assets could affect the Kaneka Group's financial position and performance. Moreover, deferred tax assets are posted against future temporary differences with the assumption that they can be recovered by offsetting future taxable income. However, if future taxable income differs from expectations, the liquidation of deferred tax assets could affect the Group's financial position and performance. The Group's financial position and performance could also be significantly affected by factors such as fluctuations in the markets for its products, changes in laws and regulations, delays in research and development and technical innovations.

CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2018**	2017	**2018**
Current assets:			
Cash and cash equivalents (Note 4)	**¥ 47,414**	¥ 41,018	**$ 446,291**
Notes and accounts receivable - trade (Note 4)			
Unconsolidated subsidiaries and affiliates	**795**	760	**7,483**
Other	**141,400**	124,722	**1,330,949**
Inventories (Note 7)	**104,215**	96,749	**980,939**
Short-term loans receivable from unconsolidated subsidiaries and affiliates	**1,735**	1,672	**16,331**
Deferred tax assets (Note 10)	**5,639**	5,871	**53,078**
Other current assets	**11,684**	10,001	**109,978**
Allowance for doubtful accounts (Note 4)	**(973)**	(354)	**(9,159)**
Total current assets	**311,909**	280,439	**2,935,890**
Property, plant and equipment (Note 11):			
Land	**32,545**	31,072	**306,335**
Buildings and structures	**194,565**	183,089	**1,831,372**
Machinery, equipment and vehicles	**564,428**	546,146	**5,312,764**
Construction in progress	**12,712**	13,431	**119,654**
Other	**3,728**	3,620	**35,090**
	807,978	777,358	**7,605,215**
Less accumulated depreciation	**570,503**	551,814	**5,369,946**
Property, plant and equipment, net	**237,475**	225,544	**2,235,269**
Intangible assets (Note 11):	**9,892**	10,252	**93,110**
Investments and other assets:			
Investment securities (Notes 4, 5 and 11):			
Unconsolidated subsidiaries and affiliates	**5,514**	4,035	**51,901**
Other	**63,857**	59,031	**601,064**
Long-term loans receivable (Note 4)	**1,229**	1,301	**11,568**
Deferred tax assets (Note 10)	**1,259**	2,611	**11,851**
Other	**10,145**	9,916	**95,491**
Allowance for doubtful accounts (Note 4)	**(270)**	(229)	**(2,541)**
Total investments and other assets	**81,734**	76,665	**769,334**
	¥ 641,010	¥ 592,900	**$ 6,033,603**

See accompanying notes.

Liabilities and net assets	Millions of yen 2018	2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term loans payable (Notes 4 and 11)	**¥ 50,356**	¥ 42,889	**$ 473,983**
Current portion of long-term loans payable (Notes 4 and 11)	**9,298**	9,405	**87,519**
Notes and accounts payable (Note 4):			
Trade	**84,914**	73,058	**799,266**
Construction	**8,373**	7,418	**78,812**
Other	**18,971**	15,016	**178,567**
Income taxes payable	**4,481**	3,391	**42,178**
Accrued expenses	**13,514**	13,475	**127,203**
Other current liabilities	**4,975**	4,350	**46,828**
Total current liabilities	**194,882**	169,002	**1,834,356**
Noncurrent liabilities:			
Bonds payable (Notes 4 and 11)	**10,000**	10,000	**94,127**
Long-term loans payable (Notes 4 and 11)	**45,848**	50,336	**431,551**
Net defined benefit liability (Note 12)	**37,325**	37,310	**351,327**
Provision for directors' retirement benefits	**297**	319	**2,796**
Deferred tax liabilities (Note 10)	**2,670**	2,099	**25,132**
Other noncurrent liabilities	**3,389**	2,283	**31,899**
Total noncurrent liabilities	**99,529**	102,347	**936,832**
Contingent liabilities (Note 13)			
Net assets (Note 14)			
Shareholders' equity:			
Capital stock			
Authorized—750,000,000 shares			
Issued —350,000,000 shares	**33,047**	33,047	**311,060**
Capital surplus	**32,799**	32,813	**308,726**
Retained earnings	**264,964**	248,524	**2,494,013**
Less treasury stock, at cost—22,284,691 shares in 2018			
19,834,211 shares in 2017	**(18,684)**	(16,753)	**(175,866)**
Total shareholders' equity	**312,126**	297,631	**2,937,933**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**24,731**	22,338	**232,784**
Deferred gains or losses on hedges	**(109)**	(61)	**(1,026)**
Foreign currency translation adjustments	**(3,035)**	(5,105)	**(28,567)**
Remeasurements of defined benefit plans	**(7,527)**	(9,653)	**(70,849)**
Total accumulated other comprehensive income	**14,060**	7,519	**132,342**
Subscription rights to shares (Note 15)	**301**	271	**2,833**
Non-controlling interests	**20,112**	16,130	**189,307**
Total net assets	**346,599**	321,551	**3,262,415**
	¥ 641,010	¥ 592,900	**$ 6,033,603**

See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Net sales	**¥ 596,143**	¥ 548,222	¥ 555,227	**$ 5,611,286**
Cost of sales	**426,960**	385,362	394,021	**4,018,826**
Gross profit	**169,183**	162,860	161,206	**1,592,460**
Selling, general and administrative expenses	**132,294**	129,695	122,986	**1,245,237**
Operating income	**36,889**	33,165	38,220	**347,223**
Other income (expenses):				
Interest and dividend income	**1,602**	1,783	1,483	**15,079**
Interest expenses	**(1,692)**	(1,428)	(1,199)	**(15,926)**
Gain on sales of investment securities	—	1,602	121	—
Gain on sales of property, plant and equipment	—	626	—	—
Loss on disposal of property, plant and equipment	**(1,745)**	(2,534)	(3,485)	**(16,425)**
Foreign exchange gains (losses), net	**455**	(2,270)	(302)	**4,283**
Equity in earnings of affiliates, net	**147**	118	281	**1,384**
Gain on negative goodwill (Note 16)	**954**	—	1,313	**8,980**
Compensation expenses	—	—	(668)	—
Litigation expenses	**(1,088)**	(963)	(1,177)	**(10,241)**
Restructuring charges (Note 8 and 9)	**(1,782)**	—	—	**(16,773)**
Gain on step acquisitions (Note 16)	**1,430**	—	230	**13,460**
Impairment loss (Note 9)	—	—	(1,536)	—
Environmental expenses	**(567)**	—	(598)	**(5,337)**
Provision of allowance for doubtful accounts	**(638)**	—	—	**(6,005)**
Other, net	**(2,880)**	(1,407)	(2,081)	**(27,110)**
Income before income taxes and non-controlling interests	**31,085**	28,692	30,602	**292,592**
Income taxes (Note 10):				
Current	**8,372**	7,089	6,599	**78,803**
Deferred	**(83)**	88	2,992	**(782)**
Net income	**22,796**	21,515	21,011	**214,571**
Net income attributable to non-controlling interests	**1,224**	1,030	25	**11,521**
Net income attributable to owners of parent	**¥ 21,572**	¥ 20,485	¥ 20,986	**$ 203,050**

	Yen			U.S. dollars (Note 1)
Net income per share – basic	**¥ 65.69**	¥ 61.72	¥ 62.98	**$ 0.62**
Net income per share – diluted	**65.61**	61.65	62.92	**0.62**
Cash dividends applicable to the year	**18.00**	18.00	18.00	**0.17**

