

Quarterly Financial Results for the 1st Quarter, Ended June 30, 2020 (Japanese GAAP, Consolidated)

August 12, 2020

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

URL <https://www.kaneka.co.jp/en/>

Representative: Minoru Tanaka Title: President, Representative Director

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Scheduled date for submitting financial statements: August 13, 2020 Scheduled date of dividend distribution: —

Note: Figures have been rounded down to the nearest million yen.

1. Consolidated Business Performance for the 1st Quarter, Ended June 30, 2020

(from April 1, 2020 to June 30, 2020)

(1) Consolidated business performance (cumulative) (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2020 – Jun. 2020	126,644	(14.9)	2,029	(71.0)	823	(85.0)	437	(87.5)
Apr. 2019 – Jun. 2019	148,822	(2.3)	7,004	(30.0)	5,495	(39.9)	3,491	(44.5)

Note: Comprehensive income: ¥3,448 million (158.0%) for the three months ended June 30, 2020
¥1,336 million (-81.9%) for the three months ended June 30, 2019

	Net income per share	Fully diluted net income per share
Apr. 2020 – Jun. 2020	¥ 6.70	¥ 6.69
Apr. 2019 – Jun. 2019	53.53	53.45

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of June 30, 2020	¥ million 650,630	¥ million 354,178	50.9%
As of March 31, 2020	653,262	354,094	50.7

(Reference) Shareholders' equity: ¥331,316 million as of June 30, 2020
¥331,483 million as of March 31, 2020

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2019 – Mar. 2020	¥ —	¥ 50.00	¥ —	¥ 50.00	¥ 100.00
Apr. 2020 – Mar. 2021	—				
Apr. 2020 – Mar. 2021 (Forecasts)		50.00	—	50.00	100.00

Note: Changes in dividend forecast during the quarter under review: Yes

3. Forecast for Consolidated Business Performance for the Year Ending March 31, 2021

(from April 1, 2020 to March 31, 2021)

(Percentage figures represent changes from the corresponding periods of the previous fiscal year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	560,000	(6.9)	21,000	(19.3)	16,400	(18.7)	10,000	(28.6)	153.31

Note: Revisions to consolidated business performance forecasts during the quarter under review: Yes

4. Other

(1) Changes in principal subsidiaries during the term: No

(2) Application of simplified methods of accounting and specific accounting methods: No

(3) Changes in accounting principles, changes in estimates, or restatements

1. Changes owing to revisions in accounting standards: No

2. Changes other than 1. above: No

3. Changes in accounting estimates: No

4. Restatements: No

(4) Number of shares outstanding (common stock)

1. Number of shares issued at the end of the period (including treasury stock):

2. Number of shares of treasury stock at the end of the period:

3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year)

June 30, 2020	68,000,000 shares	March 31, 2020	68,000,000 shares
June 30, 2020	2,774,187 shares	March 31, 2020	2,774,049 shares
June 30, 2020	65,225,922 shares	June 30, 2019	65,221,484 shares

(These financial statements are exempt from audit procedures)

(Explanations or other items pertaining to appropriate use of business performance forecasts)

The business performance 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 forecasts. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements. For cautionary items used in business performance forecasts, please refer to the section entitled "(3) Consolidated Business Forecasts" under "1. Quarterly Consolidated Business Performance" on page 4.

Supplementary Materials

Contents

1. Quarterly Consolidated Business Performance -----	P. 2
(1) Consolidated Business Performance -----	P. 2
(2) Consolidated Financial Position -----	P. 4
(3) Consolidated Business Forecasts -----	P. 4
2. Quarterly Consolidated Financial Statements -----	P. 7
(1) Quarterly Consolidated Balance Sheets -----	P. 7
(2) Quarterly Consolidated Statements of Income and Comprehensive Income -----	P. 9
(3) Notes to the Consolidated Financial Statements -----	P.11
(Notes on the Premise of a Going Concern) -----	P.11
(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity) ---	P.11
(Segment Information) -----	P.11

1. Quarterly Consolidated Business Performance

(1) Consolidated Business Performance

In topics for the quarter under review (April – June 2020), the most prominent is the COVID-19 pandemic. The COVID-19 threat has spread around the world, causing an unprecedented situation in which economic activity across all industries has been hit reversely, almost to the point of stopping. Unfathomable shocks continue to rock the global economy.

Crude oil briefly dipped to negative \$37.63. U.S. GDP growth dropped to negative 32.9% year on year, the steepest decline on record. GDP in Japan was also recorded negative 27%, the largest fall since World War II. The scars of an extremely deep, serious depression are spreading across the globe.

