

Kaneka

Kaneka Integrated Report



Kaneka

1-12-32, Akasaka, Minato-ku, Tokyo 107-6028, Japan
Tel: +81-3-5574-8000 Fax: +81-3-5574-8121
2-3-18, Nakanoshima, Kita-ku, Osaka 530-8288, Japan
Tel: +81-6-6226-5050 Fax: +81-6-6226-5037

This printed matter is using FSC™ certified paper includes sources from responsibly managed forests.
The environment-friendly vegetable oil ink is used for printing.



This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Kaneka Integrated Report 2018



KANEKA thinks “Wellness First”.

Kaneka brings the environment to its ideal state,
develops its business in a “wellness-first” direction, energizes people,
adds vibrancy to business, and helps build a happier society.

To make the world more wellness-first.
Kaneka takes an innovative approach to science,
and seeks to fulfill people’s dreams by offering a wide variety of solutions.



CONTENTS

I Management Philosophy <ul style="list-style-type: none">1. Management Philosophy Structure2. New Management System	IV Business Foundation <ul style="list-style-type: none">1. List of Directors2. Corporate Governance3. Business Risks and Uncertainties4. Compliance5. Intellectual Property6. ESG Promotion System7. Environment8. Safety9. Job Satisfaction10. Diversity
II Social Value Creation <ul style="list-style-type: none">1. KANEKA thinks “Wellness First”.2. History of Kaneka’s Reform	V Appendices <ul style="list-style-type: none">1. Consolidated Financial Statements2. Financial and Nonfinancial Highlights3. Corporate Profile / Global Network
III Management Strategies <ul style="list-style-type: none">1. Interview with the Chairman2. R&D Strategies3. Special Feature “Three Crises”<ul style="list-style-type: none">Special Feature 1: Wellness-first Global EnvironmentSpecial Feature 2: Wellness and Comfortable LifeSpecial Feature 3: Wellness	

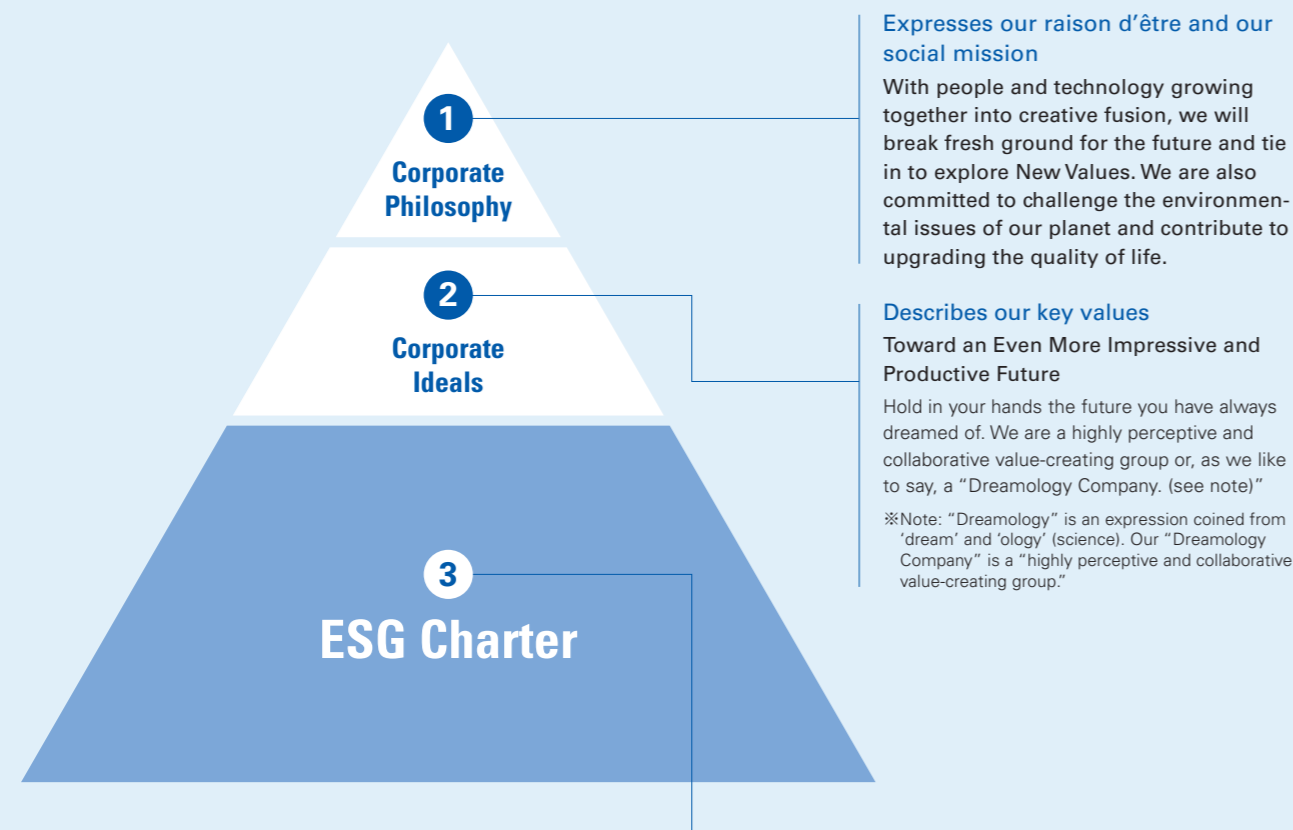
From the Editorial Team
Kaneka Integrated Report 2018, covering both financial and non-financial information, has been issued to enhance the understanding of our stakeholders regarding the Kaneka Group’s value creation in the medium to long term. It is created based on the Medium-term Management Plan as of March 31, 2018.

Organizations Covered in This Report
This report covers Kaneka Corporation and its consolidated subsidiaries both in Japan and other countries. The data on Responsible Care activities encompass the parent and all 60 Group production subsidiaries. In this report, “Kaneka” refers specifically to Kaneka Corporation. “Kaneka Group” encompasses Kaneka Corporation and Group companies (its consolidated subsidiaries). References to “Group company/companies” do not include Kaneka Corporation.

Notes Regarding Future Prospects
Statements in this report regarding performance forecasts and other future prospects are based on currently available information and certain assumptions that we consider reasonable, and Kaneka Corporation does not guarantee their achievement. Actual results may differ greatly due to various factors.

Management Philosophy Structure

“Declaration of Kaneka United”



Putting the Corporate Philosophy Into Practice

1. We offer solutions characterized by value to global markets and contribute to the evolution of lifestyles and the environment through innovative chemistry.

- ① We bring innovation to lifestyles and the environment by harnessing the unlimited potential of chemical materials to help communities achieve sustainability. (Earthology Chemical Solution)
- ② By adopting a unified approach to food and medicine that is defined by a focus on chemistry, we provide innovative solutions that empower people to live healthier lives. (Active Human Life Solution)

2. We fulfill our social responsibility by empowering individual employees to put our corporate philosophy into practice through serious, forward-looking effort.