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Net income	**¥ 22,796**	¥ 21,515	¥ 21,011	**$ 214,571**
Other comprehensive income:				
Valuation difference on available-for-sale securities	**2,440**	5,047	(2,239)	**22,967**
Deferred gains or losses on hedges	**(47)**	(9)	53	**(442)**
Foreign currency translation adjustments	**2,116**	(4,268)	(4,049)	**19,917**
Remeasurements of defined benefit plans	**2,154**	1,248	(12,098)	**20,275**
Share of other comprehensive income of associates accounted for using equity method	**3**	(2)	(18)	**28**
Total other comprehensive income (Note 3)	**6,666**	2,016	(18,351)	**62,745**
Comprehensive income	**¥ 29,462**	¥ 23,531	¥ 2,660	**$ 277,316**
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	**¥ 27,959**	¥ 22,597	¥ 2,690	**$ 263,169**
Comprehensive income attributable to non-controlling interests	**1,503**	934	(30)	**14,147**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Shareholders' equity				
Capital stock				
Balance at beginning of year	**¥ 33,047**	¥ 33,047	¥ 33,047	**$ 311,060**
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	**311,060**
Capital surplus				
Balance at beginning of year	**32,813**	34,936	34,837	**308,857**
Changes of items during the period				
Disposal of treasury stock	—	—	(6)	—
Change in treasury shares of parent arising from transactions with non-controlling interests	**(14)**	(2,123)	105	**(131)**
Total changes of items during the period	**(14)**	(2,123)	99	**(131)**
Balance at the end of current period	**32,799**	32,813	34,936	**308,726**
Retained earnings				
Balance at beginning of year	**248,524**	234,378	218,746	**2,339,270**
Changes of items during the period				
Dividends from surplus - ¥18.00 per share	**(5,934)**	(6,329)	(5,345)	**(55,855)**
Change of scope of consolidation	**823**	—	—	**7,747**
Net income attributable to owners of parent	**21,572**	20,485	20,986	**203,050**
Disposal of treasury stock	**(21)**	(10)	(9)	**(199)**
Total changes of items during the period	**16,440**	14,146	15,632	**154,743**
Balance at the end of current period	**264,964**	248,524	234,378	**2,494,013**
Treasury stock				
Balance at beginning of year	**(16,753)**	(15,559)	(12,072)	**(157,690)**
Changes of items during the period				
Purchase of treasury stock	**(2,619)**	(1,812)	(3,585)	**(24,652)**
Disposal of treasury stock	**688**	618	98	**6,476**
Total changes of items during the period	**(1,931)**	(1,194)	(3,487)	**(18,176)**
Balance at the end of current period	**(18,684)**	(16,753)	(15,559)	**(175,866)**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	**22,338**	17,451	19,660	**210,260**
Changes of items during the period				
Net changes of items other than shareholders' equity	**2,393**	4,887	(2,209)	**22,524**
Total changes of items during the period	**2,393**	4,887	(2,209)	**22,524**
Balance at the end of current period	**24,731**	22,338	17,451	**232,784**
Deferred gains or losses on hedges				
Balance at beginning of year	**(61)**	(52)	(105)	**(574)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(48)**	(9)	53	**(452)**
Total changes of items during the period	**(48)**	(9)	53	**(452)**
Balance at the end of current period	**(109)**	(61)	(52)	**(1,026)**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Foreign currency translation adjustments				
Balance at beginning of year	**(5,105)**	(1,082)	2,975	**(48,052)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**2,070**	(4,023)	(4,057)	**19,485**
Total changes of items during the period	**2,070**	(4,023)	(4,057)	**19,485**
Balance at the end of current period	**(3,035)**	(5,105)	(1,082)	**(28,567)**
Remeasurements of defined benefit plans				
Balance at beginning of year	**(9,653)**	(10,910)	1,172	**(90,860)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**2,126**	1,257	(12,082)	**20,011**
Total changes of items during the period	**2,126**	1,257	(12,082)	**20,011**
Balance at the end of current period	**(7,527)**	(9,653)	(10,910)	**(70,849)**
Subscription rights to shares				
Balance at beginning of year	**271**	228	137	**2,551**
Changes of items during the period				
Net changes of items other than shareholders' equity	**30**	43	91	**282**
Total changes of items during the period	**30**	43	91	**282**
Balance at the end of current period	**301**	271	228	**2,833**
Non-controlling interests				
Balance at beginning of year	**16,130**	16,285	10,830	**151,826**
Changes of items during the period				
Net changes of items other than shareholders' equity	**3,982**	(155)	5,455	**37,481**
Total changes of items during the period	**3,982**	(155)	5,455	**37,481**
Balance at the end of current period	**20,112**	16,130	16,285	**189,307**
Total net assets				
Balance at beginning of year	**321,551**	308,722	309,227	**3,026,648**
Changes of items during the period				
Dividends from surplus- ¥18.00 per share	**(5,934)**	(6,329)	(5,345)	**(55,855)**
Change of scope of consolidation	**823**	—	—	**7,747**
Net income attributable to owners of parent	**21,572**	20,485	20,986	**203,050**
Purchase of treasury stock	**(2,619)**	(1,812)	(3,585)	**(24,652)**
Disposal of treasury stock	**667**	608	83	**6,277**
Change in treasury shares of parent arising from transactions with non-controlling interests	**(14)**	(2,123)	105	**(131)**
Net changes of items other than shareholders' equity	**10,553**	2,000	(12,749)	**99,331**
Total changes of items during the period	**25,048**	12,829	(505)	**235,767**
Balance at the end of current period	**¥ 346,599**	¥ 321,551	¥ 308,722	**$ 3,262,415**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Cash flows from operating activities				
Income before income taxes and non-controlling interests	**¥ 31,085**	¥ 28,692	¥ 30,602	**$ 292,592**
Depreciation and amortization	**30,323**	27,808	26,438	**285,420**
Impairment loss	—	—	1,536	—
Gain on step acquisitions	**(1,430)**	—	(230)	**(13,460)**
Gain on negative goodwill	**(954)**	—	(1,313)	**(8,980)**
Restructuring charges	**1,782**	—	—	**16,773**
Increase (decrease) in net defined benefit liability	**3,026**	2,516	429	**28,483**
Decrease (increase) in net defined benefit asset	—	—	425	—
Increase (decrease) in allowance for doubtful accounts	**639**	34	14	**6,015**
Interest and dividend income	**(1,602)**	(1,783)	(1,483)	**(15,079)**
Interest expenses	**1,692**	1,428	1,199	**15,926**
Loss (gain) on disposal of property, plant and equipment	**531**	102	824	**4,998**
Gain on sales of investment securities	—	(1,602)	—	—
Equity in earnings of affiliates, net	**(147)**	(118)	(281)	**(1,384)**
Decrease (increase) in notes and accounts receivable-trade	**(12,054)**	(4,609)	6,933	**(113,460)**
Decrease (increase) in inventories	**(6,176)**	(4,057)	(1,596)	**(58,133)**
Increase (decrease) in notes and accounts payable-trade	**8,568**	7,304	(4,566)	**80,648**
Others	**1,706**	19	5,733	**16,059**
Subtotal	**56,989**	55,734	64,664	**536,418**
Interest and dividend income received	**1,753**	1,904	1,600	**16,500**
Interest expenses paid	**(1,681)**	(1,405)	(1,172)	**(15,823)**
Income taxes paid	**(7,310)**	(8,113)	(5,387)	**(68,806)**
Net cash provided by operating activities	**49,751**	48,120	59,705	**468,289**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(34,113)**	(36,726)	(38,552)	**(321,094)**
Proceeds from sales of property, plant and equipment	**62**	1,093	466	**584**
Purchase of intangible assets	**(1,406)**	(1,474)	(2,880)	**(13,234)**
Purchase of investment securities	**(1,385)**	(76)	(70)	**(13,037)**
Proceeds from sales and distributions of investment securities	**157**	1,586	386	**1,478**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**(1,464)**	(102)	—	**(13,780)**
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**780**	—	1,538	**7,342**
Payments for transfer of business	**(332)**	—	—	**(3,125)**
Payments of loans receivable	**(934)**	(315)	(1,462)	**(8,791)**
Collection of loans receivable	**896**	213	930	**8,434**
Others	**(1,057)**	(569)	(1,108)	**(9,950)**
Net cash used in investing activities	**(38,796)**	(36,370)	(40,752)	**(365,173)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	**6,702**	(2,859)	1,359	**63,084**
Proceeds from long-term loans payable	**5,628**	6,251	13,326	**52,974**
Repayment of long-term loans payable	**(9,169)**	(5,986)	(9,301)	**(86,305)**
Proceeds from sales and leasebacks	**232**	—	280	**2,184**
Repayments of lease obligations	**(266)**	(171)	(101)	**(2,504)**
Proceeds from share issuance to non-controlling shareholders	—	54	—	—
Cash dividends paid	**(5,934)**	(6,329)	(5,345)	**(55,855)**
Cash dividends paid to non-controlling interests	**(359)**	(400)	(243)	**(3,379)**
Purchase of treasury stock	**(2,618)**	(1,812)	(3,585)	**(24,642)**
Proceeds from sales of treasury stock	**475**	411	74	**4,471**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(82)**	(2,772)	(16)	**(772)**
Net cash used in financing activities	**(5,391)**	(13,613)	(3,552)	**(50,744)**
Effect of exchange rate change on cash and cash equivalents	**232**	(281)	(259)	**2,183**
Net increase (decrease) in cash and cash equivalents	**5,796**	(2,144)	15,142	**54,555**
Cash and cash equivalents at beginning of period	**41,018**	43,162	28,020	**386,088**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**600**	—	—	**5,648**
Cash and cash equivalents at end of period	**¥ 47,414**	¥ 41,018	¥ 43,162	**$ 446,291**

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kaneka Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Financial Instruments and Exchange Law in Japan and its related accounting regulations and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries were based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accounts of consolidated overseas subsidiaries after the year ended March 31, 2009 were prepared for consolidation purposes in accordance with either International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements."

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, 2018 which was ¥106.24 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control (together, the "Companies"). Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, except for insignificant investments which are recorded at cost.

The Company has 84 consolidated subsidiaries (76 in FY2017 and 75 in FY2016) and 4 affiliates accounted for by the equity method (3 in FY2017 and 3 in FY2016). For the year ended March 31, 2018, the accounts of 18 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between their fiscal year end and that of the Company, the transactions are included in consolidation. Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss are deducted from acquisition costs. Depreciation is computed over the estimated useful life of the asset mainly by the straight-line method. Repairs, maintenance and minor renewals are charged to expenses as incurred. Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life as measured by the lease term of the respective asset by the straight-line method. The residual value is zero or the guaranteed residual value.

Goodwill

Goodwill, except for minor goodwill, is amortized by the straight-line method within 20 years. Minor goodwill is expensed as incurred.

Liability (asset) for retirement benefits

The Company has an unfunded lump-sum benefit plan generally covering all employees. Under the terms of the plan, eligible employees are entitled upon mandatory retirement at age 60 or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service.

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provide employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets. The estimated benefit is attributed to each period based on the plan's benefit formula. Prior service costs are recognized as expense using the straight-line method over mainly 5 years, a term within the average of the estimated remaining service years of the current employees. Actuarial gains and losses are recognized using the straight-line method over mainly 10 years, a term also within the average of the estimated remaining service years of employees, commencing with the following period.

Provision for directors' retirement benefits

Directors and statutory auditors terminating their service with certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2018, 2017 and 2016 were ¥28,039 million ($263,921 thousand), ¥28,513 million and ¥26,768 million, respectively.

Income taxes

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Application of consolidated taxation system

The Company and certain domestic consolidated subsidiaries apply a consolidated taxation system.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2018 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Additional information

(Transfer of Company shares to the employees through an employee stock ownership trust)
The Company has introduced a plan to transfer Company shares to the employees' share holding association through a trust in order to provide the Company group's employees to promote the benefit and welfare of the employees of the Company and to provide incentives to increase the enterprise value of the Company.

(1) Outline of the transactions
The Board of Directors approved a resolution on October 9, 2015 to introduce the "Employee Stock Ownership Plan (ESOP) Trust" (the "Plan") to provide employees an incentive toward achieving medium- to long-term growth in corporate value.

The Plan is an incentive plan in which all employees of the Company who are members of the "Kaneka Share Holding Association" ("Share Holding Association") may participate. According to the plan, the Company creates a trust with employee members of the Share Holding Association who meet certain requirements as beneficiaries, and during a predetermined period, the trust acquires a number of the Company's shares that the Association is then expected to acquire over the next five years.

Afterwards, the trust sells the shares to the Share Holding Association in accordance with the plan. The remaining funds will be distributed according to each employee's contribution ratio when there are the trust earnings resulting from an upward swing in stock price when the trust ends. There is no additional risk of loss to the employee when a loss is incurred as a result of a decrease in the stock price as the Company will pay back the loan based on a guarantee clause in the loan agreement.

(2) Stocks remaining in the trust
The book value (excluding incidental expenses) of stock remaining in the trust is included as "treasury stock" in net assets in the consolidated balance sheets. As of March 31, 2018 and 2017, the trust held 419,000 and 931,000 shares of Company stock with a book value of ¥498 million ($4,688 thousand) and ¥1,106 million.

(3) Book value of loans recorded using the gross price method
¥791 million ($7,445 thousand) as of March 31, 2018.
¥1,276 million as of March 31, 2017.

