

Quarterly Financial Summary

3rd Quarter, Ended December 31, 2018

February 8, 2019
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.

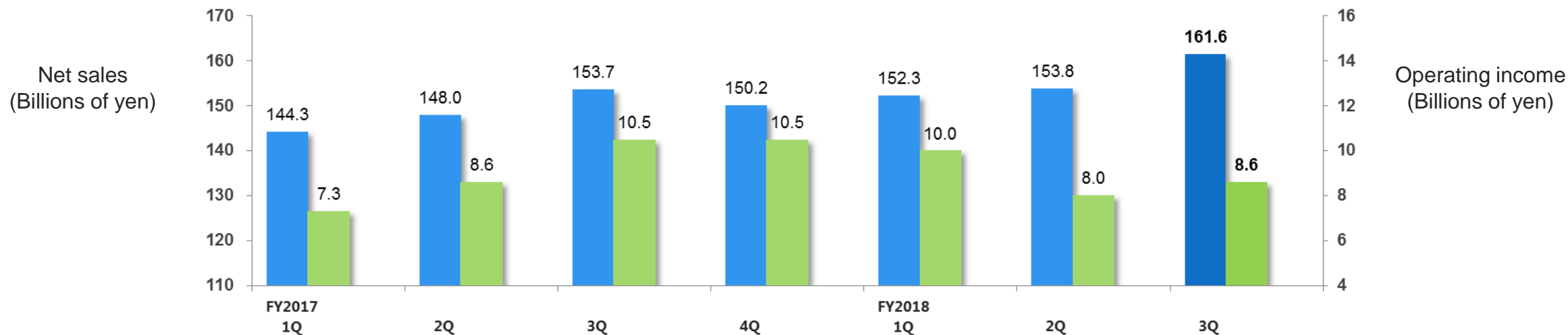
(Billions of yen)

	FY2017 3Q (Apr.-Dec.)	FY2018 3Q (Apr.-Dec.)	Difference	
			Amount	%
Net sales	445.9	467.6	21.7	4.9%
Operating income	26.4	26.6	0.3	1.0%
Ordinary income	24.3	22.9	△ 1.4	△ 5.6%
Net income attributable to owners of parent	15.7	14.7	△ 1.1	△ 6.7%
Net income per share	¥239.43	¥223.90		

* 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.

- During the three months from October to December 2018, the global economy experienced increasing trade friction sparked by a conservative administration in the U.S. as well as widening concern over worldwide geopolitical risks beyond the Middle East and East Asia, with a serious economic adjustment phase beginning to take shape starting in China.
- Corporate sentiment has retreated, and production adjustments to reduce distribution inventory have started over a wide range from upstream to downstream.
- In business performance, the Company's net sales reached a new record high driven by global businesses, and operating income also increased year on year.
- Ordinary income and net income attributable to owners of parent both decreased due to construction for strengthening manufacturing capacity.

Net Sales, Operating Income by Quarter



(Billions of yen)	FY2017				FY2018		
	1 Q	2 Q	3 Q	4 Q	1 Q	2 Q	3 Q
Net sales	144.3	148.0	153.7	150.2	152.3	153.8	161.6
Operating income	7.3	8.6	10.5	10.5	10.0	8.0	8.6

- 3Q net sales grew steadily to reach a record high of ¥160 billion.
- Operating income reflects the impact of global economic deceleration, including U.S.-China trade friction, although the impact of natural disaster damage in 2Q has dissipated.

Net Sales, Operating Income by Segments

(Millions of yen)