- ① We actively contribute to our communities by cultivating understanding of the cultures and customs of the countries and regions where we do business and by pursuing corporate activities that are deeply rooted in those communities.
- ② We operate our businesses in a fair and impartial manner based on the principles of free competition and legal compliance.
- ③ We’re committed to communicating with shareholders and other stakeholders and to making information about our operations available in a timely and appropriate manner.
- ④ We strive to foster an organizational culture that respects the personalities and uniqueness of all employees so that they can enjoy good health, feel motivated, and make the most of their abilities.
- ⑤ Reflecting a commitment to make safety the top priority in our operations, we work to create safe and healthy workplaces, ensure product safety, and protect and preserve the environment.

In 2018, Kaneka Group established the ESG Charter, aiming to evolve its ESG management.

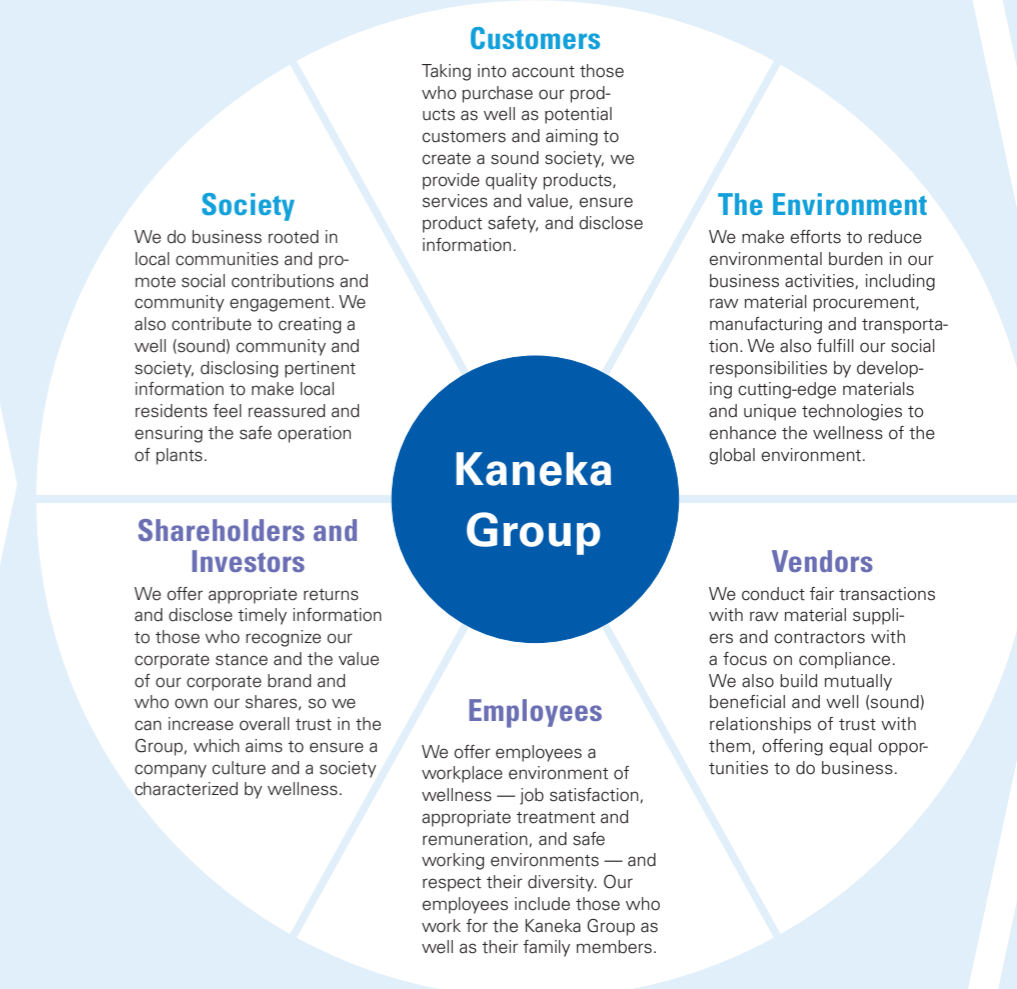
Kaneka Group’s Stakeholders

Kaneka Group’s ESG Activities

Working to resolve social issues to keep the world well

Providing Valuable Solutions

Pursuing Social Responsibility



As good citizens, we will conduct out business activities, while respecting all stakeholders.



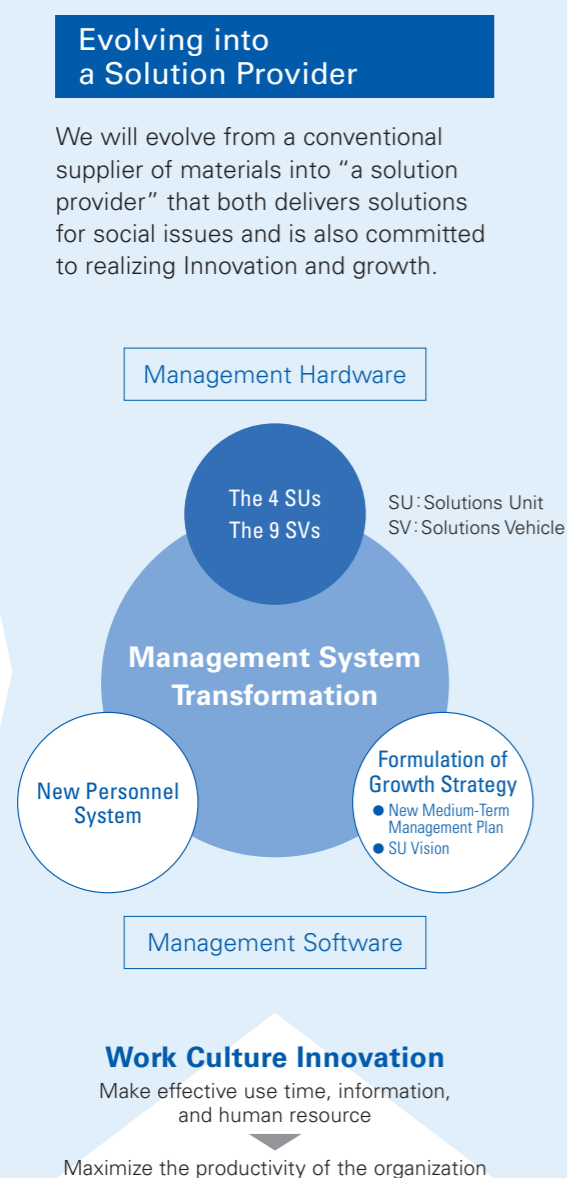
Support for the United Nations Global Compact

In March 2015, the Kaneka Group became a signatory to the United Nations Global Compact. The UN Global Compact is a voluntary code of conduct through which the top management of signatory companies commit themselves to take action aimed at achieving ten principles in the four areas of Human Rights, Labour, Environment, and Anti-Corruption. As a group with a global network, we actively share information about our commitment to global sustainable growth as a responsible corporate citizen with our stakeholders and the international community.