Changes in accounting policies

(Application of accounting standard for business combinations)
The Company and its domestic subsidiaries adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the fiscal year ended March 31, 2016. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from changes in the Company's ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities," and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in Article 58-2(4) of Statement No. 21, Article 44-5(4) of Statement No. 22 and Article 57-4(4) of Statement No. 7 with application from the beginning of the fiscal year ended March 31, 2016 prospectively.

These changes had no material effect on operating income, income before income taxes and non-controlling interests and earnings per share for the fiscal year ended March 31, 2016, and on the capital surplus amount at the end of the fiscal year ended March 31, 2016.

(Standards and guidance not yet adopted)
The following standard and guidance were issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview
The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:
Step1: Identify contract(s) with customers.
Step2: Identify the performance obligations in the contract.
Step3: Determine the transaction price.
Step4: Allocate the transaction price to the performance obligation in the contract.
Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards
The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. COMPREHENSIVE INCOME

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Valuation difference on available-for-sale securities				
Increase (Decrease) during the year	**¥ 3,539**	¥ 8,584	¥ (3,666)	**$ 33,312**
Reclassification adjustments	**(14)**	(1,600)	112	**(132)**
Subtotal, before tax	**3,525**	6,984	(3,554)	**33,180**
Tax expense	**(1,085)**	(1,937)	1,315	**(10,213)**
Subtotal, net of tax	**2,440**	5,047	(2,239)	**22,967**
Deferred gains or losses on hedges				
Increase (Decrease) during the year	**(1,061)**	475	242	**(9,987)**
Reclassification adjustments	**999**	(484)	(173)	**9,404**
Subtotal, before tax	**(62)**	(9)	69	**(583)**
Tax expense	**15**	(0)	(16)	**141**
Subtotal, net of tax	**(47)**	(9)	53	**(442)**
Foreign currency translation adjustment				
Increase (Decrease) during the year	**2,116**	(4,268)	(4,049)	**19,917**
Reclassification adjustments	—	—	—	—
Subtotal, before tax	**2,116**	(4,268)	(4,049)	**19,917**
Tax expense	—	—	—	—
Subtotal, net of tax	**2,116**	(4,268)	(4,049)	**19,917**
Remeasurements of defined benefit plans				
Increase (Decrease) during the year	**483**	(711)	(17,811)	**4,546**
Reclassification adjustments	**2,644**	2,515	344	**24,887**
Subtotal, before tax	**3,127**	1,804	(17,467)	**29,433**
Tax expense	**(973)**	(556)	5,369	**(9,158)**
Subtotal, net of tax	**2,154**	1,248	(12,098)	**20,275**
Share of other comprehensive income of associates accounted for using equity method				
Increase (Decrease) during the year	**3**	(2)	8	**28**
Reclassification adjustments	—	—	(26)	—
Subtotal, net of tax	**3**	(2)	(18)	**28**
Total other comprehensive income	**¥ 6,666**	¥ 2,016	¥ (18,351)	**$ 62,745**

4. FINANCIAL INSTRUMENTS

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

The Companies procure funds necessary for the manufacturing and sales business primarily through borrowings from financial institutions or by issuing corporate bonds based upon the plan and budget for capital investments. In principle, temporary surplus funds are centralized by the Cash Management System (CMS) and invested in highly safe financial assets. Derivative transactions are used to hedge against risks described below, but never for speculative purposes.

(2) Description of financial instruments and inherent risks

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities, primarily shares of companies with which the Companies maintain business relations, are exposed to the risk of market price fluctuations.

Notes and accounts payable, which are operating payables, are basically settled in the short-term with a deadline set within a year. Operating payables include payables denominated in foreign currencies for importing materials and are exposed to foreign exchange fluctuation risk. However, they remain within the range of the balance of operating receivables denominated in the same foreign currencies. Short-term borrowings are primarily for procuring operating capital and long-term debt, and bonds are issued to obtain necessary funds mainly for capital expenditures. A portion of the short-term debt and the long-term debt is exposed to interest rate fluctuation risk, but the effect is limited.

Derivative transactions such as foreign exchange forward contracts, currency swaps and interest rate swaps are used to hedge against the foreign currency fluctuation risk and interest rate fluctuation risk associated with operating receivables and payables denominated in foreign currencies, investment assets, loans receivable, etc. Since all derivative transactions correspond to assets and liabilities on the balance sheets, foreign exchange fluctuation risk is hedged and the fluctuation risk of market interest rates is rendered insignificant.

(3) Risk management system related to financial instruments

(a) Credit risk management (risk pertaining to breach of contract on the part of business partners)

The Company aims to mitigate credit risk by quickly identifying any concerns about the collection of operating receivables resulting from the deterioration of a business partner's financial position or other factors. Also, each business division periodically reviews the status of our main business partners and regularly monitors deadlines, balances and credit status for each partner. The consolidated subsidiaries also manage operating receivables in accordance with the practices of the Company.

As for debt securities, the credit risk is insignificant since the Company only handles those with high ratings or issued by companies with existing business relations with the Company and whose creditability is verifiable. Furthermore, the Company periodically verifies the financial position of issuers to mitigate risk. Since the counterparties to the derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2018.

(b) Market risk management (foreign exchange and interest rate fluctuation risk)

The Company and some consolidated subsidiaries identify foreign exchange fluctuation risk associated with operating receivables or operating payables denominated in foreign currencies by currency and by month. Such risk is hedged by using foreign exchange forward contracts, principally up to the amounts to be settled after netting operating payables or operating receivables denominated in foreign currencies. Note that the Company defines the monthly execution limit and the operating standard based upon its Procedures for Foreign Exchange Management and enters into foreign exchange forward contracts within the scope provided by the procedures. Also, the Companies utilize interest rate swaps mainly to hedge against the fluctuation risk of market interest rates.

For marketable securities and investment securities, the Company periodically identifies fair values and the financial positions of the issuers (business partner companies). For securities other than held-to-maturity bonds, the Company continuously revises the holding status taking into consideration the business relationship with the business partner companies.

The Financial Department of the Company executes derivative transactions based upon its Transaction Regulations for Derivative Financial Products, which defines the basic policy, the scope of operations, the personnel responsible for execution, the basis for decision making and the management system. Consolidated subsidiaries enter into derivative transactions based upon resolutions passed by their respective bodies upon the Company's approval. The Company ensures an effective internal checking system by segregating the execution function from the monitoring and managing function. Also, the Director of the Company's Financial Department performs evaluations for hedge effectiveness of all derivative transactions entered into by the Companies and reports the results together with a description of the underlying assets and liabilities to the President and the CFO on a monthly basis.

(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments by deadlines)

The Company manages liquidity risk by timely preparing and updating cash flow plans by the Financial Department and by maintaining a liquidity facility, which is the sum of liquidity on hand and commitment lines, in the approximate amount of one month's consolidated net sales. In addition, the Companies mitigate liquidity risk in principle by centralizing the Companies' funds using CMS. Accordingly, the Companies consider that no significant liquidity risk exists.

(4) Supplementary explanation for matters regarding fair value of financial instruments

The fair value of financial instruments is based on market price. If a market price is not available, another valuation method is used. Such methods include variable factors and assumptions, and the results of a valuation may differ depending on which factors and assumptions are used.

The contract amounts related to the derivative transactions shown in "Derivative Transactions" do not indicate the market risks associated with the derivative transactions themselves.

2. Matters regarding the fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2018 (the consolidated accounts settlement date of the year ending March 31, 2018), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	**¥ 47,414**	**¥ 47,414**	**¥ —**
(2) Notes and accounts receivable - trade	**142,195**	**142,195**	**—**
(3) Marketable and investment securities			
Available-for-sale securities	**58,250**	**57,710**	**(540)**
(4) Long-term loans receivable	**1,229**		
Allowance for doubtful receivables [*1]	**(0)**		
	1,229	**1,230**	**1**
Total assets	**249,088**	**248,549**	**(539)**
(1) Notes and accounts payable — trade	**84,914**	**84,914**	**—**
(2) Short-term loans payable	**59,654**	**59,654**	**—**
(3) Accounts payable - other	**26,983**	**26,983**	**—**
(4) Bonds payable	**10,000**	**10,236**	**236**
(5) Long-term loans payable	**45,848**	**45,704**	**(144)**
Total liabilities	**227,399**	**227,491**	**92**
Derivative transactions [*2]			
– Hedge accounting not applied	**6**	**6**	**—**
– Hedge accounting applied	**(322)**	**(322)**	**—**

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2017 (the consolidated accounts settlement date for the year ending March 31, 2017), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 41,018	¥ 41,018	¥ —
(2) Notes and accounts receivable - trade	125,482	125,482	—
(3) Marketable and investment securities			
Available-for-sale securities	52,733	52,733	—
(4) Long-term loans receivable	1,301		
Allowance for doubtful receivables [*1]	(0)		
	1,301	1,300	(1)
Total assets	220,534	220,533	(1)
(1) Notes and accounts payable — trade	73,058	73,058	—
(2) Short-term loans payable	52,294	52,294	—
(3) Accounts payable - other	22,149	22,149	—
(4) Bonds payable	10,000	10,403	403
(5) Long-term loans payable	50,336	50,227	(109)
Total liabilities	207,837	208,131	294
Derivative transactions [*2]			
– Hedge accounting not applied	(24)	(24)	—
– Hedge accounting applied	708	708	—

The table below shows the amounts as of March 31, 2018 calculated into U.S. dollars.

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	**$ 446,291**	**$ 446,291**	**$ —**
(2) Notes and accounts receivable - trade	**1,338,432**	**1,338,432**	**—**
(3) Marketable and investment securities			
Available-for-sale securities	**548,287**	**543,204**	**(5,083)**
(4) Long-term loans receivable	**11,568**		
Allowance for doubtful receivables [*1]	**(0)**		
	11,568	**11,578**	**10**
Total assets	**2,344,578**	**2,339,505**	**(5,073)**
(1) Notes and accounts payable — trade	**799,266**	**799,266**	**—**
(2) Short-term loans payable	**561,502**	**561,502**	**—**
(3) Accounts payable - other	**253,982**	**253,982**	**—**
(4) Bonds payable	**94,127**	**96,348**	**2,221**
(5) Long-term loans payable	**431,551**	**430,196**	**(1,355)**
Total liabilities	**2,140,428**	**2,141,294**	**866**
Derivative transactions [*2]			
– Hedge accounting not applied	**56**	**56**	**—**
– Hedge accounting applied	**(3,031)**	**(3,031)**	**—**

[*1] The amount of allowance for doubtful accounts, which is recorded for each long-term loan receivable, is excluded.

