

Quarterly Financial Summary

2nd Quarter, Ended September 30, 2018

November 8, 2018
Kaneka Corporation

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

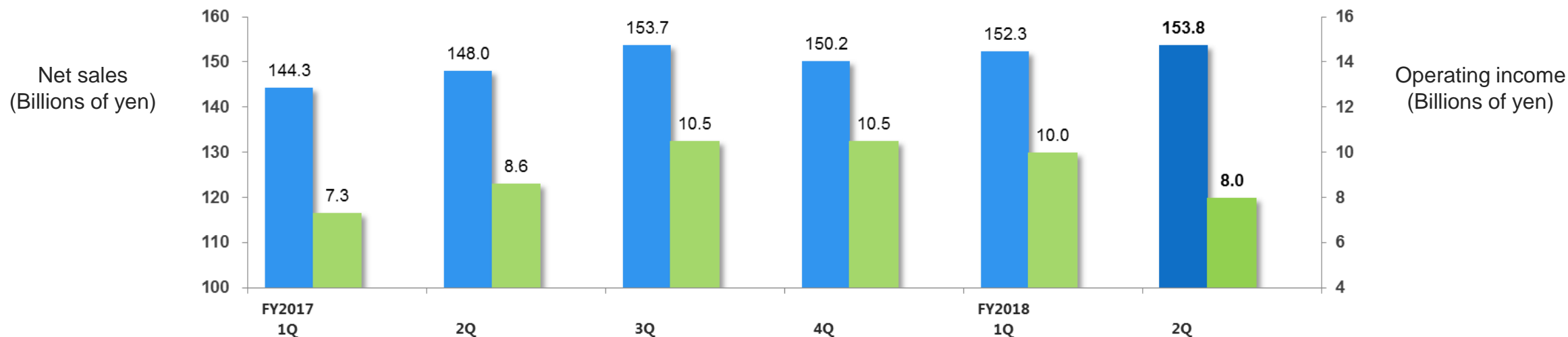
(Billions of yen)

	FY2017 2Q (Apr.-Sep.)	FY2018 2Q (Apr.-Sep.)	Difference	
			Amount	%
Net sales	292.3	306.1	13.8	4.7%
Operating income	15.9	18.0	2.1	13.5%
Ordinary income	14.5	15.9	1.5	10.0%
Net income attributable to owners of parent	9.6	10.7	1.1	11.1%
Net income per share	¥146.07	¥163.00		

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

- Net sales reached a new record high for the first half.
- Operating income, ordinary income, and net income attributable to owners of parent each recorded double-digit increases.
- Priority-focused businesses, where the Company bolstered production capacity, expanded globally and drove growth.

Net Sales, Operating Income by Quarter



(Billions of yen)	FY2017				FY2018	
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q
Net sales	144.3	148.0	153.7	150.2	152.3	153.8
Operating income	7.3	8.6	10.5	10.5	10.0	8.0

- 2Q net sales exceeded ¥150 billion for four consecutive quarters.
- Operating income was temporarily impacted by damage caused by earthquakes, typhoons and other natural disasters, but the businesses which the Company prioritized and focused on strengthening, performed steadily.

Net Sales, Operating Income by Segments

(Millions of yen)

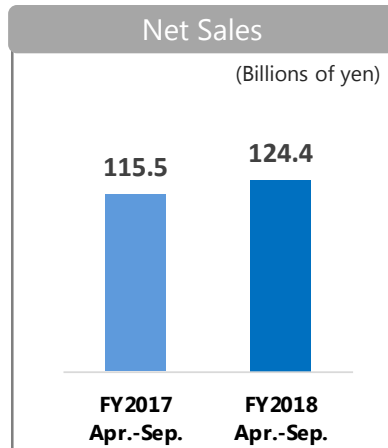
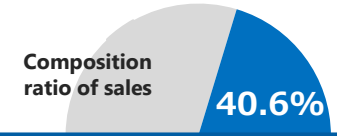
	Net sales				Operating income			
	FY2017 2Q (Apr.-Sep.)	FY2018 2Q (Apr.-Sep.)	Difference		FY2017 2Q (Apr.-Sep.)	FY2018 2Q (Apr.-Sep.)	Difference	
			Amount	%			Amount	%
Material Solutions Unit	115,472	124,391	8,918	7.7%	12,248	14,189	1,940	15.8%
Quality of Life Solutions Unit	74,623	78,883	4,259	5.7%	6,853	7,628	774	11.3%
Health Care Solutions Unit	21,675	23,680	2,004	9.2%	4,228	4,673	444	10.5%
Nutrition Solutions Unit	79,857	78,546	△ 1,310	△1.6%	2,549	2,173	△ 376	△14.8%
Others	628	551	△ 77	△12.3%	339	258	△ 80	△23.8%
Adjustment	-	-	-	-	△ 10,340	△ 10,906	△ 565	-
Total	292,258	306,053	13,795	4.7%	15,879	18,016	2,137	13.5%