In this business environment, the Kaneka Group's business performance for the first quarter (April 1, 2020 to June 30, 2020) was as follows. Consolidated net sales amounted to ¥126,644 million (down 14.9% year on year), operating income was ¥2,029 million (down 71.0% year on year). Ordinary income was ¥823 million (down 85.0% year on year). Net income attributable to owners of parent was ¥437 million (down 87.5% year on year).

Net sales and operating income by segments for the first quarter (April 1, 2020 to June 30, 2020)

(Millions of yen)

	Net sales			Operating income		
	FY2019 1Q(Apr.-Jun.)	FY2020 1Q(Apr.-Jun.)	Difference	FY2019 1Q(Apr.-Jun.)	FY2020 1Q(Apr.-Jun.)	Difference
Material SU	60,176	48,894	△11,281 (△18.7%)	5,590	2,855	△2,734 (△48.9%)
Quality of Life SU	38,468	29,738	△8,729 (△22.7%)	3,728	1,236	△2,492 (△66.8%)
Health Care SU	10,949	11,698	748 (6.8%)	1,905	2,298	393 (20.6%)
Nutrition SU	38,908	35,938	△2,969 (△7.6%)	1,200	827	△373 (△31.1%)
Others	320	373	53 (16.8%)	180	248	67 (37.7%)
Adjustment	-	-	-	△5,600	△5,436	163 (-)
Total	148,822	126,644	△22,178 (△14.9%)	7,004	2,029	△4,975 (△71.0%)

The Company's business results for the first quarter, ended June 30, 2020 have been analyzed from the perspective of its business portfolio. The notable features of the results are as follows.

The first feature is that the leading-edge business group (E & I Technology · PV & Energy management · Medical · Pharma · Supplemental Nutrition · Agricultural production support) which has been the priority for investment of R&B resources, has continued to record year on year growth in sales and profits, despite the severe downturn of the global economy due to the COVID-19 crisis. The second feature is that core business group belonging to the Material and Quality of Life Solutions Units (Vinyls and Chlor-Alkali · Performance Polymers (MOD) · Performance Polymers (MS) · Foam & Residential Techs · Performance Fibers) experienced a sharp decrease in demand which caused a drop in production as a result of the COVID-19 pandemic. This is the largest factor behind the significant decrease in sales and profits in the first quarter.

According to recent announcements by the American Chemistry Council and business sentiment surveys of the global manufacturing industry, the global chemical sector has seen a contraction in production during the COVID-19 crisis in the same way as other manufacturing industries, but the production decrease is reported to have bottomed out in March, with a contraction in April and May ,

before production began to increase in June.

Incidentally, the Company's core business group belonging to the Material and Quality of Life Solutions Units, which had seen production drop, began to improve and increase production from June after hitting bottom in May.

While production is not likely to return to pre-COVID-19 levels right away, production in the core business group is expected to improve at a gradual pace in the third and fourth quarters, with earnings increasing through the year thanks to production increases.

Furthermore, the Company has taken the paradigm change during the COVID-19 crisis as an opportunity to implement measures to boost productivity by strengthening back office functions. These include applying "select and concentrate" of R&B initiatives and introducing a new work culture, exemplified by remote working. (Cost cuts: ¥500 million in the first quarter)

Operating performance by business segment was as follows:

①Material Solutions Unit

- PVC resins and caustic soda: Sales and profits decreased due to a lockdown in India.
- MOD and MS: Sales and profits decreased due to a drop in demand in Europe and the U.S.
- Epoxy masterbatch: Application development continued and facilities for boosting capacity operated as planned.
- Kaneka Biodegradable Polymer PHBH: Joint development continued steadily with a large number of brand holders in Japan and overseas. The conclusive works for productivity increases and cost reductions are proceeding toward a decision on constructing a plant with a 20,000 t production capacity.

②Quality of Life Solutions Unit

- Performance Fibers: Demand for hair accessories fell sharply due to lockdowns in Africa. Demand for pile and flame retardance materials is also sluggish due to the COVID-19 crisis. The newly established Product Development Center in Ghana will be used to achieve an early recovery in sales.
- Foam & Residential Techs: Expandable polystyrene resin and extruded polystyrene foam boards slumped due to a decrease in fishing coolers and construction and civil engineering activity. Polyolefin foam demand was heavily impacted by the global decrease in automobile production.
- PV & Energy management: High-efficiency photovoltaic module products for residential use saw firm sales. Proceeded with joint development of wall surface and see-through photovoltaic modules for buildings and automobiles.
- E & I Technology: Polyimide films and graphite sheets saw a gradual recovery in the smartphone market. Sales is strong. The Group bolstered development of original products for OLEDs and 5G applications.