New Management System

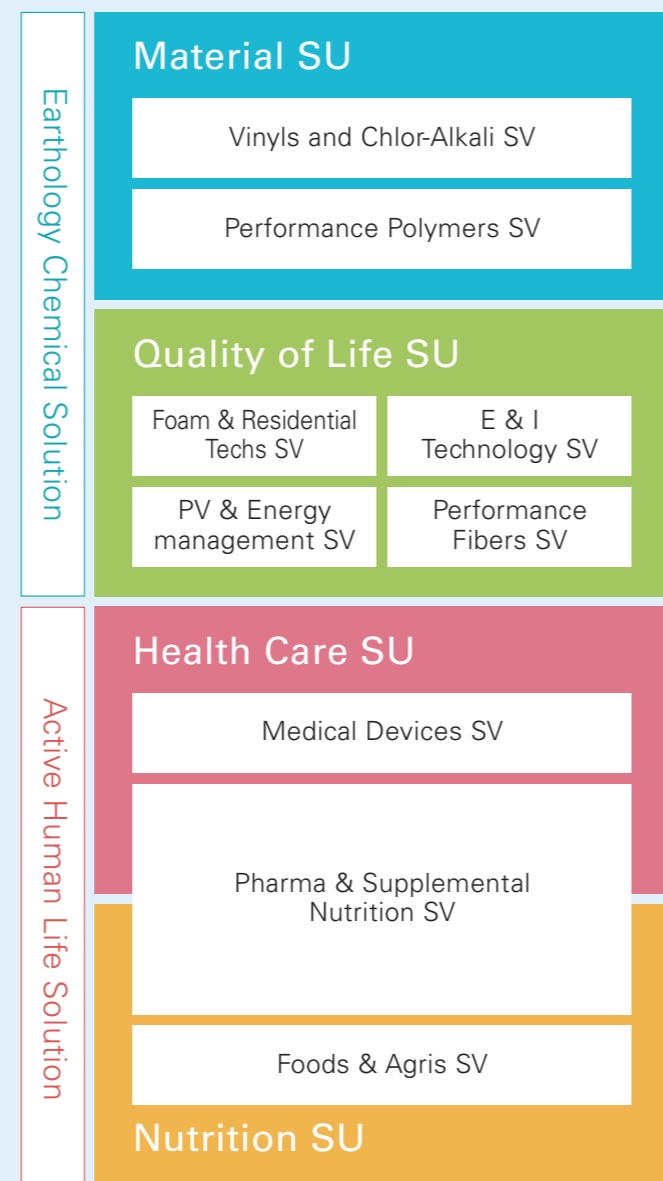
Under a new management system, we will further accelerate our transformation into a solutions provider

We have created a new management system to deliver solutions that resolve social issues and contribute to making our stakeholders and the world more wellness-first. Under this system, management hardware comprising four Solutions Units (SUs) and nine Solutions Vehicles (SVs) was built, and a growth strategy was formulated as an intended direction. We have also established a new personnel system for realizing the strategy to accelerate our innovation and growth.



→ For details, see the Interview with the Chairman (p.11-18).

New Management System



→ Four SUs are divided into two large domains. More details are provided on the following page.

Solutions Unit vision

Measures



Material Value Creator

To support the advancement of life and the environment by drawing out the richness of the materials

Contribute to global environmental conservation and comfortable living

- Provide outstanding materials for evolving social infrastructure, mobility (lighter weight, more fuel efficient vehicles), and more
- Provide solutions where materials like biopolymers are of direct help to ecological society



Quality of Life Pathfinder

To produce the leading edge of the enhancement of the quality of life through the power of materials

Contribute to energy-saving and a rich life

- Deliver energy-efficient housing solutions→Create a high quality, sustainable housing market
- Provide unique materials and services that excel regarding both energy-saving and smart application needs



Medical Edge Explorer

To create a world in where advanced medical means are available to as many people as possible

Contribute to a society advancing in age and medical sophistication

- Strengthen marketing and product development globally in cutting-edge medical fields including biopharmaceuticals, and regenerative medicine and cell therapy
- Proactively utilize open innovation and U.S. R&D bases
- Provide solutions that deliver value by fusing devices and medicine



Nutrition Value Chain Innovator

To re-innovate food and health

Contribute to health and a plentiful, varied diet

- Provide a broad range of solutions that help diversify and enrich people's diets
- Offer solutions that help prevent disease and promote health, and enhance the food materials lineup
- Deliver solutions that assist production in the fields of agriculture, livestock, and fishery

KANEKA thinks “Wellness First”

Continuing to create value as a solution provider for issues facing the world

We focus on three crises as social issue areas in which we can make contributions through our business. We will continue creating high added value to resolve social issues in these areas through open innovation, ensuring issue resolution and sustainable growth.

KANEKA thinks

Advancement of ESG Management

KANEKA'S ESG
Trial & Error experiment driven company

By providing valuable solutions globally, we will continue growing and building a reputation for contributing to the evolution of people's lives and the environment throughout the world.



Contribute to the advancement of life and the environment of people world wide through chemistry

Earthology Chemical Solution

Aim to be an innovation leader for the global environment and lifestyles by drawing out the unlimited possibilities of chemical materials and supporting sustainable societies

Material SU

To support the advancement of life and the environment by drawing out the richness of the materials

Quality of Life SU

To produce the leading edge of the enhancement of the quality of life through the power of materials

Active Human Life Solution

With a central focus on chemistry, treating food and medicine as one, aim to be an innovative solutions provider supporting healthy and active lives

Health Care SU

To create a world in where advanced medical means are available to as many people as possible

Nutrition SU

To re-innovate food and health

“Wellness First”

Three Crises Resolution of social issues

Environment / Energy

Realizing a society where everyone can enjoy natural blessings and can use clean and sustainable resources and energy

Food

Realizing a society where safe, secure and highly nutritious food is available to everyone and where food producers also feel happy

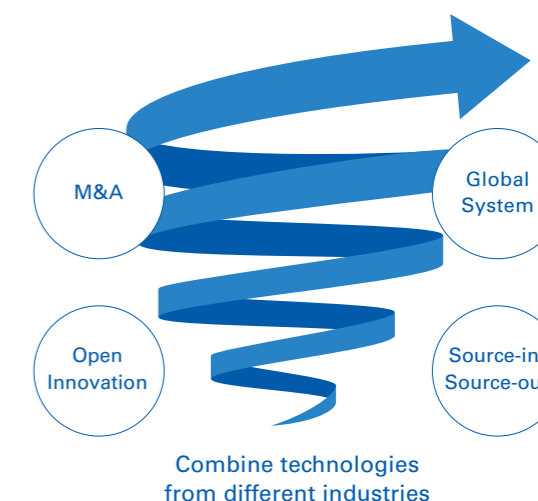
Wellness

Realizing a society where everyone has access to adequate medical services and can continue to live a vibrant and brilliant life



Create added value

In addition to management system reform, M&A-based discontinuous growth is also essential for achieving our long-term vision. By breaking away from our self-sufficiency policy and adopting open innovation, we will pursue technological innovation and cluster our business and products based on external technologies. Thus, we will acquire cutting-edge technologies and accelerate new business development to continue creating added value.