Material	In the Vinyls and Chlor-Alkali business, sales were favorable for PVC resins and caustic soda both in Japan and overseas. In the Performance Polymers business, sales expanded as bolstered globally production capacity contributed.
Quality of Life	In the E & I Technology business, sales were favorable, supported by increased demand for smartphones with higher functionality. In the Performance Fibers business, demand for hair accessories in the African market made a full-fledged recovery. The Foam & Residential Techs business was impacted by typhoons, earthquakes, etc.
Health Care	In the Medical Devices business, sales increased in overseas markets, offsetting the negative impact of the revision of medical reimbursement prices in Japan. The Pharma business saw steady sales of biopharmaceuticals.
Nutrition	The Foods & Agris business worked to stimulate demand through proactive proposal-based sales, amid sluggish conditions in the markets for bakery products. In the Supplemental Nutrition business, sales of the reduced form of coenzyme Q10 continued to increase.

Material Solutions Unit

Net Sales ¥124.4 billion (year-on-year + 7.7%)

Operating Income ¥14.2 billion (year-on-year + 15.8%)

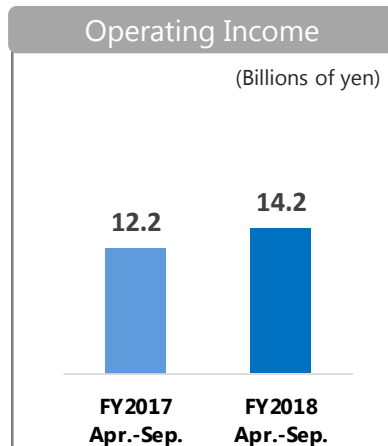


Vinyls and Chlor-Alkali

- Sales of PVC resins and caustic soda were favorable both in Japan and overseas.
- Sales of paste PVC and other specialty PVC resins were solid in Japan.
- Hereafter, the Group will strive to incorporate surging raw material costs in sales prices.

Performance Polymers

- Modifiers saw progress on the expansion of applications for non-PVC and other uses and recorded favorable sales in response to vigorous demand in the Asian market. The new second production line that started up last year in Malaysia also contributed to sales.
- Demand for modified silicone polymers, a globally unique product, has been increasing worldwide. In this environment, sales of modified silicone polymers increased substantially as new production facilities in Malaysia started contributing to sales in earnest. At the end of this year, the Group will complete the facility in Belgium for increased production capacity, and will begin responding to strong demand.
- Adoption of epoxy masterbatch, a material providing unique solutions, as a structural adhesive for automobiles is increasing, and it is entering a phase of demand expansion. The Group is preparing to decide about early production capacity increases.



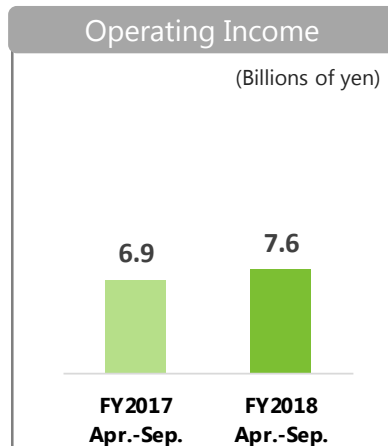
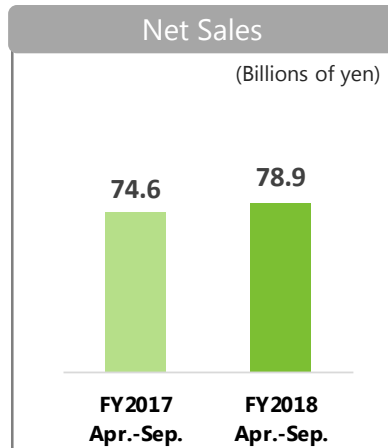
New businesses

- The biodegradable polymer PHBH, for which the Group has decided to enhance production capacity, is being adopted for use in fruit and vegetable bags, as regulations regarding disposable plastics are being strengthened in the European and U.S. markets. Considering that this material is biodegradable even in seawater, the Group will develop a market for this product as a solution to the societal problem of microplastic pollution.
- The Group will proceed with a sense of speed regarding business expansion for next-generation, cutting-edge high-tech materials for the aerospace industry using its newly installed prepreg production facilities.