[*2] Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

Note 1.
Matters regarding the determination of fair value for financial instruments, marketable securities and derivative transactions

Assets

(1) Cash and cash equivalents

The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

(2) Notes and accounts receivable - trade

The fair value of notes and accounts receivable - trade settled in a short period of time approximates book value. Therefore, the book value is used as the fair value. The fair value of long-term notes and accounts receivable - trade is based on the present value calculated by discounting receivable amounts classified by certain periods at a rate that takes into account the time to maturity and credit risk.

(3) Marketable and investment securities

The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is based on market prices on exchanges or by prices obtained from financial institutions. Debt securities without available market prices are measured at present value by discounting future cash flows generated by the financial assets. Refer to "Securities" for matters regarding securities classified by the purpose for which they are held.

(4) Long-term loans receivable

The fair value of long-term loans receivable is measured at the present value of future cash flows classified by the length of term and by risk category, according to the Company's credit risk management, at a rate with credit spread added to appropriate indices such as JGB yields.

The fair value of borrowings with special concern is measured at the amounts deemed collectable because of the existence of collateral and/or guarantees.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term loans payable and (3) Accounts payable - other

The fair value of notes and accounts payable - trade, short-term loans payable and accounts payable - other approximate book value because they are mostly settled in a short period of time. As a result, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by a certain period at a rate that takes into account the time to maturity and credit risk.

(4) Bonds payable

The fair value of bonds payable issued by the Company is measured based on the market price.

(5) Long-term loans payable

The fair value of long-term loans payable is measured at the present value calculated by discounting the total amount of principle and interest at an interest rate for similar new borrowings.

Derivative transactions

Refer to Note 6, "Derivative financial instruments and hedging transactions."

Note 2.
Financial instruments whose fair values are deemed extremely difficult to assess

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Unlisted equity securities	**¥ 11,121**	¥ 10,333	**$ 104,678**

The financial instruments shown above are not included in the tables in "(3) Marketable and investment securities" because their market prices were not available and their fair values were deemed extremely difficult to assess.

Note 3.
Redemption schedules after the consolidated balance sheet date for monetary receivables and securities with maturity dates

	Millions of yen			
	2018			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	**¥ 47,414**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable - trade	**142,195**	**—**	**—**	**—**
Long-term loans receivable	**47**	**614**	**461**	**107**
Total	**¥ 189,656**	**¥ 614**	**¥ 461**	**¥ 107**

	Millions of yen			
	2017			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 41,018	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	125,482	—	—	—
Long-term loans receivable	51	597	456	197
Total	¥ 166,551	¥ 597	¥ 456	¥ 197

	Thousands of U.S. dollars (Note 1)			
	2018			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	**$ 446,291**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable - trade	**1,338,432**	**—**	**—**	**—**
Long-term loans receivable	**443**	**5,779**	**4,339**	**1,007**
Total	**$ 1,785,166**	**$ 5,779**	**$ 4,339**	**$ 1,007**

Note 4.
Maturity schedules after the consolidated balance sheet date for bonds and long-term debt

Refer to Note 11, "Short-term loans payable and long-term debt."

5. SECURITIES

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2018:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2018			**2018**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 19,004**	**¥ 55,029**	**¥ 36,025**	**$ 178,878**	**$ 517,969**	**$ 339,091**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 19,004	**¥ 55,029**	**¥ 36,025**	**$ 178,878**	**$ 517,969**	**$ 339,091**

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2018			**2018**		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 2,181**	**¥ 1,785**	**¥ (396)**	**$ 20,529**	**$ 16,802**	**$ (3,727)**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 2,181	**¥ 1,785**	**¥ (396)**	**$ 20,529**	**$ 16,802**	**$ (3,727)**

The following table summarizes sales of available-for-sale securities as of March 31, 2018:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2018			**2018**		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	**¥ 25**	**¥ 14**	**¥ —**	**$ 235**	**$ 132**	**$ —**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 25	**¥ 14**	**¥ —**	**$ 235**	**$ 132**	**$ —**

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2017:

Securities with book value exceeding acquisition cost:

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 18,513	¥ 50,941	¥ 32,428
Bonds	—	—	—
	¥ 18,513	¥ 50,941	¥ 32,428

Securities with book value not exceeding acquisition cost:

	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,090	¥ 1,792	¥ (298)
Bonds	—	—	—
	¥ 2,090	¥ 1,792	¥ (298)

The following table summarizes sales of available-for-sale securities as of March 31, 2017:

	Millions of yen		
	2017		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 1,717	¥ 1,602	¥ (3)
Bonds	—	—	—
	¥ 1,717	¥ 1,602	¥ (3)

6. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Foreign exchange forward contracts				
Sell contracts				
U.S. dollar	**¥ 1,383**	**¥ 6**	**$ 13,018**	**$ 56**
Euro	**137**	**6**	**1,290**	**56**
Buy contract				
U.S. dollar	**499**	**(1)**	**4,697**	**(9)**
Currency swap contracts				
Pay Euro and receive U.S. dollars	**2,178**	**0**	**20,501**	**0**
Pay Malaysia Ringgit and receive Japanese Yen	**1,113**	**(0)**	**10,476**	**(0)**
Pay Malaysia Ringgit and receive Singapore dollars	**545**	**(5)**	**5,130**	**(47)**

Derivative transactions to which hedge accounting was applied as of March 31, 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Currency swap contracts				
Pay U.S. dollars and receive Malaysia Ringgit	**¥ 2,550**	**¥ (281)**	**$ 24,002**	**$ (2,645)**
Pay Japanese Yen and receive Malaysia Ringgit	**4,754**	**(41)**	**44,748**	**(386)**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swap				
Pay floating and receive fixed	**¥ 500**	**(*)**	**$ 4,706**	**(*)**

Derivative transactions to which hedge accounting was not applied as of March 31, 2017 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign exchange forward contracts		
Sell contract		
U.S. dollar	¥ 1,343	¥ (0)
Currency swap contracts		
Pay Euro and receive U.S. dollars	2,277	(23)
Pay Malaysia Ringgit and receive Singapore dollars	508	(0)

	Millions of yen	
	Contract amount	Fair value
Interest rate swap		
Pay fixed and receive floating	¥ 2,244	¥ (1)

Derivative transactions to which hedge accounting was applied as of March 31, 2017 were as follows:

	Millions of yen	
	Contract amount	Fair value
Currency swap contract		
Pay U.S. dollars and receive Malaysia Ringgit	¥ 6,283	¥ 708

	Millions of yen	
	Contract amount	Fair value
Interest rate swap		
Pay floating and receive fixed	¥ 500	(*)

(*) Because interest rate swaps are processed with loans payable, the fair value is included in the fair value of the loans payable (Note 4).

7. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Merchandise and finished goods	**¥ 55,956**	¥ 52,493	**$ 526,694**
Work-in-process	**9,527**	10,149	**89,674**
Raw materials and supplies	**38,732**	34,107	**364,571**
	¥ 104,215	¥ 96,749	**$ 980,939**

8. RESTRUCTURING CHARGES

In 2018, the demand for high thermal conductive graphite sheets expanded drastically with the arrival of IoT and AI in social media applications. In addition, the structure of high thermal conductive graphite sheets had changed dramatically. Therefore, the production process for sticker of high thermal conductive graphite sheets was reviewed in light of the rising quality requirements, and we decided to restructure and dispose of old production facilities and inventories.

As a result, the Companies posted a restructuring charges with loss on valuation of inventories accounting for ¥996 million ($9,375 thousand).

After reviewing the future planning of River Co.,Ltd. by new productions and reforming the business operation structure to strengthen profitability in the digestive system and electrophysiology fields, the book value of goodwill and other assets was written down to the recoverable value, and the Companies posted an impairment loss of ¥671 million ($6,316 thousand).

9. IMPAIRMENT LOSS

The Companies recognized impairment loss in other expenses for the year ended March 31, 2016.

Location	Use	Type
SANVIC Inc. (Hamamatsu, Shizuoka)	Business assets (production facility for molding polyvinyl chloride)	Machinery, equipment and vehicles, etc.

The Companies group their assets mainly according to business units. For the business run mainly by subsidiaries, the Companies group assets according to subsidiary units.

Because profitability worsened, the book value of the production facilities for molding polyvinyl chloride of SANVIC Inc. was written down to its recoverable value, and the Companies posted an impairment loss of ¥1,536 million. Of this amount, machinery, equipment and vehicles accounted for ¥1,485 million.

The recoverable value of the above asset groups were estimated by net sales values based mainly on appraisal values determined by real property appraisers.

The Companies recognized impairment loss in other expenses for the year ended March 31, 2018.

Location	Use	Type
–	Other	Goodwill etc.

The Companies group their assets mainly according to Solution Vehicle. For businesses run mainly by subsidiaries, the Companies group assets according to subsidiary units.

After reviewing the future planning of River Co.,Ltd. through restructuring, the book value of goodwill and other assets was written down to its recoverable value, and the Companies posted an impairment loss of ¥671 million ($6,316 thousand). Of this amount, goodwill accounted for ¥635 million ($5,977 thousand).

The recoverable value of the above asset groups were estimated by net sales values based mainly on inheritance tax values by roadside land prices.

10. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 30.81% for the years ended March 31, 2018 and 2017 and approximately 33.02% for the year ended March 31, 2016.