History of Kaneka's Reform

Recognizing the changes of the times to realize continuous innovation and growth

Since its foundation in 1949, Kaneka Group has achieved growth by overcoming changes in the times and business environment through a creative fusion of people and technology. We will provide value globally to resolve social and global issues by offering various innovative products.

Foundation

Establishment of foundation businesses leading to future growth and promotion of global business expansion

1949 Kanegafuchi Chemical Industry Co., Ltd. established

Establishment of foundation businesses

- Successively turned foundation businesses based on macromolecular and fermentation technologies, which covered polyvinyl chloride, fermentation-based butanol, modacrylic fiber and polystyrene foam made with the bead method, into commercially feasible businesses. Actively strengthened the food business covering margarine and shortening (1949–)
- Created new businesses covering cocoa butter equivalents, MBS resin and polystyrene foam resin (1961–)
- Developed metabolic cardiogenic drug bulk “ubidecarenone (CoQ10)” using the fermentation method (1977)
- Developed photovoltaic modules and ultra-heat-resistant polyimide film (1984)



Takasago Manufacturing Site at the time of its founding (Takasago City, Hyogo Prefecture)

Acceleration of global expansion

- Successively established Kaneka Belgium N.V., Kaneka America Corporation, Kaneka Singapore Co. (Pte.) Ltd., and Kaneka Texas Corporation (now Kaneka North America LLC), to accelerate the global expansion of its business (1970–)
- Established Kaneka (Malaysia) Sdn. Bhd. and Kaneka Consulting (Shanghai) Co., Ltd. (now Kaneka Trading (Shanghai) Co., Ltd.) to expand its business in Asia (1995–)



Distant view of Kaneka Belgium N.V. at the time of founding



Kaneka (Malaysia) Sdn. Bhd.

Second Foundation

Change of its company name and management system and successive establishment of new businesses

- 2004 Trade name changed to Kaneka Corporation
- 2009 Long-term vision (Declaration of Kaneka United / Basic CSR Policy) formulated

Development of innovative technologies and products

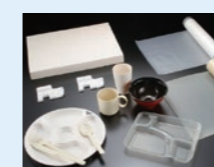
- Released the functional food material “Kaneka Coenzyme Q10” (2002)
- Industrialized the world's first telechelic polycylate, followed by the development of nanocomposite technology, a new modifier for epoxy resin, a transparent resin with heat and light resistance, and a high thermal conductive graphite sheet (2006–)
- Developed a balloon catheter for heart disease of the nation's smallest size among its own products (2007)
- Began the full-fledged development of 100% plant-based biodegradable polymers (2009)



Functional food material “Kaneka Coenzyme Q10”



Balloon catheter for heart disease of the nation's smallest size among its own products



Usage example of 100% plant-based biodegradable polymers

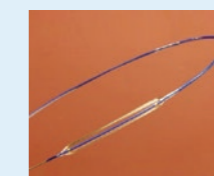
Third Foundation

Becoming a solution provider that contributes to a sustainable society

- 2017 A new management system adopted
- 2018 ESG Charter established as guiding principles for the materialization of the Corporate Philosophy

Active promotion of M&A and open innovation

- Acquired full ownership of a bio-pharmaceutical company, Eurogentec S.A. (2016)
- Established Kaneka US Innovation Center (2016)
- Introduction of drug-coated balloon technology (2017)
- Acquired an aircraft composite business (Kaneka Aerospace LLC) and invested in a company specializing in lactic acid bacteria (2018)



Introduction of drug-coated balloon technology



Acquisition of an aircraft composite business (Kaneka Aerospace LLC)



Investment in a company specializing in lactic acid bacteria (technology import)

Provision of value on a global scale

- Established Kaneka Taiwan Corporation, Kaneka Korea Corporation and Kaneka South America Representative Ltd. (2011–)
- Established regional headquarters – Kaneka Asia Co., Ltd. (2012), Kaneka Americas Holding, Inc. (2012) and Kaneka Europe Holding N.V. (2015) – to strengthen the Group's functions



Overseas holding companies in Asia, the Americas and Europe



Kimikazu Sugawara
Chairman and Representative Director

Interview with the Chairman

The transformation of our management system is our top priority right now.

Awareness of the times and outlook that Chairman Sugawara values as an executive

Managing a business means remaining aware of the times in which one is living and working. My approach to be a man of action means visiting the sites where innovation is being pursued in the countries of Europe, North America, and Asia; talking with customers; and updating my awareness of the times accordingly. In these times of rapid change and unclear direction, I value my outlook and worldview. I'm trying to organize my thoughts, ascertain what it means to live right now, and practice management accordingly by means of the current transformation of our management system.

Contributing to the health field to help people live well

Right now, there are three areas where Kaneka can make a contribution to the crises being faced by the world. The first involves problems of health. It is becoming important for people to be able to enjoy healthy lives up to the age of 100. Leading a rich and satisfying life means being able to work no matter one's age.

People and animals alike draw nutrients from what they eat to boost immunity system and maintain their bodies. We are working to strengthen our businesses through an approach to management that sees foods as a source of nutrition and uses that awareness to develop supplements, pharmaceuticals, and medical products.

Food as a field where Kaneka can contribute by adding value

The second area involves problems of food. When we consider the food crisis in light of the need to improve lifestyles and quality of life, we come to see it as an issue that cannot be separated from health. In January 2018, we entered into a technological alliance with Pur Natur in Belgium, a company whose organic dairy products comprise a strong brand in Europe. We're working to leverage our partner's technology and brand to raise quality while reducing costs. We're planning to build a successful business by adding our expertise and technology to what has long been done in the areas of dairy farming and agriculture to provide new value to society.

In Hokkaido, we're already working with dairy farmers to supply milk, high-quality butter, and functional yogurt. And we're also working with farmers to develop fertilizers that will raise the productivity of crops.

Turning to the world, there are many children starving to death, which is just an example of food crisis. To solve it, we will work to allow production of food even in harsh environments that are characterized by excessive heat, extreme cold, and desert-like water shortages. We will leverage the life science technologies that Kaneka has accumulated over many years to pursue initiatives that support life.