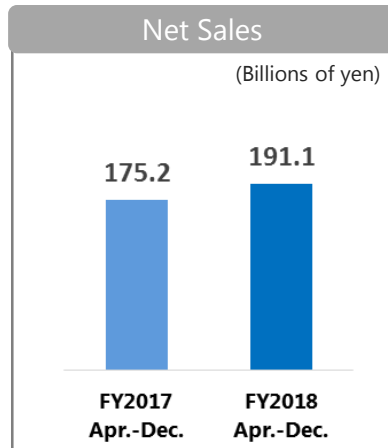
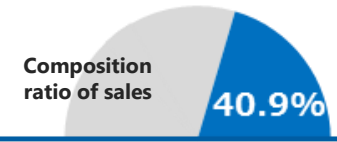
	Net sales				Operating income			
	FY2017 3Q (Apr.-Dec.)	FY2018 3Q (Apr.-Dec.)	Difference		FY2017 3Q (Apr.-Dec.)	FY2018 3Q (Apr.-Dec.)	Difference	
			Amount	%			Amount	%
Material Solutions Unit	175,192	191,126	15,933	9.1%	18,871	19,623	752	4.0%
Quality of Life Solutions Unit	115,116	119,632	4,515	3.9%	11,615	11,804	188	1.6%
Health Care Solutions Unit	32,787	35,093	2,305	7.0%	6,618	7,352	734	11.1%
Nutrition Solutions Unit	121,950	120,954	△ 996	△0.8%	4,657	4,077	△ 579	△12.5%
Others	884	809	△ 74	△8.4%	441	371	△ 69	△15.7%
Adjustment	-	-	-	-	△ 15,848	△ 16,609	△ 760	-
Total	445,931	467,615	21,684	4.9%	26,355	26,619	264	1.0%

Material	In the Vinyls and Chlor-Alkali business, sales of PVC resins and specialty PVC resins were solid in Japan. In the Performance Polymers business, increased production capacity and expanded applications contributed to increased business performance.
Quality of Life	In the Performance Fibers business, business performance recovered due to recovery in demand for hair accessories in the African market. In the E & I Technology business, recent business was affected by a temporary market slowdown, despite market share expansion alongside enhanced sophistication of smartphones. The Foam & Residential Techs business was impacted by damage caused by natural disasters.
Health Care	In the Medical Devices business, sales increased in overseas markets, offsetting the negative impact of revisions to medical reimbursement prices in Japan. The Pharma business saw steady expansion in sales of biopharmaceuticals.
Nutrition	In the Foods & Agris business, the Group stimulated demand through proposal-based sales amid continued sluggishness in the confectionery and bakery products market. In the Supplemental Nutrition business, sales of the reduced form of coenzyme Q10 increased, primarily in the U.S. market.

Material Solutions Unit

Net Sales ¥191.1 billion (year-on-year + 9.1%)

Operating Income ¥19.6 billion (year-on-year + 4.0%)



Vinyls and Chlor-Alkali

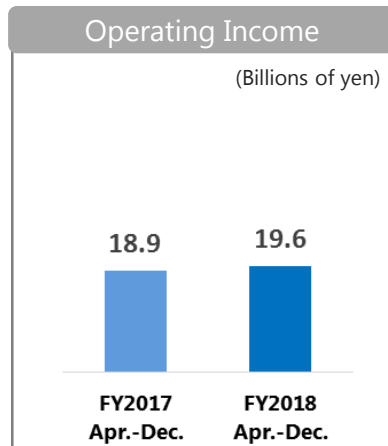
- Sales of PVC resins and paste PVC and other specialty PVC resins were solid in Japan, but slowed in overseas markets.
- Caustic soda saw exports impacted by a problem with obtaining approval in India, but performed favorably in Japan, making a significant contribution to sales.

Performance Polymers

- Modifiers saw progress on the expansion of applications for non-PVC and other uses and strong sales contributed significantly to earnings.
- Demand for modified silicone polymers, a globally unique product, has been increasing worldwide. In this environment, new production facilities in Malaysia made a full contribution to sales. Going forward, the facility completed in Belgium in January 2019 for increased production capacity will make a strong contribution to sales.
- Sales of epoxy masterbatch are expanding with further adoption as a structural adhesive for automobiles, and the Group has decided to increase its production capacity
- In a bid to accelerate business development of composites for the aerospace industry, the Group has installed new production facilities for prepreg, a next-generation, cutting-edge, high-tech material

New businesses

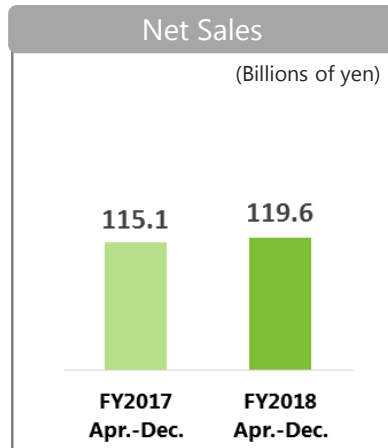
- The Group has decided to enhance production capacity for biodegradable polymer PHBH, which is biodegradable even in seawater, amid tightening of regulations regarding disposable plastics in the European and U.S. markets. The Group is working with a major customer on a large-scale project involving PHBH as a solution to the societal problem of microplastic pollution.
- It received approval from the European Commission as a food-contact material for dry food applications in January 2019, and is under consideration for adoption in a wide range of applications such as fruit and vegetable bags, drinking straws, cups, and trays.
- With a view to future demand expansion, the Group is moving quickly to consider a full-fledged mass production plant.