The significant differences between the statutory and effective tax rate for the years ended March 31, 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Statutory tax rate	**30.81%**	30.81%	33.02%
Permanently non-deductible expense	**0.65%**	0.66%	0.65%
Permanently non-taxable income	**(6.26%)**	(7.42%)	(5.06%)
Elimination of dividends on consolidation	**6.00%**	6.92%	4.61%
Tax credits primarily for research and development expenses	**(7.85%)**	(12.35%)	(2.74%)
Change in valuation allowance	**4.19%**	2.42%	(0.34%)
Tax rate differences of foreign subsidiaries	**1.37%**	3.31%	0.65%
Amortization of goodwill	**0.52%**	0.56%	0.54%
Impairment loss of goodwill	**0.63%**	–%	–%
Gain on negative goodwill	**(0.95%)**	–%	–%
Gain on step acquisitions	**(1.42%)**	–%	–%
Adjustment of deferred tax assets (liabilities) by the changes of tax rate	**(2.22%)**	–%	1.33%
Other	**1.19%**	0.11%	(1.32%)
Effective tax rate	**26.66%**	25.02%	31.34%

Significant components of deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Deferred tax assets:	**2018**	2017	**2018**
Net defined benefit liability	**¥ 11,091**	¥ 11,247	**$ 104,396**
Tax loss carryforwards	**1,436**	3,061	**13,517**
Loss on valuation of investment securities	**860**	860	**8,095**
Excess bonuses accrued	**1,859**	1,799	**17,498**
Impairment loss on noncurrent assets	**3,173**	3,739	**29,866**
Unrealized gain	**1,595**	1,478	**15,013**
Tax credit carryforwards	**3,854**	2,976	**36,276**
Other	**3,205**	3,084	**30,168**
Subtotal	**27,073**	28,244	**254,829**
Valuation allowance	**(8,138)**	(6,834)	**(76,600)**
Total deferred tax assets	**18,935**	21,410	**178,229**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**10,387**	9,279	**97,769**
Depreciation of foreign subsidiaries	**2,528**	4,207	**23,795**
Other	**1,792**	1,541	**16,868**
Total deferred tax liabilities	**14,707**	15,027	**138,432**
Net deferred tax assets (liabilities)	**¥ 4,228**	¥ 6,383	**$ 39,797**

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates:
On March 29, 2016, amendments to the Japanese tax regulations were enacted in the Diet. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 were changed for the fiscal year ended March 31, 2016 from 32.22% to 30.81% and 30.58%, respectively, as of March 31, 2016. Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥271 million as of March 31, 2016 and accumulated adjustments for employee retirement benefits decreased by ¥255 million, Deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥407 million and evaluation differences of other securities increased by ¥391 million.

On December 22, 2017, amendments to U.S. tax regulations were enacted by the U.S. Congress. Based on the amendments, corporate statutory income tax rate in the U.S. was changed from 35% to 21%, and the lower rates were applied to the consolidated subsidiaries in the U.S. As a result, net deffered tax liabilities (after deducting deferred tax assets) decreased by ¥689 million ($6,485 thousand) as of March 31, 2018, and deferred income tax expence recognized for the fiscal year ended March 31, 2018 decreased by ¥689 million ($6,485 thousand).

11. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 1.44% and 1.20% at March 31, 2018 and 2017, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.00% to 0.25% in 2018 and 2017, maturing serially through 2024	**¥ 1,132**	¥ 1,427	**$ 10,655**
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 7.05% in 2018 and 2017, maturing serially through 2033	**54,014**	58,314	**508,415**
Bonds at interest rate of 1.67%, due September 13, 2019	**10,000**	10,000	**94,127**
	65,146	69,741	**613,197**
Less amounts due within one year	**9,298**	9,405	**87,519**
	¥ 55,848	¥ 60,336	**$ 525,678**

On March 31, 2018 and 2017, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥1,674 million ($15,757 thousand) were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Property, plant and equipment, net	**¥ 5,346**	¥ 5,978	**$ 50,320**
Investment securities	**2,333**	2,188	**21,960**
Intangible assets	**16**	16	**150**
	¥ 7,695	¥ 8,182	**$ 72,430**

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending March 31,	**2018**	**2018**
2019	**¥ 9,298**	**$ 87,519**
2020	**12,893**	**121,357**
2021	**14,980**	**141,002**
2022	**5,544**	**52,184**
2023	**4,718**	**44,409**
2024 and thereafter	**17,713**	**166,726**
	¥ 65,146	**$ 613,197**

	Millions of yen
Years ending March 31,	2017
2018	¥ 9,405
2019	9,558
2020	12,340
2021	7,430
2022	8,797
2023 and thereafter	22,211
	¥ 69,741

12. PROVISION FOR RETIREMENT BENEFITS

Defined benefit plans

(1) Movement in retirement benefit obligations, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Balance at beginning of year	**¥ 115,523**	¥ 113,742	**$ 1,087,378**
Service cost	**4,274**	3,841	**40,230**
Interest cost	**881**	812	**8,293**
Actuarial loss (gain)	**576**	1,015	**5,422**
Benefits paid	**(3,834)**	(3,842)	**(36,089)**
Other	**147**	(45)	**1,383**
Balance at the end of year	**¥ 117,567**	¥ 115,523	**$ 1,106,617**

(2) Movements in plan assets, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Balance at beginning of year	**¥ 81,343**	¥ 80,023	**$ 765,653**
Expected return on plan asset	**2,034**	2,001	**19,145**
Actuarial gain (loss)	**1,059**	304	**9,968**
Contributions paid by the employer	**1,692**	1,681	**15,926**
Benefits paid	**(2,612)**	(2,666)	**(24,585)**
Balance at the end of year	**¥ 83,516**	¥ 81,343	**$ 786,107**

(3) Movement in liability for retirement benefits of defined benefit plan applying the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Balance at beginning of year	**¥ 3,130**	¥ 2,949	**$ 29,462**
Retirement benefit cost	**432**	451	**4,066**
Benefits paid	**(251)**	(269)	**(2,363)**
Increase from newly consolidated subsidiaries	**71**	–	**668**
Other	**(108)**	(1)	**(1,016)**
Balance at the end of year	**¥ 3,274**	¥ 3,130	**$ 30,817**

(4) Reconciliation from retirement benefit obligations and plan assets to liability and asset for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Funded retirement benefit obligation	**¥ 91,416**	¥ 89,735	**$ 860,467**
Plan asset	**(83,518)**	(81,350)	**(786,126)**
	7,898	8,385	**74,341**
Unfunded retirement benefit obligations	**29,427**	28,925	**276,986**
Total net liability (asset) for retirement benefits	**37,325**	37,310	**351,327**
Liability for retirement benefits	**37,325**	37,310	**351,327**
Asset for retirement benefits	—	–	—
Total net liability (asset) for retirement benefits	**¥ 37,325**	¥ 37,310	**$ 351,327**

(5) Retirement benefit costs

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Service cost	**¥ 4,274**	¥ 3,841	¥ 2,974	**$ 40,230**
Interest cost	**881**	812	1,526	**8,293**
Expected return on plan assets	**(2,034)**	(2,001)	(1,331)	**(19,145)**
Net actuarial loss amortization	**2,644**	2,515	344	**24,887**
Retirement benefit expenses calculated by simplified method	**432**	451	300	**4,066**
	¥ 6,197	¥ 5,618	¥ 3,813	**$ 58,331**

(6) Remeasurements for retirement benefits

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
Actuarial gains and losses	**¥ 3,127**	¥ 1,804	¥ (17,467)	**$ 29,433**

(7) Accumulated remeasurements for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Actuarial gains and losses that are yet to be recognized	**¥ 10,847**	¥ 13,974	**$ 102,099**

(8) Plan assets

1. Plan assets comprise:

	2018	2017
Bonds	**52%**	52%
Equity securities	**25%**	25%
General account	**15%**	15%
Other	**8%**	8%
	100%	100%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions

	2018	2017	2016
Discount rate	**0.7% – 3.89%**	0.7% – 3.97%	0.7% – 3.83%
Long-term expected rate of return	**2.5%**	2.5%	1.68% – 2.5%

Defined contribution plans

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2018	2017	2016	**2018**
The amount of contributions to the defined contribution plan	**¥ 425**	¥ 607	¥ 601	**$ 4,000**

13. CONTINGENT LIABILITIES

On March 31, 2018 and 2017, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	**2018**
Notes endorsed	**¥ 10**	¥ 9	**$ 94**
Notes discounted	**30**	30	**282**
Guarantees	**313**	464	**2,946**
Letters of awareness	**204**	180	**1,920**
	¥ 557	¥ 683	**$ 5,242**

14. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

On May 11, 2018, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2018 on the shares of stock then outstanding at the rate of ¥9.0 ($0.08) per share or a total of ¥2,953 million ($27,796 thousand). The appropriations have not been accrued in the consolidated financial statements as of March 31, 2018. Such appropriations are recognized in the period in which they are approved by the Board of Directors.

15. STOCK OPTIONS

(1) The Company

The Company has implemented a stock option plan by which subscription rights to shares were granted to directors of the Company.

The following table summarizes the Company's stock option plan.

	Stock options granted on August 9, 2017	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Category and number of people granted stock options	Company directors, 9 Executive officers, 16	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 12	Company directors, 12	Company directors, 13	Company directors, 12	Company directors, 13	Company directors, 13
Number of stock options granted by category of stock	113,000 shares of common stock	74,000 shares of common stock	74,000 shares of common stock	75,000 shares of common stock	65,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	75,000 shares of common stock	57,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 10, 2017 through August 9, 2042 (*)	From August 10, 2016 through August 9, 2041 (*)	From August 12, 2015 through August 11, 2040 (*)	From August 12, 2014 through August 11, 2039 (*)	From August 10, 2013 through August 9, 2038 (*)	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)	From August 11, 2010 through August 10, 2035 (*)	From August 12, 2009 through August 11, 2034 (*)	From August 12, 2008 through August 11, 2033 (*)	From September 11, 2007 through September 10, 2032 (*)

(*) If a holder of subscription rights to shares loses his/her position as a Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on August 9, 2017	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Unvested stock options											
Beginning of term	—	—	—	—	—	—	—	—	—	—	—
Granted	113,000	—	—	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—	—
Vested	113,000	—	—	—	—	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—	—	—	—	—
Vested stock options											
Beginning of term	—	74,000	67,000	63,000	39,000	30,000	27,000	21,000	15,000	16,000	3,000
Vested	113,000	—	—	—	—	—	—	—	—	—	—
Exercised	—	16,000	16,000	16,000	13,000	9,000	9,000	8,000	4,000	4,000	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—	—
Unexercised balance	113,000	58,000	51,000	47,000	26,000	21,000	18,000	13,000	11,000	12,000	3,000
Exercise price (yen)	1	1	1	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	861	861	861	861	861	861	861	861	861	—
Fair value per stock at the date granted (yen)	776	721	947	502	558	363	412	456	622	600	883
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	8.10	8.10	8.10	8.10	8.10	8.10	8.10	8.10	8.10	—
Fair value per stock at the date granted (USD)	7.30	6.79	8.91	4.73	5.25	3.42	3.88	4.29	5.85	5.65	8.31

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥88 million ($828 thousand), ¥53 million and ¥70 million for the years ended March 31, 2018, 2017 and 2016, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on August 9, 2017	Stock options granted on August 9, 2016
Expected volatility	29.84%	30.74%
Expected holding period	4 years	4 years
Expected dividend	18 yen	18 yen
Risk free interest rate	(0.069)%	(0.161)%

(2) Cemedine Co., Ltd.