③Health Care Solutions Unit

- Medical: Sales of catheters are increasing after a temporary halt due to the COVID-19 crisis. Embolism coils performed well, and the Group plans to sell them in the U.S. The Group decided to triple the current production capacity at its Vietnam plant. The Group is proactively advancing technology and capital alliances in new therapeutic fields. The Group started breast reconstruction treatment that uses culture adipose derived from stem

cells.

- Pharma: Capacity expansion at Osaka Synthetic Chemical Laboratories, Inc. and Kaneka Eurogentec S.A. contributed to sales. The Group started supplying active pharmaceutical ingredients for Avigan® Tablet and reagents, both for COVID-19. The Group is engaged in contracted production of vaccine intermediates for AnGes, Inc. using leading-edge advanced technology such as plasmid DNA.
- The Group started an infection research team to focus on the infectious diseases domain.

④ Nutrition Solutions Unit

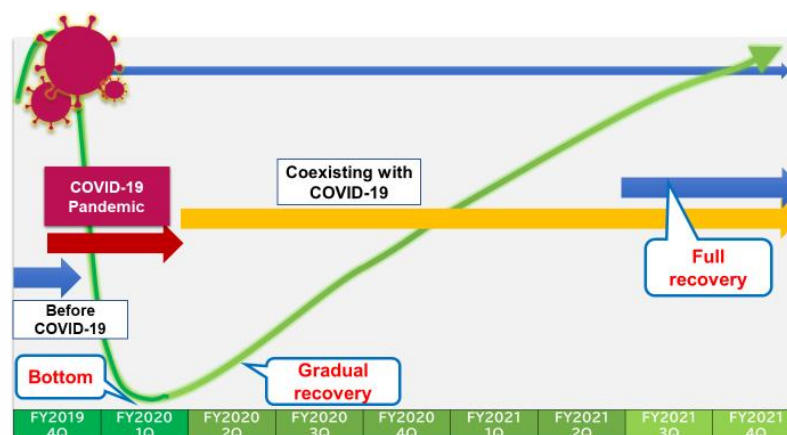
- Foods & Agris: Demand for bread and confectionery slumped due to a downturn in restaurant dining and inbound tourism. An increase in people eating meals at home drove favorable performance at Kaneka Sun Spice Corporation. Dairy product sales were firm, and the Group commenced organic dairy farming. The Group established a dairy farming agricultural production company in Betsukai, Hokkaido Prefecture.
- Supplemental Nutrition: Reduced form of coenzyme Q10 performed strongly in the U.S. due to increased awareness of preventative care. Sales of probiotics were favorable in Europe and the Group started sales in the U.S. The Group will strengthen dissemination of scientific information and develop its brand strategy through diverse supplements.

(2) Consolidated Financial Position

Total assets were ¥650,630 million as of June 30, 2020, down ¥2,631 million compared with March 31, 2020, due to a decrease in notes and accounts receivable-trade. Liabilities totaled ¥296,452 million, down ¥2,714 million due to a decrease in notes and accounts payable-trade. Net assets were ¥354,178 million, up ¥83 million due to an increase in valuation difference on available-for-sale securities.

(3) Consolidated Business Forecasts

① World Economic Outlook



The impact of COVID-19 is expected to have peaked during the first quarter, with business performance to begin gradually improving from the second quarter, making a full recovery from the second half of the fiscal year ending March 31, 2022.

② Forecast for Consolidated Business Performance for the Fiscal Year Ending March 31, 2021

Forecast for Consolidated Business Performance for the Fiscal Year Ending March 31, 2021

(April 1, 2020 to March 31, 2021)

	FY2019 result	FY2020 forecast	Difference
Net sales (Millions of yen)	601,514	560,000	△41,514
Operating income (Millions of yen)	26,014	21,000	△5,014
Ordinary income (Millions of yen)	20,166	16,400	△3,766
Net income attributable to owners of parent (Millions of yen)	14,003	10,000	△4,003
Net income per share (Yen)	214.70	153.31	△61.39

The forecasts are based on exchange rates of ¥108 to the U.S. dollar, ¥120 to the euro and a domestic naphtha price of ¥28,000 per kiloliter.

※The above performance forecasts for the Kaneka Group are based on information available at the time of the announcement. Readers should be aware that actual results might vary significantly from these forecasts due to various factors.