Quality of Life Solutions Unit

Net Sales ¥119.6 billion (year-on-year + 3.9%)

Operating Income ¥11.8 billion (year-on-year + 1.6%)



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, with earnings making a significant recovery and expanding.
- In the flame-retardant material field, sales increased atop surging demand for uniforms in Europe and the Americas.

E & I Technology

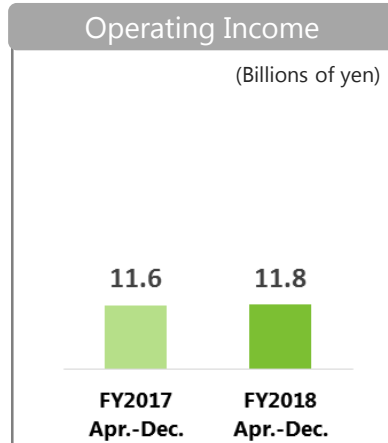
- Market share for ultra-heat-resistant polyimide films increased alongside enhanced sophistication of smartphones. Recently, however, the business was affected by a temporary market slowdown.
- The Group will move rapidly to provide new products in response to changes in the market, such as polyimide varnish for organic electro luminescent displays and new-grade PIXEO for 5G smartphones.

Foam & Residential Techs

- Sales of expandable polystyrene resin and extruded polystyrene foam board were impacted by diminished hauls resulting from typhoons and earthquakes ,and sluggish demand accompanying delays in civil engineering and construction work.
- In bead-method polyolefin foam, the Group is working to strengthen its global supply structure by starting operations at a plant in Thailand and enhancing production capacity in Belgium. It has also been strengthening its operating base with the introduction of new processes.

PV & Energy management

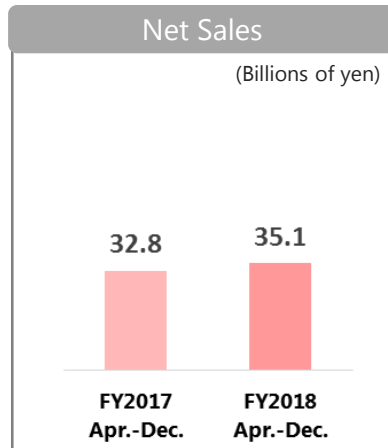
- Sales of high-efficiency photovoltaic module products expanded steadily thanks to positive reception in the market, and production capacity is now being fully utilized. The Group is preparing to increase production in response to an expansion in demand. Profitability improved in line with advancement of structural reforms.
- In new applications, the Group's proprietary photovoltaic modules for electricity-generating windows and walls are drawing attention as net zero energy management system materials for houses and buildings.
- The Group will strengthen these as a solutions business addressing global energy problems.



Health Care Solutions Unit

Net Sales ¥35.1 billion (year-on-year + 7.0%)

Operating Income ¥7.4 billion (year-on-year + 11.1%)

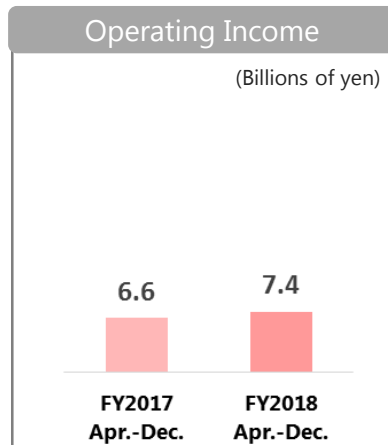


Medical Devices

- Sales of new products, such as high-functionality balloon catheters and digestive system catheters, proceeded steadily. Moreover, 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 balloon catheter technologies coated with drugs produced by Med Alliance SA, which it acquired through a technology and business alliance, and electrode catheter technologies, as well as taking steps to expand business in new medical domains including fractional flow reserve (FFR) product, such as concluding a new investment and strategic agreement with a U.S. medical equipment company.