Cemedine Co., Ltd. has implemented a stock option plan by which subscription rights to shares were granted to directors of the company.

The following table summarizes the company's stock option plan.

	Stock options granted on July 10, 2017	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Category and number of people granted stock options	Company directors, 4	Company directors, 5	Company directors, 4	Company directors, 6	Company directors, 7	Company directors, 8	Company directors, 8	Company directors, 8	Company directors, 7	Company directors, 7
Number of stock options granted by category of stock	15,000 shares of common stock	32,000 shares of common stock	26,000 shares of common stock	38,000 shares of common stock	53,000 shares of common stock	58,000 shares of common stock	64,000 shares of common stock	67,000 shares of common stock	58,000 shares of common stock	58,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.
Exercise period	From July 11, 2017 through July 10, 2037 (*)	From July 8, 2016 through July 7, 2036 (*)	From July 10, 2015 through July 9, 2035 (*)	From July 11, 2014 through July 10, 2034 (*)	From July 10, 2013 through July 9, 2033 (*)	From July 13, 2012 through July 12, 2032 (*)	From July 15, 2011 through July 14, 2031 (*)	From July 27, 2010 through July 26, 2030 (*)	From August 12, 2009 through August 11, 2029 (*)	From October 21, 2008 through October 20, 2028 (*)

(*) If a holder of subscription rights to shares loses his/her position as a Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on July 10, 2017	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Unvested stock options										
Beginning of term	—	32,000	26,000	22,000	14,000	12,000	7,000	8,000	8,000	8,000
Granted	15,000	—	—	—	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—
Vested	—	10,000	8,000	10,000	—	—	—	—	—	—
Unvested balance	15,000	22,000	18,000	12,000	14,000	12,000	7,000	8,000	8,000	8,000
Vested stock options										
Beginning of term	—	—	—	—	—	—	—	—	—	—
Vested	—	10,000	8,000	10,000	—	—	—	—	—	—
Exercised	—	10,000	8,000	10,000	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—	—	—	—
Unexercised balance	—	—	—	—	—	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	701	701	701	—	—	—	—	—	—
Fair value per stock at the date granted (yen)	664	441	415	388	388	352	342	293	273	163
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	6.60	6.60	6.60	—	—	—	—	—	—
Fair value per stock at the date granted (USD)	6.25	4.15	3.91	3.65	3.65	3.31	3.22	2.76	2.57	1.53

Expenses relating to stock options were included in selling, general and administrative expenses and amounted to ¥10 million ($94 thousand), ¥13 million and 2 million for the years ended March 31, 2018, 2017 and 2016, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on July 10, 2017	Stock options granted on July 7, 2016
Expected volatility	27.65%	22.22%
Expected holding period	5 years amd 2 months	6 years amd 2 months
Expected dividend	10 yen	10 yen
Risk free interest rate	(0.040)%	(0.380)%

16. BUSINESS COMBINATION DUE TO ACQUISITION

(Business Combination due to Acquisition in 2016)

At a meeting held on December 8, 2015, the Company's Board of Directors resolved to consolidate equity method affiliate CEMEDINE CO., LTD. as a subsidiary by conducting a tender offer to acquire the affiliate's common shares in accordance with the Financial Instruments and Exchange Act of Japan. The tender offer, which began on the day following the resolution on December 9, was completed on January 13, 2016. The following is an overview.

1. Summary of Business Combination

(1) Name of acquired company and its business

Name of acquired company
CEMEDINE CO., LTD.
Business
Manufacture and sale of adhesives, sealer, special paints, adhesive tapes

(2) Reasons for executing business combination

Since first accepting a third-party allotment of shares for recapitalizing CEMEDINE CO., LTD. in April 1990, Kaneka had strengthened its capital relationship with the affiliate in stages, cooperating in a mutual effort to expand business. However, Kaneka's Board reached a unanimous agreement that making CEMEDINE into a consolidated subsidiary would be an extremely effective means of raising the Kaneka Group's corporate value by promoting the mutual provision and effective use of management resources in areas encompassing the assets, technologies, expertise and overseas networks of the two companies. As a result, the two companies each held a Board of Directors meeting on December 8, 2015, and resolved to conduct a tender offer for Kaneka to consolidate CEMEDINE as a subsidiary.

(3) Date of business combination

January 20, 2016

(4) Legal form of business combination

Share acquisition in exchange for cash

(5) Name of company after combination

There was no change in the company name.

(6) Share of voting rights acquired

Share of voting rights held immediately before the date of business combination 29.61%
Share of voting rights additionally acquired on the date of business combination 21.39%
Share of voting rights held after acquisition 51.00%

(Note) Kaneka's ratio of voting rights in CEMEDINE CO., LTD. was calculated based on a denominator of 150,129 individual voting rights attached to 15,012,901 shares of outstanding CEMEDINE stock adjusted for dilution. This figure was calculated by adjusting the 15,167,000 nominal shares of outstanding stock as of September 30, 2015, recorded in CEMEDINE's "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015," by adding 105,000 shares of unissued stock underlying 105 stock acquisition rights that had remained unexercised as of September 30, 2015 and subtracting a balance of 259,099 shares of treasury stock that CEMEDINE had recorded as of September 30, 2015. CEMEDINE had recorded the issuance of 26 new stock issuance rights in its "Quarterly Financial Results for the Second Quarter, Ended September 30, 2015" and had reported a balance of 176 outstanding stock acquisition rights as of March 31, 2015 in the securities report it filed on June 19, 2015 for the year ended March 31, 2015. From this total of 202 stock acquisition rights, the exercise of 97 stock acquisition rights as of January 14, 2016 was subtracted to arrive at the net figure of 105 outstanding stock acquisition rights.

(7) Rationale behind determining the company to be acquired

The Company acquired a majority of the voting rights and clearly has control over the decision making body of the acquiree.

2. Period of results of the acquired company included in the consolidated financial statements

The acquired company's financial results from January 1, 2016 to March 31, 2016 are included in the consolidated statement of income for the year ended March 31, 2016 as the acquisition date is regarded as January 1, 2016.

3. Additional acquisition of shares in acquired company

Acquisition cost and consideration paid

		Millions of yen
Consideration paid for the acquisition		
Fair value of common stock of CEMEDINE held before the business combination	¥	2,560
Fair value of additional common stock acquired as of the business combination		1,850
Acquisition cost	¥	4,410

4. Main acquisition related costs

Advisory fees : ¥101 million

5. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions until the business combination

Gain on step acquisition : ¥230 million

6. Amount of gain on negative goodwill recognized and reason for recognition

(1) Amount of gain on negative goodwill recognized

¥1,313 million

(2) Reason for recognition

The acquisition cost was less than the net asset value at the date of business combination.

7. Value of assets and liabilities assumed as of business combination

	Millions of yen
Current assets	¥ 14,052
Non-current assets	8,159
Total assets	¥ 22,211
Current liabilities	¥ 8,770
Non-current liabilities	1,836
Total liabilities	¥ 10,606

8. Estimated effect on consolidated statement of operations assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and methods for calculation

	Millions of yen
Net sales	¥ 17,371
Operating income	903
Income before income taxes and non-controlling interests	634
Net income attributable to owners of parent	30

	Yen
Net income per share	¥ 0.09

(Methods for calculating estimated amounts)

The difference between net sales and profit and loss accounts calculated assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2016 and the corresponding figures in the accompanying consolidated statement of operations were used.

The amounts shown above have not been audited.

(Additional acquisition of subsidiary's shares)

1. Summary of business combination

(1) Name of acquired company and its business

Name of acquired company

Eurogentec S.A.

Business

Sales and manufacture of biopharmaceuticals, diagnostic and biotech products

(2) Date of business combination

August 19, 2016

(3) Legal form of business combination

Acquisition of shares from non-controlling interests

(4) Name of company after combination

There was no change in the company name.

(5) Other matters regarding summary

The company group acquired 30% of the voting rights and made the target company a wholly-owned subsidiary.

Through the business combination, the Company expects to strengthen management structure and expedite decision making.

2. Summary of accounting treatment applied

Pursuant to the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the business combination under common control was treated as a transaction with non-controlling interests.

3. Additional acquisition of shares in subsidiary

Acquisition cost and consideration paid

Consideration paid for acquisition: Cash and cash equivalents in the amount of ¥2,603 million

4. Changes in the portion held by the Company in connection with the transactions with non-controlling interests

(1) Main reasons for changes in capital surplus

Additional acquisition of subsidiary's shares

(2) Decreases in capital surplus due to transactions with non-controlling interests

¥2,181 million

(Business Combination due to Acquisition in 2018)

1. Summary of Business Combination

(1) Name of acquired company and its business

Name of acquired company
Tobu Chemical Co., Ltd.
Business
Manufacture and sale of PVC special resin

(2) Reasons for executing business combination

Promotion of downstream deployment of business in Material Solutions Unit.

(3) Date of business combination

January 19, 2018

(4) Legal form of business combination

Share acquisition in exchange for cash

(5) Name of company after combination

There was no change in the company name.

(6) Share of voting rights acquired

Share of voting rights held immediately before the date of business combination 26.26%
Share of voting rights additionally acquired on the date of business combination 26.50%
Share of voting rights held after acquisition 52.76%

(7) Rationale behind determining the company to be acquired

The Company acquired a majority of the voting rights and clearly has control over the decision making body of the acquiree.

2. Period of results of the acquired company included in the consolidated financial statements

The acquired company's financial results from January 1, 2018 to March 31, 2018 are included in the consolidated statement of income for the year ended March 31, 2018 as the acquisition date is regarded as January 1, 2018.

3. Additional acquisition of shares in acquired company

Acquisition cost and consideration paid

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration paid for the acquisition		
Fair value of common stock of Tobu Chemical held before the business combination	¥ 915	$ 8,613
Fair value of additional common stock acquired as of the business combination	924	8,697
Acquisition cost	¥ 1,839	$ 17,310

4. Main acquisition related costs

Advisory fees : ¥6 million ($56 thousand)

5. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions until the business combination

Gain on step acquisitions : ¥1,430 million ($13,460 thousand)

6. Amount of gain on negative goodwill recognized and reason for recognition

(1) Amount of gain on negative goodwill recognized

¥954 million ($8,980 thousand)

(2) Reason for recognition

The acquisition cost was less than the net asset value at the date of business combination.