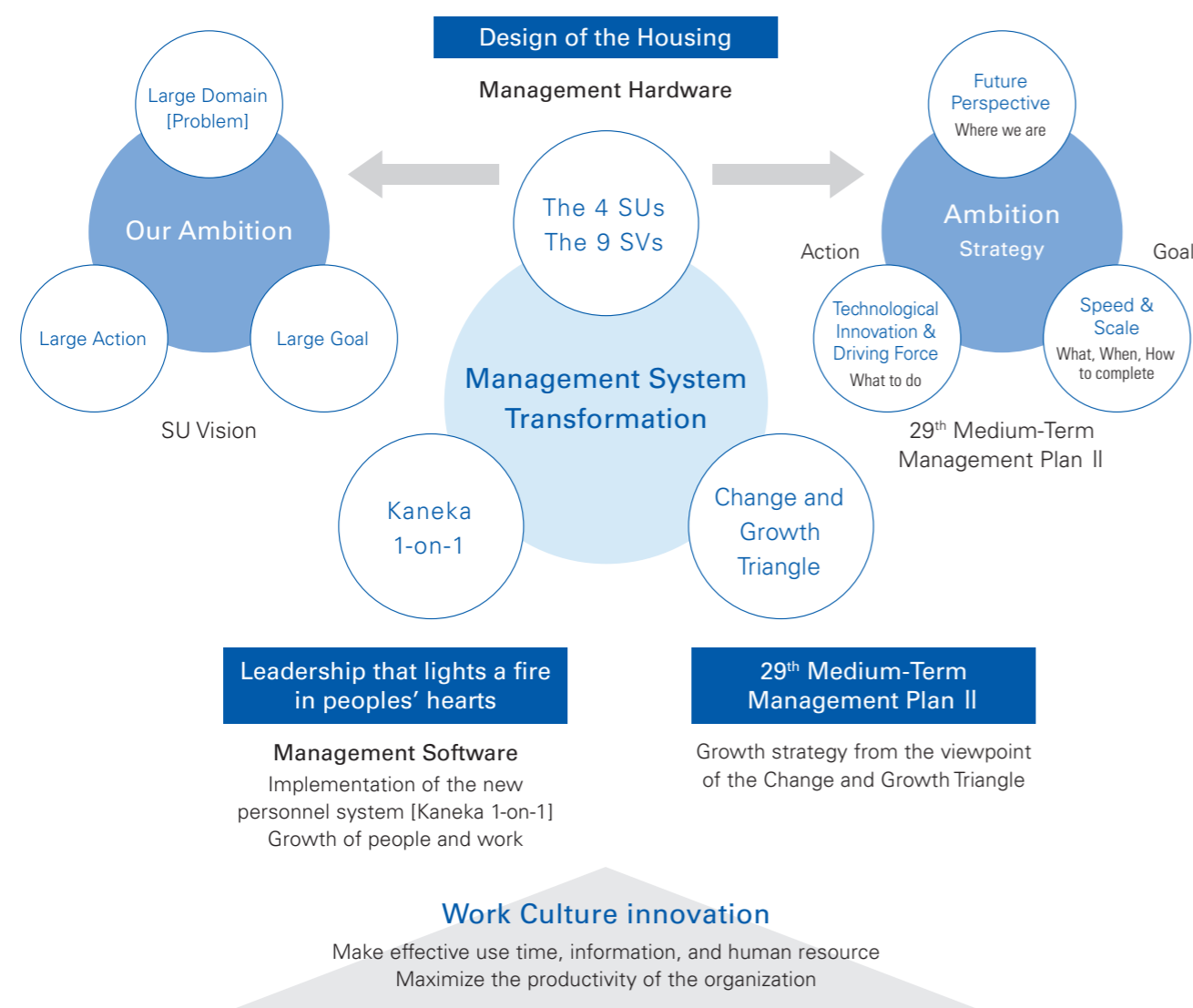
What we can do in the field of environment and energy on behalf of the future Earth

The third area involves problems of environment and energy. The Earth's population will reach 10 billion after a few decades. If the present state continues, we will exhaust our sources of energy. We are supplying solar power systems as well as homes and products that manage energy. We believe that the question of how we can effectively convert unlimited sunlight into energy and then put it to use will be critical. By further advancing our

technologies, we want to convert the unlimited resource of sunlight into energy and supply it at stable prices.

In addition, attention has been focused on the problem of micro-plastic pollution in the world's oceans. Kaneka can contribute to solve environmental problems by providing our bio-degradable polymers.

Chemistry provides technologies that support life. We should be aware of it and would like to spur innovation by developing new technologies.



Being a healthy company and practicing ESG management are linked by the idea of how we can play a useful role.



What Wellness-First Management means for Kaneka as a company that is committed to making the world a healthier place

In FY2018, we adopted "Wellness-First Management" as our management policy. For us, that concept entails a healthy way of thinking about things, not just the idea of being healthy as individuals.

Of course, employees can only do their jobs well if they enjoy physical and mental health. We have created an internal Work Culture Committee, and we're implementing measures to provide mental and physical care. We're also using IT to focus on jobs that only people can do, for example thinking about things, developing strategies, and considering the future.

manage to provide both types of value are healthy companies.

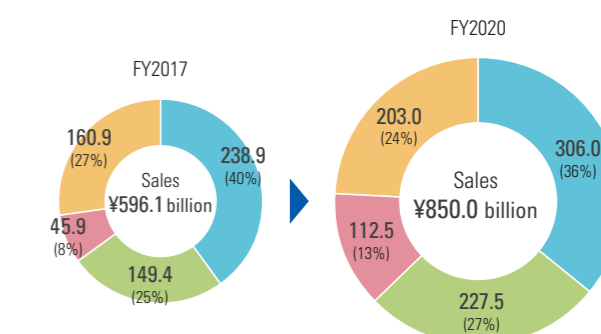
Another priority is to earn cash through our core businesses and then use that cash to conduct research and development for new businesses so that we can transform our portfolio. Like living creatures, companies that can change through metabolism are healthy. We see "Wellness-First Management" as the process of growing into such a company.

What lies at the heart of the transformation of our management system?

The figure to the left illustrates the transformation of our management system. This is

Our goal of transforming our portfolio

Material Quality of Life Health Care Nutrition



What companies can gain from a ceaseless metabolism

The essence of Kaneka's approach to ESG management lies in asking whether we're playing a useful role. It's important to face up to social demands and solve them. We pursue social value by continually asking whether we're playing a useful role as we pursue economic value. I believe that companies that

We are supporting new challenges by incorporating the importance of trying new things into our concept of Kaneka as “Trial & Error experiment driven company”



a major priority that the management of the company is currently pursuing. In 2017, we identified four Solutions Units (SUs) as our business domains and developed a vision for each. By adopting these four SUs as a new framework, our goal is to remove organizational barriers in the form of SUs and Solutions Vehicles (SVs) as well as market barriers so that we can see things from a broader perspective. Right now, interactions between SUs and SVs are leading to synergies in technologies, manufacturing, and markets.