Pharma

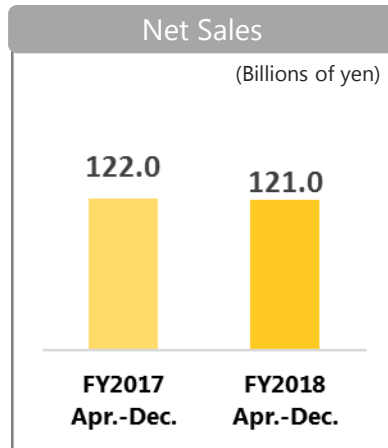
- Sales of biopharmaceuticals made by Kaneka Eurogentec S.A. are expanding steadily.
- The Group is working to bolster production capacity as planned, and is strengthening project activities with major customers and taking steps to consolidate earnings expansion after the start of operations.
- The continuous 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. These new technologies are centered on the small molecule pharmaceutical sector, and are accelerating comprehensive business expansion in the pharma field.



Nutrition Solutions Unit

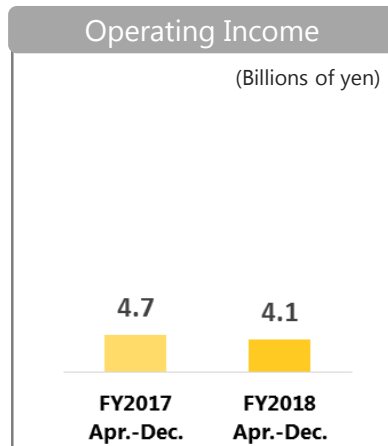
Net Sales ¥121.0 billion (year-on-year Δ 0.8%)

Operating Income ¥4.1 billion (year-on-year Δ 12.5%)



Foods & Agris

- Amid continued sluggish conditions in the markets for confectionery and 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.
- In Indonesia, the Group decided to build a new processed oil products factory (total investment of ¥5.0 billion) and will fully engage in spreading tasty Japanese bread and confectionery culture and expanding the Indonesian market.
- The Group has newly entered the dairy products business, where its “Milk for Bread” product has been positively received for its richness but refreshing aftertaste, and it has started sales of fermented butter in addition to milk.
- Going forward, the Group will strengthen its marketing activities such as digital and online mail-order sales, enhance the product lineup with yoghurt and other new dairy products, and accelerate market development. The Group will also move quickly to consider construction of a new full-fledged plant.
- In conjunction with the food production support business, the Group will contribute to productivity improvements for dairy farmers and the development of 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 is expanding sales in the European market of lactic acid supplements produced by a Spanish company specializing in lactic acid bacteria that was made into a Group company in 2018 (through investment), and has started discussing commencing sales in the U.S. and Japan at an early stage.
- The Group will enhance the product lineup while expanding the business globally.

(Billions of yen)

	March 31, 2018	December 31, 2018	Difference
Assets			
Current Assets	306.3	314.5	8.2
Noncurrent Assets	333.5	337.7	4.2
Total assets	639.8	652.2	12.5
Liabilities			
Interest bearing debt	113.1	117.9	4.8
Others	180.0	181.5	1.5
Total liabilities	293.2	299.5	6.3
Net assets			
Shareholders' equity	326.2	331.5	5.3
Others	20.4	21.2	0.8
Total net assets	346.6	352.8	6.2
Total liabilities and net assets	639.8	652.2	12.5

* 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.

- There is an increasing risk that the economic deceleration that has started in China will spread around the world and cause a slowdown in economic growth.
- Considering the Group's third-quarter earnings (the decline in sales and profits versus the Company plan due to the impact of natural disasters on Foods and Foam businesses and a temporary lull in the market for E & I technology) and the opacity of the economic climate going forward, the Group has revised the forecast for consolidated business performance.

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

(Billions of yen)

	FY2017 (result)	Previous forecast (May.11,2018)	Revised forecast	Change	
				Vs. previous year	Vs. previous forecast
Net sales	596.1	650.0	625.0	28.9	△ 25.0
Operating income	36.9	42.0	37.0	0.1	△ 5.0
Ordinary income	32.8	37.0	33.0	0.2	△ 4.0
Net income attributable to owners of parent	21.6	23.0	22.0	0.4	△ 1.0
Net income per share	¥328.46	¥350.91	¥335.60		

* The forecasts from January 1, 2019 are based on exchange rates of ¥110 to the U.S. dollar, ¥125 to the euro and a domestic naphtha price of ¥40,000 per kiloliter.