Forecast for Consolidated Business Performance by segments for the Fiscal Year Ending March 31, 2021

(April 1, 2020 to March 31, 2021)

(Billions of yen)

	Net sales			Operating income		
	FY2019 result	FY2020 forecast	Difference	FY2019 result	FY2020 forecast	Difference
Material SU	241.8	215.5	△26.3	20.6	15.5	△5.1
Quality of Life SU	154.8	136.6	△18.2	14.2	9.4	△4.8
Health Care SU	46.4	52.5	6.1	8.9	11.5	2.6
Nutrition SU	157.4	154.4	△3.0	5.6	5.3	△0.3
Others	1.1	1.0	△0.1	0.5	0.6	0.1
Adjustment	-	-	-	△23.9	△21.3	2.6
Total	601.5	560.0	△41.5	26.0	21.0	△5.0

- The core business group (Vinyls and Chlor-Alkali · MOD · MS · Foam & Residential Techs · Performance Fibers) stopped production in the COVID-19 crisis, but production is now expected to improve at gradual pace in the third and fourth quarters, with revitalized production to drive an improvement in earnings for the year.
- The leading-edge business group (E & I Technology · PV & Energy management · Medical · Pharma · Supplemental Nutrition · Agricultural production support), a driving force for growth is expected to continue a strong earnings growth trend.

- Furthermore, the Company will engage in high productivity business management, such as strengthening back office functions. These include applying “select and concentrate” of R&B initiatives and introducing a new work culture, exemplified by remote working. (Cost cuts: ¥3,000 million)

③ Dividends forecasts for the Fiscal Year Ending March 31, 2021

- Based on the above performance forecasts for the fiscal year ending March 31, 2021 and a basic policy of continuing to make stable profit returns, the Company has maintained its annual dividend of ¥100 (interim ¥50, year-end ¥50).

④ Growth toward the fiscal year ending March 31, 2023

- From the second half of the fiscal year ending March 31, 2022, the Company expects to see production activities surpass to pre-COVID-19 levels.
- Amid a rapid paradigm shift in society sparked by the COVID-19 crisis, the Company will bolster the competitiveness of the leading-edge business group (E & I Technology · Medical · Pharma · PV & Energy management · Supplemental Nutrition, etc.). The Company will invest resources intensively in its focal new large-scale business group, such as Kaneka Biodegradable Polymer PHBH, and accelerate reaping the fruits of its R&B initiatives.
- The Company will hone the unique business characteristics of its core business group (Vinyls and Chlor-Alkali · MOD · MS · Foam & Residential Techs · Performance Fibers · Foods & Agris), and build them into a strong platform supporting management as a business base.
- New large-scale business
Kaneka Biodegradable Polymer PHBH:
This is the large-scale business opportunity of the group in its history. Amid a multitude of new business groups, this project will receive a prioritized investment of management resources. The Company will expedite the development of technology for uniquely combining its two technology sources (yeast fermentation technology and high molecule polymer technology) to realize large scale commercial operations at an early stage.
- Expedite management digital transformation
The Company will convert to a robust corporate structure by making efficient investments of management resources.

2. Quarterly Consolidated Financial Statements**(1) Quarterly Consolidated Balance Sheets**

(Millions of yen)

	FY2019 Term ended March 31, 2020	FY2020 1st Quarter Term ended June 30, 2020
Assets		
Current assets		
Cash and deposits	38,748	43,586
Notes and accounts receivable-trade	134,110	118,592
Short-term investment securities	190	182
Merchandise and finished goods	66,057	66,823
Work in process	8,727	9,417
Raw materials and supplies	42,474	43,412
Other	17,852	18,612
Allowance for doubtful accounts	(1,303)	(1,332)
Total current assets	306,858	299,294
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	84,012	85,921
Machinery, equipment and vehicles, net	110,073	109,086
Other, net	68,970	70,125
Total property, plant and equipment	263,056	265,133
Intangible assets		
Goodwill	3,306	3,190
Other	9,874	9,798
Total intangible assets	13,180	12,989
Investments and other assets		
Investment securities	48,548	51,874
Other	21,859	21,579
Allowance for doubtful accounts	(241)	(240)
Total investments and other assets	70,166	73,213
Total noncurrent assets	346,403	351,336
Total assets	653,262	650,630

Quarterly Financial Results for the 1st Quarter, Ended June 30, 2020, Kaneka Corporation (4118)

(Millions of yen)