We have also broken through barriers in the area of biodegradable polymers, which is an area that’s attracting significant attention, by adopting an unprecedented new approach. Connecting biochemistry to the chemistry of plastic is something that only Kaneka is in a unique position to do.

Continuing to ask how we should move forward using the change and growth triangle

Last year, we launched a transformation of our management system. This year, we compiled the management transformation system into three packages: four SUs and nine SVs, Kaneka 1-on-1 and the change and growth triangle. Our four SUs and nine SVs comprise the vessels into which our employees pour their spirit. The perspective we need is the change and growth triangle. The framework of the medium-term plan is to identify the problems, decide the actions e.g., breakthrough technology, and judge the goals, considering scale and speed. To that end, we should place particular emphasis on continually asking “Why not yet?” in order to achieve the technological innovation.

Accelerating the growth of people and the company through the enthusiasm of leaders

If the change of growth triangle is the hardware, then the software is “Kaneka 1-on-1”, which relates to people. We will reassess how we evaluate the work and the nature of our organization. Leaders who inspire employees will play the central role in cultivating engagement and spontaneous, voluntary motivation as we create mechanisms to facilitate personal growth through employees’ jobs.

Since 2018, we have embraced the concept of Kaneka as “Trial & Error experiment driven company”. Our aim has been to focus on the importance of trying new things, the idea that you may find something by failing over and over again. My desire to fuel employees’ willingness to embrace new challenges lies behind that concept. Failure teaches success.

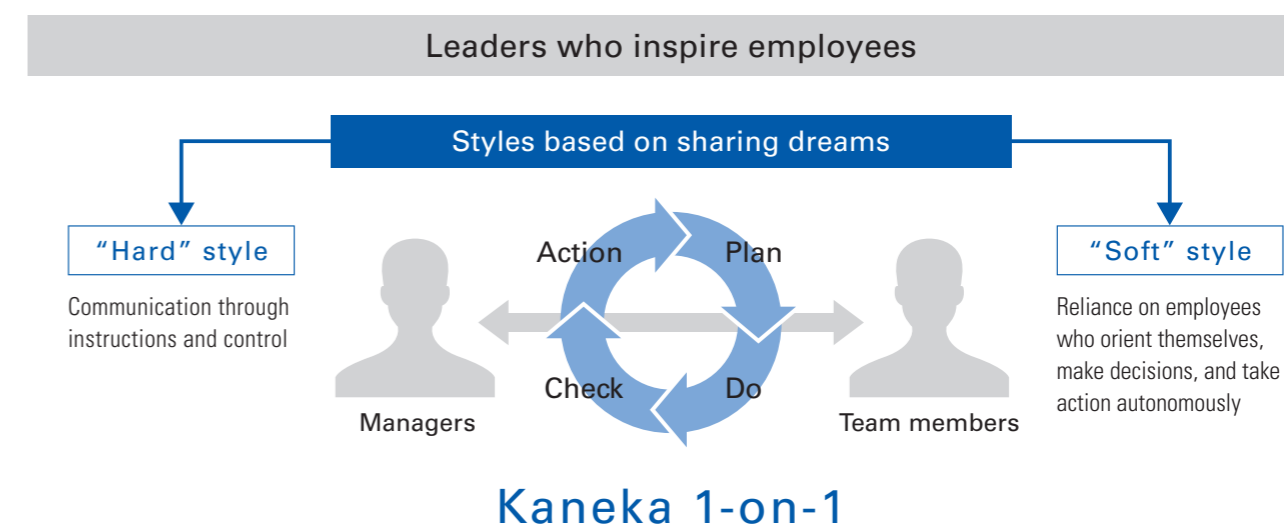
In addition to four SUs and nine SVs, the company will realize a metabolism like a living creature utilizing the “change and growth triangle” as hardware and “Kaneka 1-on-1” as soft-

ware. That is the approach behind the transformation of the management system that we introduced in 2018.

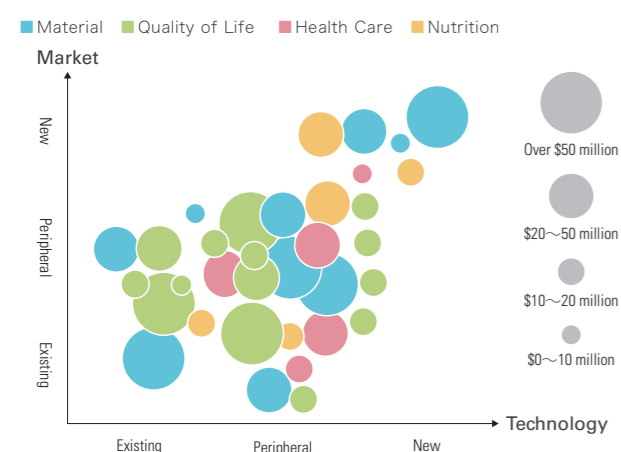
What is the strategy that will drive Kaneka’s growth?

One key concept in Kaneka’s growth strategy is diversity. Kaneka has broad business domains, a diverse range of technologies, global corporate activities, and a diverse workforce. These assets urge us to create new products and launch new businesses. A second key concept is an approach of providing solutions rather than materials only. It is not enough to simply supply products if we want to be a solution provider. A third key concept is a focus on market needs. We must listen to customers’ feedback and use our technologies to propose solutions that go beyond customers’ own expectations. By giving shape to an approach that moves from products to solutions, our interface with customers will become a lifeline. Finally, a fourth key concept is the idea of starting small and growing big. We can create numerous unique products

► Kaneka 1-on-1



> Capital investment under consideration



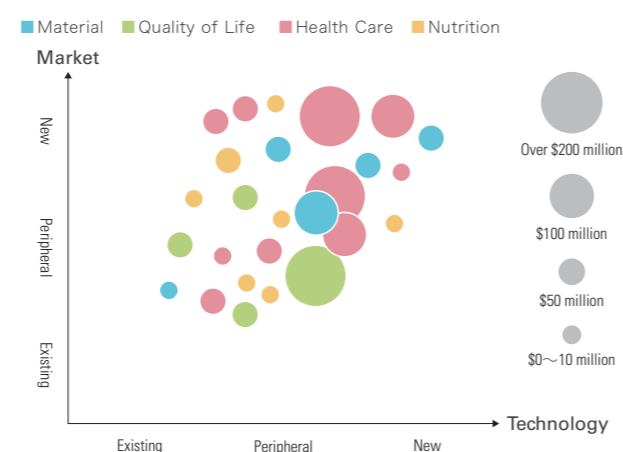
and technologies and then combine them in response to the needs of the times in order to foster their growth. I believe that this is a key strength of Kaneka.

Searching for new potential in a world without borders

Until a little more than a decade ago, Kaneka did not emphasize M&As or open innovation. However, markets and the flow of technology are no longer constrained by national borders. In order to broaden and strengthen the company's business domains, we will need to try a variety of new combinations. We are working to create solutions to society by combining technologies from outside the company with what we have.