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Consolidated Business Revised Forecasts by Segments

(Billions of yen)

	Net Sales			Operating Income		
	FY2017 (result)	Revised forecast	change	FY2017 (result)	Revised forecast	change
Material Solutions Unit	238.9	259.0	20.1	27.1	26.1	△ 1.0
Quality of Life Solutions Unit	149.4	157.0	7.6	13.7	15.2	1.5
Health Care Solutions Unit	45.9	47.0	1.1	9.8	10.2	0.4
Nutrition Solutions Unit	160.9	161.0	0.1	6.5	5.7	△ 0.8
Others	1.1	1.0	△ 0.1	0.5	0.5	△ 0.0
Adjustment	-	-	-	△ 20.9	△ 20.7	0.2
Total	596.1	625.0	28.9	36.9	37.0	0.1

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1) Dividend increase (Revised forecast) : **a bonus dividend of ¥10 to commemorate the 70th anniversary of the merger into the Kaneka Group. (Annual ¥90 → Annual ¥100)**

2) Acquisition of Treasury Shares: **400,000 shares (Upper limited for acquisition amount: ¥2.0 billion; acquisition period: February 12-March 22, 2019)**

Upper limited for acquisition amount: ¥2.0 billion; acquisition period: February 12-March 22, 2019

3) Cancellation of Treasury Shares: **2,000,000 shares**

(Millions of yen, except where indicated otherwise)

	FY2014	FY2015	FY2016	FY2017	FY2018 Revised forecast	Post-FY2018 share consolidation basis*
Net income	18,033	20,985	20,484	21,571	22,000	22,000
Net income per share: (yen)	53.52	62.98	61.72	65.69	67.12	335.60
Dividend per share: (yen)	16	18	18	18	20	100
Consolidated payout ratio	29.9%	28.6%	29.2%	27.4%	29.8%	29.8%
Number of treasury shares acquired: (thousands of shares)	2,000	1,964	2,000	3,000	2,000	400
Monetary amount of treasury shares acquired	1,594	1,805	1,803	2,561	2,000	2,000
Consolidated total return ratio	38.7%	37.2%	38.0%	39.3%	38.9%	38.9%
Number of treasury shares cancelled: (thousands of shares)	—	—	—	—	10,000	2,000

* The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018.

- Materials for weight reduction in automobiles and aircraft fields
- Global sales expansion of structural adhesives and composite materials

Epoxy masterbatch

- Increases the toughness and durability of epoxy resin without losing heat resistance
- Sales expanded for structural adhesive for automobiles, wind power turbine blade adhesive, and copper clad laminates (CCL)
- Automotive component materials are shifting from welding to adhesion
Expand parts and vehicle types using structural adhesives
- **Decided to expand production capacity in response to sales expansion**



Composite, Pre-preg

- Enter the high-functionality composite materials business in the aviation and aerospace field
June 2017: Acquired composite material resin compound manufacturer
Jan. 2018: Acquired the aircraft composites business from Henkel Corporation
Aug. 2018 : Decided to construct new facility for pre-preg that used for aircraft in U.S.
- Aim for net sales of ¥20 billion in 2025



Business field of Kaneka Aero Space



Priority-Focused Fields (Biopolymers)

Discarded plastic causes

- Land pollution
- Marine pollution (microplastic problem)



▶ Tighter regulation of plastics in Europe and other regions

- 100% plant-based biopolymer “KANEKA Biodegradable Polymer PHBH™” by combining bio, plastic, and other technologies.
- Capacity expansion (1,000t/Y → 5,000t/Y → 20,000t/Y)