	FY2019 Term ended March 31, 2020	FY2020 1st Quarter Term ended June 30, 2020
Liabilities		
Current liabilities		
Notes and accounts payable-trade	73,509	61,353
Short-term loans payable	88,835	96,284
Income taxes payable	2,408	1,570
Provision	107	13
Other	46,739	50,056
Total current liabilities	211,599	209,278
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	33,293	33,451
Provision	317	328
Net defined benefit liability	38,308	37,961
Other	5,648	5,432
Total noncurrent liabilities	87,568	87,174
Total liabilities	299,167	296,452
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	30,962	30,961
Retained earnings	280,265	277,419
Treasury stock	(11,583)	(11,583)
Total shareholders' equity	332,691	329,844
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	14,246	16,527
Deferred gains or losses on hedges	(103)	(107)
Foreign currency translation adjustment	(7,395)	(7,342)
Remeasurements of defined benefit plans	(7,956)	(7,605)
Total accumulated other comprehensive income	(1,208)	1,472
Subscription rights to shares	482	486
Noncontrolling interests	22,128	22,374
Total net assets	354,094	354,178
Total liabilities and net assets	653,262	650,630

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income	(Millions of yen)	
	FY2019 1st Quarter From April 1, 2019 to June 30, 2019	FY2020 1st Quarter From April 1, 2020 to June 30, 2020
Net sales	148,822	126,644
Cost of sales	107,029	91,694
Gross profit	41,793	34,950
Selling, general and administrative expenses	34,788	32,920
Operating income	7,004	2,029
Non-operating income		
Dividends income	720	700
Equity in earnings of affiliates	33	16
Other	173	166
Total non-operating income	927	882
Non-operating expenses		
Interest expenses	470	347
Loss on retirement of noncurrent assets	381	419
Foreign exchange losses	575	249
Other	1,010	1,073
Total non-operating expenses	2,437	2,089
Ordinary income	5,495	823
Extraordinary losses		
Patent protection court cost	463	95
Total extraordinary losses	463	95
Income before income taxes	5,031	727
Income taxes-current	1,746	1,054
Income taxes-deferred	(487)	(952)
Total income taxes	1,258	102
Net income	3,772	625
Net income attributable to non-controlling interests	280	188
Net income attributable to owners of parent	3,491	437

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2019 1st Quarter From April 1, 2019 to June 30, 2019	FY2020 1st Quarter From April 1, 2020 to June 30, 2020
Net income	3,772	625
Other comprehensive income		
Valuation difference on available-for-sale securities	(785)	2,331
Deferred gains or losses on hedges	(17)	(4)
Foreign currency translation adjustment	(1,831)	140
Remeasurements of defined benefit plans, net of tax	201	352
Share of other comprehensive income of associates accounted for using equity method	(2)	3
Total other comprehensive income	(2,435)	2,823
Comprehensive income	1,336	3,448
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,170	3,117
Comprehensive income attributable to noncontrolling interests	166	331

(3) Notes to the Consolidated Financial Statements
(Notes on the Premise of a Going Concern)
Not applicable

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)
Not applicable

(Segment Information)

I Term from April 1, 2019 to June 30, 2019

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment information					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	60,176	38,468	10,949	38,908	148,502	320	148,822	—	148,822
Intersegment	252	3	—	5	260	285	546	(546)	—
Total	60,429	38,471	10,949	38,913	148,763	606	149,369	(546)	148,822
Segment profit	5,590	3,728	1,905	1,200	12,424	180	12,605	(5,600)	7,004

Notes: 1. "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2. Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements
(Adjustments)

(Millions of yen)

Income	Amount
Segment total	12,424
Segment profit of Others	180
Elimination of intersegment transactions	4
Companywide expenses (Note)	(5,623)
Other adjustments	18
Operating income in the quarterly consolidated statements of income	7,004

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

II Term from April 1, 2020 to June 30, 2020

1) Sales and Income (Loss) by Segments

(Millions of yen)

	Segment information					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	48,894	29,738	11,698	35,938	126,270	373	126,644	—	126,644
Intersegment	213	6	—	7	227	271	499	(499)	—
Total	49,108	29,745	11,698	35,946	126,498	645	127,144	(499)	126,644
Segment profit	2,855	1,236	2,298	827	7,217	248	7,466	(5,436)	2,029

Notes: 1. "Others" is a business segment that is not included in the reporting segments and includes property insurance and life insurance business.

2. Segment profit is reconciled with operating income in the quarterly consolidated financial statements.

2) Reconciliation between Segment Totals and Amounts on Quarterly Consolidated Financial Statements (Adjustments)

(Millions of yen)

Income	Amount
Segment total	7,217
Segment profit of Others	248
Elimination of intersegment transactions	5
Companywide expenses (Note)	(5,440)
Other adjustments	(1)
Operating income in the quarterly consolidated statements of income	2,029

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