Specifically, we have acquired technology from the Swiss company Med Alliance so that we can manufacture balloon catheters that are coated with a cardiovascular pharmaceutical. We have also purchased a high performance composite materials business so that we can enter the aerospace field. Additionally, we have

> M&As under consideration



invested in the Spanish company AB-Biotics, which is developing unique products using lactic acid bacterium. In this way, expanding the scale of our operations through M&As is an extremely important strategy that will serve as a driver of our growth in the future.

Giving shape to a world we imagine through creative, impactful technology

It goes without saying that pursuing the research and development that provides the core of our own technologies is also an important driver of growth. The Three Is — Impactful, Innovative, and Implementable — are important considerations as we invest management resources in a concentrated manner. This means we need to anticipate technologies whose scale will allow them to make a major contribution to society and then implement them. Currently, we are strengthening our efforts in the life sciences and electronics, and we are particularly focused on regenerative medicine and cell therapy and biopharmaceutical.

We invest about 5% of Kaneka Group sales into research and development, and that investment will continue to grow over time along with sales. As a result of that investment, we will increase new product sales as a percentage of total sales. During FY2018, that figure was around 25%, but we are striving to increase it to more than 30% in the near term.

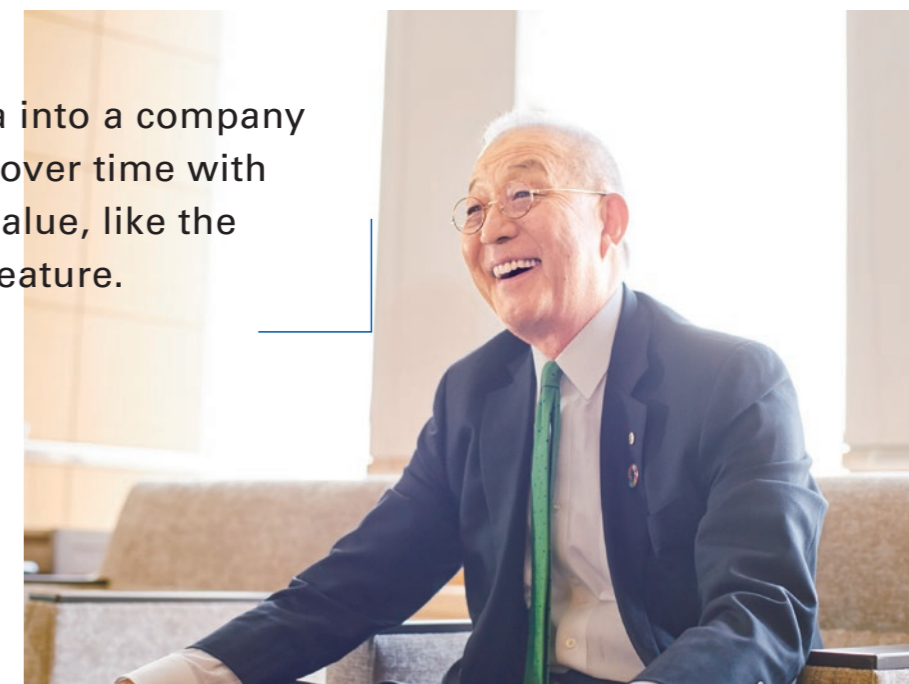
Pursuing both global and glocal as a big niche company

Another pair of strengths of Kaneka is the combination of global and glocal. Overseas sales account for more than 65% of our total sales, excluding businesses that serve domestic demand. To date, Kaneka has always adopted a global perspective as it develops its businesses. This thoroughgoing global perspective is a strength. We have established a series of regional headquarters since 2012, and today we continue to localize management.

Becoming a company brimming with capability and energy

My goal is to turn Kaneka into a company whose metabolism creates new products and does work that plays a useful role in the world. As teams give voice to competing opinions and ideas, the process will bring about flashes of inspiration and innovative ideas. The old will be replaced by the new. The cash generated as a result will give rise to new value, and our portfolio will change. A company capable of achieving this type of metabolism is a truly healthy company, and I think such health derives from the process of change. The most important thing is to turn this approach into mechanisms and to ensure that they function effectively.

My goal is to turn Kaneka into a company whose portfolio changes over time with the introduction of new value, like the metabolism of a living creature.