Plan to start operation in December 2019

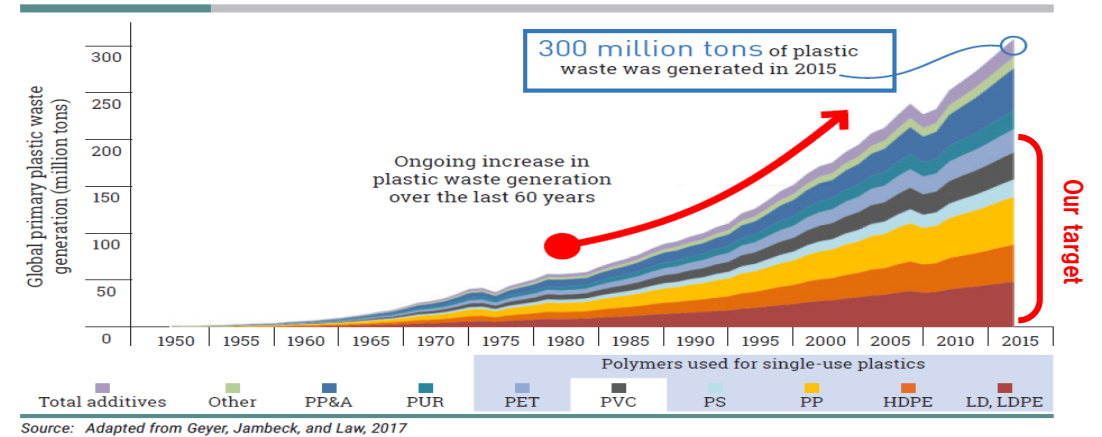
Considering early startup

○Approval(Bio-based • Biodegradable)

Organization	Bio-based	Biodegradable			
		Compost (Industrial)	Compost (Home)	Marine	Soil
TÜV	○	○	○	○	○
BPI	—	○	—	—	—
JBPA	○	○	—	—	—

TÜV: TÜV AUSTRIA BELGIUM,
BPI: Biodegradable Products Institute (U.S.)
JBPA: Japan BioPlastics Association

Figure 1.4. Global primary plastics waste generation, 1950 - 2015¹⁶



○Approval(Food contact)

Country	Food contact
U.S.	○
Europe	Included on positive list (dry food) (Feb. 2019)
Japan	During the procedure

* Currently advancing procedures to enable use with all foods. Safety evaluation by European Food Safety Authority complete. Plan to expand adoption for use with food contact from autumn onward. (Press release dated February 1, 2019)

“Warning over house fire accidents caused by residential solar power systems !” (January 28, 2019)

Consumer Affairs Agency survey report (January 28, 2019)

“Accident Cause Survey Report Based on Article 23, Paragraph 1 of the Consumer Safety Act / House Fire Accidents Caused by Residential Solar Power Systems ”

The survey report stipulates that preventing recurrence of fire accidents requires that systems integrated with roof tiles use products with “non-steel plates”

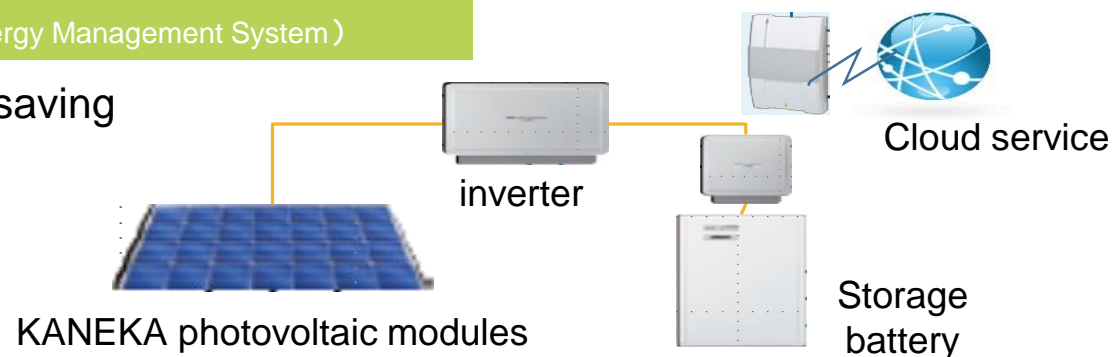
Steel plates are ancillary to all of Kaneka's products that are incorporated into roof tiles, meaning that they are not subject to fire recurrence prevention measures

The Company's sales are steady,
and it is operating at full production capacity and making preparations for increasing production

- Provide various products as a system to support housing and building energy management
- BIPV(Building integrated photovoltaics) to contribute to ZEB(net zero energy buildings)
- Hetrojunction technology sets a world record for conversion efficiency