Quality of Life Solutions Unit

Net Sales ¥78.9 billion (year-on-year + 5.7%)

Operating Income ¥7.6 billion (year-on-year + 11.3%)



E & I Technology

- Sales of ultra-heat-resistant polyimide films were favorable, supported by increased demand for smartphones with higher functionality.
- The market for new polyimide products, such as those for use in optical applications for displays, also expanded.
- The Group has decided to enhance the production capacity of high thermal conductive graphite sheets and their raw material ultra-heat-resistant polyimide films to respond to dramatic expansion in demand as smartphones become more compact and offer higher functionality, including organic electroluminescent displays and wireless charging. The Group will continue to strengthen its expertise and expand this business as the sole manufacturer of these materials, overseeing all aspects from raw materials to end products.

Performance Fibers

- Demand for hair accessories in the African market has been making a full-fledged recovery.
- The Group is strengthening its brand capabilities in high-functionality hair accessories to spearhead further demand creation in Africa and other markets.
- In the flame-retardant material field, sales increased atop surging demand for uniforms in Europe and the Americas.

Foam & Residential Techs

- Sales grew despite diminished hauls resulting from typhoons and earthquakes and sluggish demand accompanying delays in civil engineering and construction work.
- The Group will proceed with implementing cost reductions and incorporating surging raw material costs in sales prices.
- In bead-method polyolefin foam, the Group is working to strengthen its global supply structure through measures, including starting operations at a plant in Thailand and enhancing production capacity in Belgium, in order to address growing demand in the automotive field and other areas.

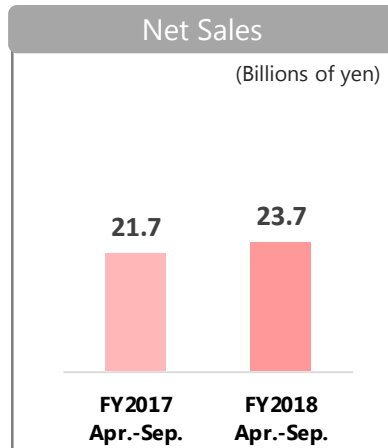
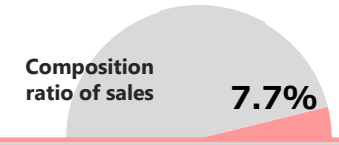
PV & Energy management

- Sales of high-efficiency photovoltaic module products expanded, and the Group improved profitability in line with its advancement of structural reforms.
- The Group is making progress with its net zero energy management system materials for houses and buildings by using its proprietary photovoltaic modules for electricity-generating windows and walls.
- It will also strengthen its solutions business as regards global energy problems.

Health Care Solutions Unit

Net Sales ¥23.7 billion (year-on-year + 9.2%)

Operating Income ¥4.7 billion (year-on-year + 10.5%)

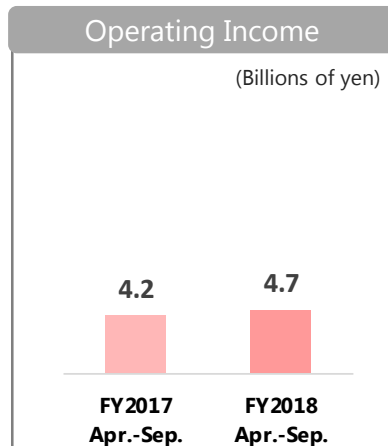


Medical Devices

- Sales of new products, such as high-functionality balloon catheters and digestive system catheters, proceeded steadily.
- Sales increased in overseas markets, offsetting the negative impact of revisions to medical reimbursement prices in Japan.
- The Group will work to expand sales in therapeutic fields such as drug-coated balloon catheter treatments and electrode catheters, and to new regions such as Central and South America.

Pharma

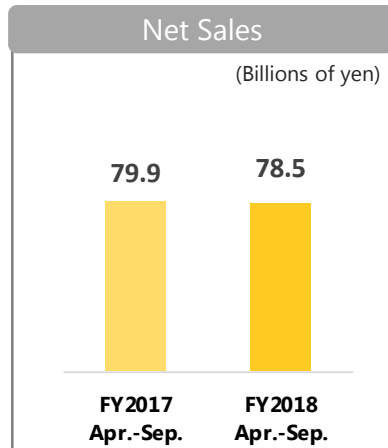
- Sales of biopharmaceuticals made by Kaneka Eurogentec S.A. performed robustly. The Group is working to bolster production capacity as planned.
- The continuous manufacturing equipment for producing pharmaceutical intermediates and active pharmaceutical ingredients that the Group has installed at Kaneka Singapore Co. (Pte.) Ltd. and Osaka Synthetic Chemical Laboratories, Inc. has been highly evaluated by the markets and contributed to increased sales. These new technologies are centered on strengthening business in the small molecule pharmaceutical sector, and are accelerating comprehensive business expansion in the Pharma field.