7. Value of assets and liabilities assumed as of business combination

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	¥ 5,709	$ 53,737
Non-current assets	2,531	23,823
Total assets	¥ 8,240	$ 77,560
Current liabilities	¥ 2,857	$ 26,892
Non-current liabilities	90	847
Total liabilities	¥ 2,947	$ 27,739

8. Estimated effect on consolidated statement of operations assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2018 and methods for calculation

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net sales	¥ 4,442	$ 41,811
Operating income	364	3,426
Income before income taxes and non-controlling interests	218	$ 2,052
Net income attributable to owners of parent	9	$ 85
	Yen	U.S. dollars
Net income per share	¥ 0.03	$ 0.00

(Methods for calculating estimated amounts)
The difference between net sales and profit and loss accounts calculated assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2018 and the corresponding figures in the accompanying consolidated statement of operations were used.

The amounts shown above have not been audited.

17. SEGMENT INFORMATION

(Segment Information)

1. Overview of Reporting Segments

Kaneka's reporting segments aim to gather financial information from the Company's separate business units to facilitate decisions by the Board of Directors on the allocation of management resources and allow for the Board's regular review of business performance.

The Company has established the "Solutions Vehicle" as organizations for executing its growth strategies from a solutions perspective. There are nine Solutions Vehicles grouped into four solution domains called "Solutions Unit." Each Solutions Unit has established a global Group strategy for its products and services, bringing together subsidiaries in Japan and overseas to develop its business activities.

The Company, therefore has four reporting segments categorized by Solution Unit: the "Material Solutions Unit," "Quality of Life Solutions Unit," "Health Care Solutions Unit" and "Nutrition Solutions Unit."

The Material Solutions Unit contributes to environmental protection and comfortable living by providing solutions in the form of high-performance materials to support the development of social infrastructure and mobility (i.e. weight reduction and improved fuel economy), and cutting-edge materials such as biopolymers that assist directly with the realization of environmental societies. The Quality of Life Solutions Unit contributes to energy conservation and the creation of high quality lifestyles by providing solutions in the form of high performance materials and unique services that respond to the need for energy conservation and adoption of smart technologies in housing and daily infrastructure. The unit is also responding to innovation in information driven societies, such as the advance of the IoT and AI. The Health Care Solutions Unit contributes to a society with greater longevity and more sophisticated medical care by providing valuable solutions that combine devices and pharmaceuticals in fields such as medicine, health and nursing care. The unit is also developing a unique healthcare business based on advanced medical technologies such as biopharmaceuticals and regenerative and cellular medicine. The Nutrition Solutions Unit contributes to health and high-quality food by providing a wide range of solutions in the form of distinctive materials and supplements that meet needs in food diversification and health promotion. The unit also provides solutions that contribute to food production support in the fields of agriculture, livestock and fishery.

(Concerning Changes in Reporting Segments)

In the Kaneka Group's mid-term management vision newly started in fiscal 2017, we radically reformed our management system in order to accelerate contribution to the development of society through creating new value by technological innovation, including "IoT" and "AI," and solving various problems facing society: issues of global environmental protection, population growth, food supply and improving public health in an ageing society.

Our business divisions have been renamed "Solutions Vehicle" that aim to become organizations implementing growth strategy from the perspective of achieving solutions. In addition, we reorganized our business structure so as to make these nine "Solutions Vehicle" be consistent with four new business domains known as "Solutions Unit."

As a result of this reform, the conventional reporting segments of Chemicals, Functional Plastics, Expandable Plastics and Products, Foodstuffs Products, Life Science Products, Electronic Products, and Synthetic Fibers and Others has been reclassified into the new reporting segments which reflect the new business domains from the fiscal year ended March 31, 2018.

Segment information for the fiscal year ended March 31, 2017 has also been presented based on the segment classification after the change.

The Solutions Vehicles and main products that belong to each reporting segment are as follows:

Solutions Unit (Reporting Segments)	Solutions Vehicle	Main products
Material Solutions Unit	Vinyls and Chlor-Alkali	General PVC resins, Caustic soda, Specialty PVC resins
	Performance Polymers	Modifiers, Modified silicone polymers, Biopolymers
Quality of Life Solutions Unit	Foam & Residential Techs	Expandable polystyrene resins and products, Extruded polystyrene foam boards, Bead-method polyolefin foam, Solar circuit construction method (external insulation and double ventilation construction) products
	E & I Technology	Ultra-heat-resistant polyimide films, Optical materials, High thermal conductive graphite sheets
	PV & Energy management	Photovoltaic modules, Energy storage batteries for residences
	Performance Fibers	Acrylic synthetic fibers
Health Care Solutions Unit	Medical Devices	Medical devices
	Pharma & Supplemental Nutrition (Pharma)	Low-molecular pharmaceutical materials, API, Biopharmaceuticals
Nutrition Solutions Unit	Pharma & Supplemental Nutrition (Supplemental Nutrition)	Functional foodstuffs
	Foods & Agris	Margarine, Shortening, Bakery yeast, Spices, Antifreeze proteins, Functional fertilizers, Feeds

2. Basis of Calculation of Monetary Amounts for Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reporting Segment

Accounting treatment and procedures for reporting segments are the same as those shown in the "Notes to Consolidated Financial Statements."

3. Segment Information by Business Category

Millions of yen

2018	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	¥ **238,881**	¥ **149,360**	¥ **45,857**	¥ **160,930**	¥ **595,028**	¥ **1,115**	¥ **596,143**	¥ **—**	¥ **596,143**
Intersegment	**1,267**	**28**	**0**	**30**	**1,325**	**1,210**	**2,535**	**(2,535)**	**—**
Total	**240,148**	**149,388**	**45,857**	**160,960**	**596,353**	**2,325**	**598,678**	**(2,535)**	**596,143**
Segment profit (loss)	**27,109**	**13,731**	**9,850**	**6,532**	**57,222**	**520**	**57,742**	**(20,853)**	**36,889**
Segment assets	**230,669**	**158,740**	**57,973**	**109,017**	**556,399**	**829**	**557,228**	**83,782**	**641,010**
Other Items									
Depreciation	**10,157**	**10,459**	**2,376**	**3,751**	**26,743**	**18**	**26,761**	**3,360**	**30,121**
Amortization of goodwill	**35**	**—**	**448**	**—**	**483**	**—**	**483**	**46**	**529**
Investment in equity method affiliates	**70**	**2,085**	**—**	**1,436**	**3,591**	**—**	**3,591**	**—**	**3,591**
Increase in assets	**13,203**	**10,440**	**4,321**	**3,616**	**31,580**	**74**	**31,654**	**9,263**	**40,917**

Notes 1:"Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

Millions of yen

2017	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	¥ 207,297	¥ 136,849	¥ 45,141	¥ 157,990	¥ 547,277	¥ 945	¥ 548,222	¥ —	¥ 548,222
Intersegment	1,357	11	—	39	1,407	1,374	2,781	(2,781)	—
Total	208,654	136,860	45,141	158,029	548,684	2,319	551,003	(2,781)	548,222
Segment profit (loss)	22,251	15,041	10,897	5,281	53,470	382	53,852	(20,687)	33,165
Segment assets	205,506	153,811	52,708	101,362	513,387	1,293	514,680	78,220	592,900
Other Items									
Depreciation	9,030	9,938	2,094	3,700	24,762	60	24,822	2,820	27,642
Amortization of goodwill	32	56	431	—	519	—	519	—	519
Investment in equity method affiliates	68	1,953	—	—	2,021	—	2,021	—	2,021
Increase in assets	14,428	9,607	3,174	2,702	29,911	113	30,024	7,956	37,980

Notes 1:"Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

Millions of yen

2016	Reporting Segment: Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
Sales										
Customers	¥ 103,430	¥ 98,386	¥ 65,148	¥ 144,960	¥ 58,922	¥ 39,123	¥ 45,258	¥ 555,227	¥ —	¥ 555,227
Intersegment	940	759	61	9	26	261	1,251	3,307	(3,307)	—
Total	104,370	99,145	65,209	144,969	58,948	39,384	46,509	558,534	(3,307)	555,227
Segment profit (loss)	5,568	15,117	6,310	3,749	11,724	20	15,658	58,146	(19,926)	38,220
Segment assets	102,106	94,575	52,444	82,362	66,625	68,514	31,713	498,339	78,912	577,251
Other Items										
Depreciation	5,310	3,364	2,339	2,512	3,150	4,456	2,421	23,552	2,687	26,239
Amortization of goodwill	—	36	—	—	468	—	—	504	—	504
Investment in equity method affiliates	—	76	1,843	—	—	—	—	1,919	—	1,919
Increase in assets	4,855	15,760	4,469	3,178	3,085	4,710	9,097	45,154	2,177	47,331

Note: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

2018	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
									Thousands of U.S. dollars (Note 1)
Sales									
Customers	$ 2,248,504	$ 1,405,873	$ 431,636	$ 1,514,778	$ 5,600,791	$ 10,495	$ 5,611,286	$ —	$ 5,611,286
Intersegment	11,926	264	0	282	12,472	11,389	23,861	(23,861)	—
Total	2,260,430	1,406,137	431,636	1,515,060	5,613,263	21,884	5,635,147	(23,861)	5,611,286
Segment profit (loss)	255,168	129,245	92,715	61,483	538,611	4,895	543,505	(196,282)	347,223
Segment assets	2,171,207	1,494,164	545,680	1,026,139	5,237,189	7,803	5,244,992	788,611	6,033,603
Other Items									
Depreciation	95,605	98,447	22,364	35,307	251,723	169	251,892	31,626	283,518
Amortization of goodwill	329	—	4,217	—	4,546	—	4,546	433	4,979
Investment in equity method affiliates	659	19,625	—	13,517	33,801	—	33,801	—	33,801
Increase in assets	124,276	98,268	40,672	34,036	297,252	696	297,948	87,189	385,137

Notes 1:“Others” is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

4. Reconciliation Between Segment Total and Consolidated Statements of Income (Adjustments)

	Millions of yen 2018	2017	2016	Thousands of U.S. dollars (Note 1) 2018
Income				
Segment total	¥ 57,222	¥ 53,470	¥ 58,146	$ 538,611
Income classified under "others"	520	382	—	4,895
Elimination of intersegment transactions	(8)	(6)	12	(75)
Companywide expenses (Note)	(20,909)	(20,695)	(19,932)	(196,809)
Other adjustments	64	14	(6)	601
Operating income in the consolidated statements of income	¥ 36,889	¥ 33,165	¥ 38,220	$ 347,223

Note: Companywide expenses are primarily expenses for basic R&D that are not allocable to any reporting segments.