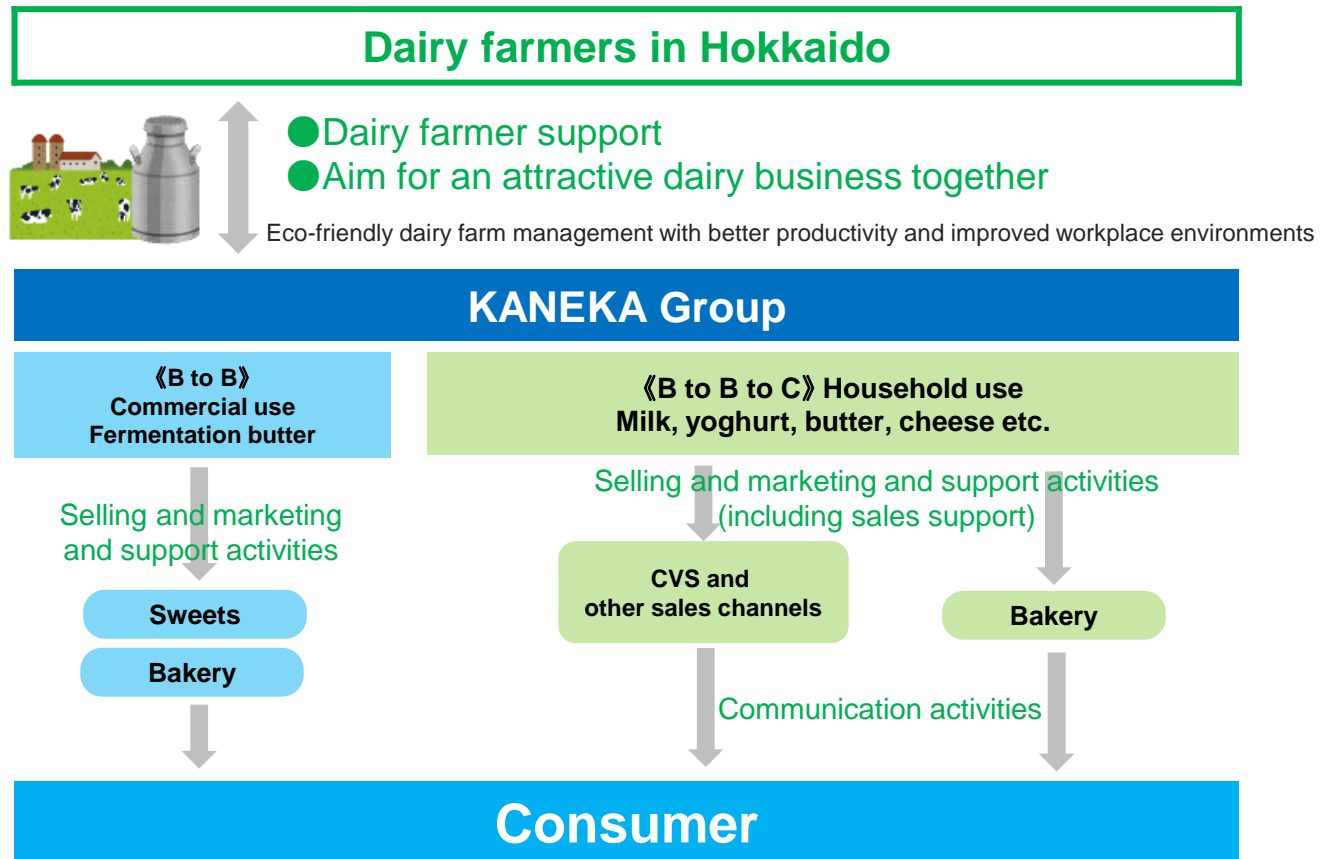
HEMS (Home Energy Management System)

Comfortable energy-saving housing
“Kaneka-no-Ouchi”



Priority-Focused Fields (Dairy products business)

- Develop a new fully integrated dairy product business
- Combine with the food production support business to contribute to productivity gains for dairy farmers and recycling-oriented dairy farms



April 2018: Started milk sales (Milk for Bread)
Popular for its richness but refreshing aftertaste



July 2018: Started sales of fermented butter

- Strengthen digital and online mail-order sales and marketing activities
- Examine full-fledged construction of new factory

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