Nutrition Solutions Unit

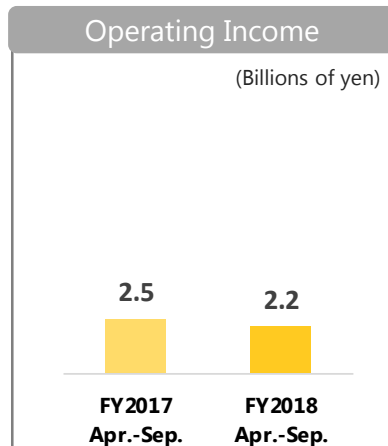
Net Sales ¥78.5 billion (year-on-year Δ 1.6%)

Operating Income ¥2.2 billion (year-on-year Δ 14.8%)



Foods & Agris

- Amid continued sluggish conditions in the markets for bakery products, the Group worked to stimulate demand through proactive proposal-based sales to major suppliers of bakery products, convenience stores and food product manufacturers.
- As the Indonesian business is developing steadily, expansion is planned to accommodate large-scale production capacity.
- The Group has newly entered the dairy products business and has started sales of fermented butter in addition to milk. It will enhance the product lineup with yoghurt and other new dairy products, and accelerate market development. Furthermore, in conjunction with the food production support business, the Group is planning measures that will contribute to productivity improvements for dairy farmers and recycling-oriented dairy farming.



Supplemental Nutrition

- Sales of the mainstay reduced form of coenzyme Q10 continued to increase, primarily in the U.S. market.
- The Group recently made a company specializing in lactic acid bacteria in Spain into a Group company. The Group will work closely with this company to increase its lineup of supplement materials and expand its lactic acid bacteria and supplement business globally.

(Billions of yen)

	March 31, 2018	September 30, 2018	Difference
Assets			
Current Assets	306.3	317.3	11.0
Noncurrent Assets	333.5	339.5	6.0
Total assets	639.8	656.8	17.0
Liabilities			
Interest bearing debt	113.1	118.8	5.6
Others	180.0	178.7	△ 1.3
Total liabilities	293.2	297.5	4.3
Net assets			
Shareholders' equity	326.2	338.2	12.0
Others	20.4	21.1	0.7
Total net assets	346.6	359.3	12.7
Total liabilities and net assets	639.8	656.8	17.0

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

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

(Billions of yen)

	FY2017 2Q (Apr.-Sep.)	FY2018 2Q (Apr.-Sep.)
Cash flows from operating activities	21.6	19.4
Cash flows from investing activities	Δ 19.5	Δ 22.0
Free cash flow	2.1	Δ 2.6
Cash flows from financing activities	Δ 4.4	1.6
Net increase (decrease) in cash and cash equivalents (*)	Δ 1.5	Δ 1.0
Cash and cash equivalents at end of period	39.5	46.4

* Including Effect of exchange rate change on cash and cash equivalents and Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation

- Net cash provided by operating activities came to ¥19.4 billion, mainly due to income before income taxes and depreciation and amortization, partly offset by an increase in operating capital due to sales expansion and so forth.
- Net cash used in investing activities was ¥22.0 billion, reflecting aggressive ongoing capital expenditure.

- In the global economy, there are growing concerns about the shrinkage in world trade as uncertainty about the future increases, including trade friction between the U.S. and China and the impact of rising interest rates in the U.S. In October 2018, the IMF lowered its global economic forecast for the first time in two years, referencing the risk of the turnaround in the economic expansion that followed the financial crisis in 2008.
- In this kind of business environment, the Company will accelerate its transformation to a new, resilient portfolio structure by further enhancing its R&D and global business initiatives.
- In the first half of the fiscal year, the Group was temporarily impacted by natural disasters, rising raw material costs, and other factors, but from the third quarter the Group will expand business and strengthen global competitiveness while making full use of the new power of its businesses such as modifiers and modified silicone polymers which have bolstered their production capacity at overseas bases.
- Furthermore, the Group will work to drive growth in key strategic businesses such as E & I Technology, where demand is expected to rapidly increase with the arrival of the IoT- and AI-driven society, and the Health Care and Supplemental Nutrition businesses, where new products are being developed.
- As a result, the Group has not revised its business forecast for the fiscal year ending March 31, 2019.

<Consolidated business forecast for the fiscal year ending March 31, 2019>

(Billions of yen)

	FY2017 result	FY2018 forecast	Difference
Net sales	596.1	650.0	53.9 (9.0%)
Operating income	36.9	42.0	5.1 (13.9%)
Ordinary income	32.8	37.0	4.2 (12.9%)
Net income attributable to owners of parent	21.6	23.0	1.4 (6.6%)

* The forecasts from October 1, 2018 are based on exchange rates of ¥110 to the U.S. dollar, ¥130 to the euro and a domestic naphtha price of ¥57,000 per kiloliter.

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