	Millions of yen 2018	2017	2016	Thousands of U.S. dollars (Note 1) 2018
Assets				
Segment total	¥ 556,399	¥ 513,387	¥ 498,339	$ 5,237,189
Assets classified under "others"	829	1,293	—	7,803
Elimination of intersegment transactions	(13,530)	(13,575)	(12,993)	(127,353)
Companywide assets (Note)	96,745	91,212	91,484	910,627
Other adjustments	567	583	421	5,337
Total assets in the consolidated statements of income	¥ 641,010	¥ 592,900	¥ 577,251	$ 6,033,603

Note: Companywide assets are working capital, investment securities and land that are not allocable to any reporting segments.

Millions of yen

	Segment total 2018	Segment total 2017	Segment total 2016	Others 2018	Others 2017	Others 2016	Adjustments 2018	Adjustments 2017	Adjustments 2016	Consolidated 2018	Consolidated 2017	Consolidated 2016
Other Items												
Depreciation	¥ 26,743	¥ 24,762	¥ 23,552	¥ 18	¥ 60	¥ —	¥ 3,360	¥ 2,820	¥ 2,687	¥ 30,121	¥ 27,642	¥ 26,239
Increase in assets	31,580	29,911	45,154	74	113	—	9,263	7,956	2,177	40,917	37,980	47,331

Note: “Others” is primarily expenses for basic R&D that are not allocable to any reporting segments.

Thousands of U.S. dollars (Note 1)

	Segment total 2018	Others 2018	Adjustments 2018	Consolidated 2018
Other Items				
Depreciation	$ 251,723	$ 169	$ 31,626	$ 283,518
Increase in assets	297,252	696	87,189	385,137

Note: “Others” is primarily expenses for basic R&D that are not allocable to any reporting segments.

(Related Information)

Related information at March 31, 2018, 2017 and 2016 consisted of the following.

1. Information by Product and Service

No information is reported because product and service classifications are the same as the reporting segment classifications.

2. Geographic Area

(1) Sales

2018		Japan		Asia		North America		Europe		Other areas		Total
Millions of yen												
	¥	**359,740**	**¥**	**109,962**	**¥**	**44,725**	**¥**	**58,813**	**¥**	**22,903**	**¥**	**596,143**

2017		Japan		Asia		North America		Europe		Other areas		Total
Millions of yen												
	¥	344,891	¥	86,188	¥	42,702	¥	51,068	¥	23,373	¥	548,222

2016		Japan		Asia		North America		Europe		Other areas		Total
Millions of yen												
	¥	337,814	¥	91,012	¥	43,628	¥	55,667	¥	27,106	¥	555,227

2018		Japan		Asia		North America		Europe		Other areas		Total
Thousands of U.S. dollars (Note 1)												
	$	**3,386,107**	**$**	**1,035,034**	**$**	**420,981**	**$**	**553,586**	**$**	**215,578**	**$**	**5,611,286**

Note: Sales are classified into countries or regions based on the geographic location of customers.

(2) Property, plant and equipment

2018		Japan		Malaysia		Asia-Other		North America		Europe		Total
Millions of yen												
	¥	**166,859**	**¥**	**29,921**	**¥**	**8,431**	**¥**	**18,126**	**¥**	**14,138**	**¥**	**237,475**

2017		Japan		Malaysia		Asia-Other		North America		Europe		Total
Millions of yen												
	¥	161,254	¥	28,418	¥	7,012	¥	20,338	¥	8,522	¥	225,544

2018		Japan		Malaysia		Asia-Other		North America		Europe		Total
Thousands of U.S. dollars (Note 1)												
	$	**1,570,585**	**$**	**281,636**	**$**	**79,358**	**$**	**170,614**	**$**	**133,076**	**$**	**2,235,269**

3. Information on Major Customers

No information is reported because no sales to any external customer represented more than 10% of net sales on the consolidated statements of income.

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2018, 2017 and 2016 consisted of the following.

Millions of yen

	Segment Information															
2018		Material Solutions Unit		Quality of Life Solutions Unit		Health Care Solutions Unit		Nutrition Solutions Unit		Total		Others		Adjustments		Consolidated
(Impairment loss)	**¥**	**—**	**¥**	**114**	**¥**	**671**	**¥**	**—**	**¥**	**785**	**¥**	**—**	**¥**	**—**	**¥**	**785**

Millions of yen

	Segment Information															
2017		Material Solutions Unit		Quality of Life Solutions Unit		Health Care Solutions Unit		Nutrition Solutions Unit		Total		Others		Adjustments		Consolidated
(Impairment loss)	¥	—	¥	—	¥	—	¥	—	¥	—	¥	—	¥	—	¥	—

									Millions of yen
	Segment Information								
2016	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Adjustments	Consolidated
(Impairment loss)	¥ 1,536	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ 1,536	¥ —	¥ 1,536

								Thousands of U.S. dollars (Note 1)
	Segment Information							
2018	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Impairment loss)	**$ —**	**$ 1,073**	**$ 6,316**	**$ —**	**$ 7,389**	**$ —**	**$ —**	**$ 7,389**

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2018 and 2017 consisted of the following.

								Millions of yen
	Segment Information							
2018	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	**¥ 35**	**¥ —**	**¥ 448**	**¥ —**	**¥ 483**	**¥ —**	**¥ 46**	**¥ 529**
Balance	**118**	**—**	**2,412**	**—**	**2,530**	**—**	**947**	**3,477**

Note: "Adjustments" includes amortization expense mainly related to basic research and development activities that is not attributed to any specific reporting segment.

								Millions of yen
	Segment Information							
2017	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	¥ 32	¥ 56	¥ 431	¥ —	¥ 519	¥ —	¥ —	¥ 519
Balance	141	—	3,182	—	3,323	—	—	3,323

								Thousands of U.S. dollars (Note 1)
	Segment Information							
2018	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	**$ 329**	**$ —**	**$ 4,217**	**$ —**	**$ 4,546**	**$ —**	**$ 433**	**$ 4,979**
Balance	**1,111**	**—**	**22,703**	**—**	**23,814**	**—**	**8,914**	**32,728**

Note: "Adjustments" includes amortization expense mainly related to basic research and development activities that is not attributed to any specific reporting segment.

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Functional Plastics segment that is a reporting segment before the change in reporting segments excuted in the fisical year ended March 31, 2018, the Company recorded gain on negative goodwill of ¥1,313 million in conjunction with the acquisition of additional shares of an equity method affiliate and its conversion into a consolidated subsidiary on March 31, 2016.

In the Material Solutions Unit, the Company recorded gain on negative goodwill of ¥954 million ($8,980 thousand) in conjunction with the acquisition of additional shares of an affiliate and its conversion into a consolidated subsidiary on March 31, 2018.

18. SUBSEQUENT EVENTS

(Change of the number of shares in a unit, consolidation of shares, and partial amendment to the Articles of Incorporation)

(1) Change of the number of shares in a unit

i. Purpose of change of the number of shares in a unit
As announced in the "Action Plan for Consolidation of Trading Units," the Japanese stock exchanges nationwide aim to consolidate the trading units for common shares of all domestically listed companies into 100 shares. The Company, which is a listed company, respects the intent of the action plan, and will change the number of common shares in a unit from 1,000 shares to 100 shares in accordance with this decision.

ii. Details of change of the number of shares in a unit
The number of common shares in a unit shall be changed from 1,000 shares to 100 shares.

iii. Effective date of change of the number of shares in a unit
October 1, 2018

(2) Consolidation of shares

i. Purpose of the consolidation of shares
The Company will consolidate shares in order to adjust the trading unit to the appropriate level considering a mid-to long-term price volatility of shares along with the change of the number of shares in a unit from 1,000 shares to 100 shares as described in "(1) Change of the number of shares in a unit."

ii. Details of consolidation of shares

a) Type of shares to be consolidated: Common shares

b) Consolidation method and ratio:
As of October 1, 2018, 5 shares shall be consolidated into 1 share based on the ownership of shares according to the list of shareholders as of September 30, 2018.

c) Number of shares to be decreased

Number of shares issued before the consolidation	350,000,000 shares
Number of shares to be decreased by the consolidation	280,000,000 shares
Number of shares issued after the consolidation	70,000,000 shares

e) Number of ownership to be decreased

	Number of ownerships	Number of shares
Total ownerships	15,015 (100.0%)	350,000,000 shares (100.0%)
Ownerships, below 5 shares	448 (3.0%)	825 shares (0.0%)
Ownerships, more than 5 shares	14,567 (97.0%)	349,999,175 shares (100.0%)

f) Measures to be taken for any fraction of less than one share
When any fraction of less than one share is caused by the consolidation of shares, the payment shall be made to the shareholders who hold the fractional shares in proportion their ratios based on the Companies Act.

e) Total number of authorized shares as of effective date
150,000,000shares

(3) Partial amendment to the Articles of Incorporation

i. Purpose of amendments
According to "(1) Change of the number of shares in a unit" and " (2) Consolidation of shares," the Company will partially amend to the Articles of Incorporation.

ii. Details of partial amendment to the Articles of Incorporation

Current Articles of Incorporation	Proposed Amendments
(Total number of authorized shares)	(Total number of authorized shares)
Article 5: Total number of authorized shares shall be 750,000,000 shares.	Article 5: Total number of authorized shares shall be 150,000,000 shares.
(Number of shares in a unit)	(Number of shares in a unit)
Article 6: The number of shares in a unit shall be 1,000 shares.	Article 6: The number of shares in a unit shall be 100 shares.

iii. Effective date of the amendments
October 1, 2018

(4) Schedule for change of the number of shares in a unit and the consolidation of shares, and partial amendment to the Articles of Incorporation

Resolutions to be made by the Board of Directors	May 11, 2018
Approval by the Ordinally General Meeting of Shareholders	June 28, 2018
Effective date for change of the number of shares in a unit, consolidation of shares, and partial amendment of the Articles of Incorporation	October 1, 2018

(5) Impact of the per share information

Per share information, assuming consolidation of shares implemented at the beginning of the previous year.

	Previous year	Current year
Shareholders equity per share	¥ 4,621.15	¥ 4,976.67
Net income per share - basic	308.60	328.46
Net income per share -diluted	308.26	328.05

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kaneka Corporation:

We have audited the accompanying consolidated financial statements of Kaneka Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2018 , and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Kaneka Corporation and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for each of the three years in the period ended March 31, 2018, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

August, 9, 2018
Osaka, Japan

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