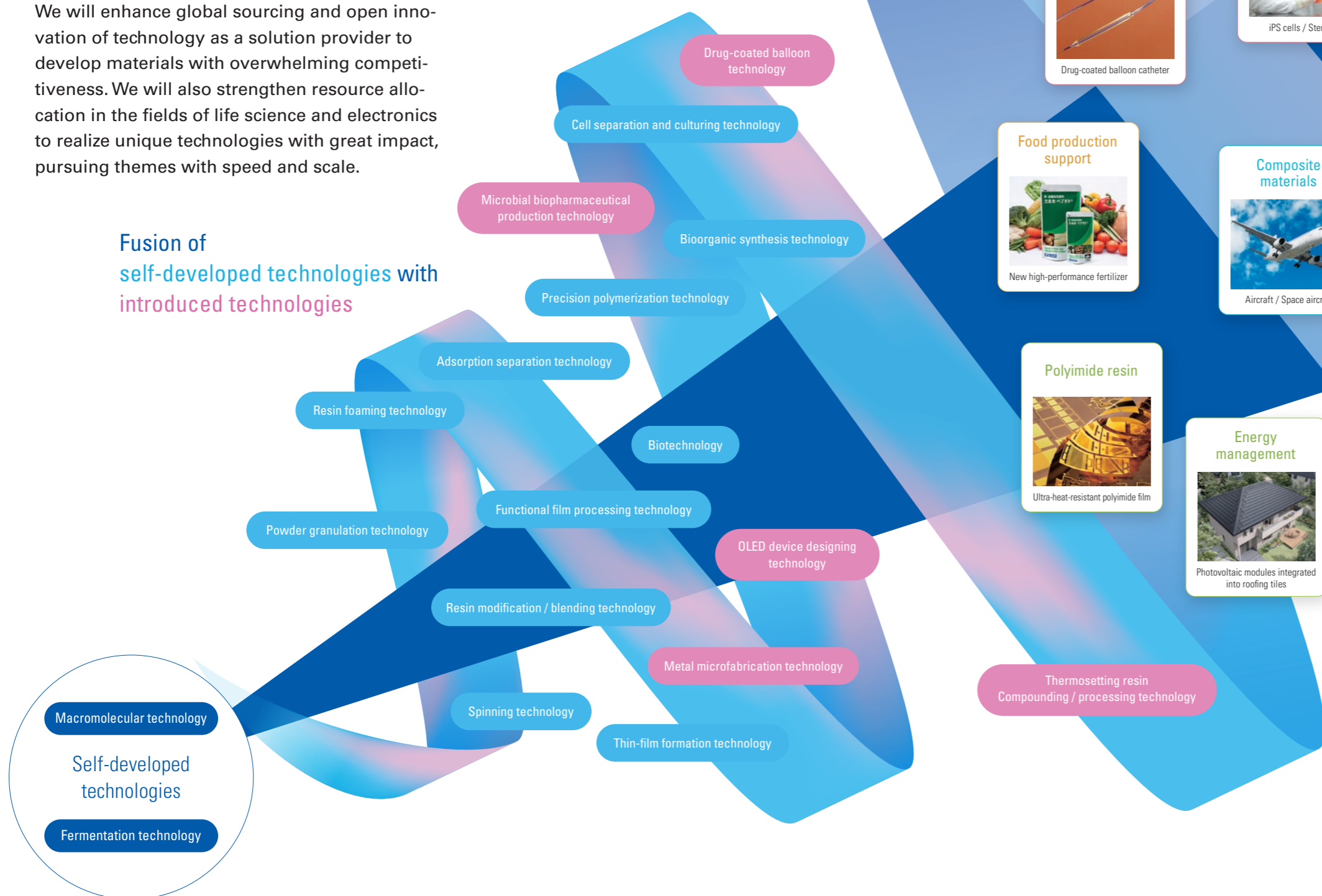


R&D Strategies

Achieving sustainable growth by expanding and evolving a technology base through the introduction and fusion of advanced technologies

We will enhance global sourcing and open innovation of technology as a solution provider to develop materials with overwhelming competitiveness. We will also strengthen resource allocation in the fields of life science and electronics to realize unique technologies with great impact, pursuing themes with speed and scale.

Fusion of self-developed technologies with introduced technologies



Key technologies and key drivers for the future

Technological innovation and sustainable growth

Material

Enhancing thermoplastic and thermosetting resin blending and processing technology and advancing integrated technological development from macromolecular design to processing, with macromolecular structure design and precise synthesis technologies as the core, to create new materials, including biodegradable resin produced using heat-resistant composites and macromolecular and bio-technologies.

Quality of Life

Putting into practical use materials that help evolve electronics and a living environment based on the development and introduction of advanced thin-film formation technology, functional film processing technology and extrusion molding technology.

Health Care

Fusing newly introduced catheter-related technology with macromolecular technology, and newly introduced advanced technologies, including microbial biopharmaceutical production technology and regenerative medicine and cell therapy technology, with self-developed technologies to expand the technological field in a spiral manner.

Nutrition

Approaching nutrition from an engineering perspective by acquiring new technologies and developing innovative production technologies, in addition to existing genome editing technology and biotechnology.

Earthology Chemical Solution

Create a comfortable and sustainable living environment

Special
Feature

1

Wellness-first Global Environment

Contributing to resolving growing micro-plastic issues in the ocean by offering 100% plant-based biodegradable polymers

Social Needs and Kaneka's Plan

The government and companies are accelerating actions amid increasing concerns over the impact of micro-plastics on the ecosystem.

Plastic products are convenient and essential in our daily lives. Meanwhile, there are increasing concerns that micro-plastics, which are floating in the oceans without being properly disposed of, have an adverse impact on the ecosystem and human health.

These marine plastic pollution issues are accelerating the global movement to reduce the use of disposable plastic products. The UK plans to ban their use in 2019, followed by EU countries. In this situation, major food and beverage manufacturers and fast food chains across the world show considerable interest in biodegradable polymers, which are environmentally friendly plastics.

To hand down a beautiful global environment to future generations, we will contribute to resolving environmental pollution issues caused by disposable plastics through the development of new materials.

What is micro-plastic?

Micro-plastic refers to tiny plastic particles with a diameter of under 5 mm that break into fine pieces while adrift in the ocean.



Amount of plastic trash flowing into the ocean

Over 8 million tons annually

Source: Jambeck et al. 2015

Kaneka Group's Efforts

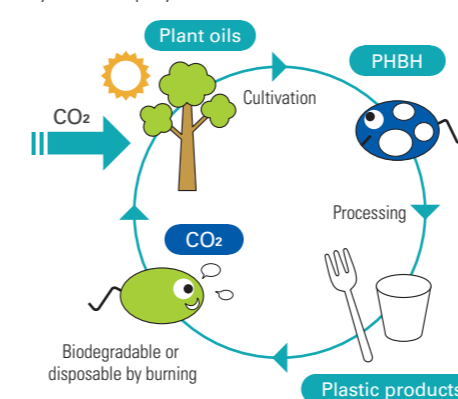
Putting 100% plant-based biopolymers to practical use for the first time in the world

Since 2009, we have fully focused on developing biodegradable biopolymer PHBH derived 100% from plants. Our development was realized by fusing our original fermentation technology cultivated through many years of research on yeast and our resin blending and processing technologies. This was the world's first industrialization of biodegradable biopolymer

PHBH.

Made from biomass, such as plant oils, PHBH is first accumulated in the bodies of microorganisms as polymers. These polymers are processed without the use of organic solvents and are commercialized. Unlike general plastics, PHBH is decomposed into carbon dioxide (CO₂) and water in the natural environment, for example, in soil or water.

Life cycle of biopolymer PHBH



Application examples of PHBH



Obtained the “OK Biodegradable MARINE” certificate

Expanding applications as a marine material

In November 2017, we obtained “OK Biodegradable MARINE” certification for PHBH. In March 2018, our biodegradable polymer PHBH was registered as a “Food Contact Substance” by the U.S. Food and Drug Administration. These achievements enable us to use it as marine materials, food packaging materials and compost bags. We will accelerate the development of new biomass-based products with biodegradable property.



“OK Biodegradable MARINE” certification granted by VINÇOTTE, an international certification body

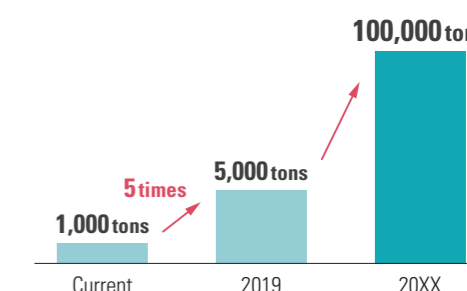
Future Prospects

Aiming to expand our business by increasing production capacity through aggressive investment

Amid increasing demand for biodegradable polymers mainly in the environmentally conscious European market, we decided to install larger production equipment in the Takasago Manufacturing Site. Investing 2.5 billion yen, we plan to start operating new equipment with an annual production capacity of 5,000 tons in December 2019. As the next step, we are considering constructing a large-scale commercialization plant, aiming to achieve 100,000 ton-scale business in the future.

We strive to contribute to a sustainable society by supplying PHBH products.

Production capacity scheme for biodegradable polymers



Special
Feature

2

Wellness and a Comfortable Life

Realizing a wellness and a comfortable life by properly creating and using energy from nature



Social Needs and Kaneka's Plan

From an era of energy consumption to an era of energy creation

To supply energy, it is necessary to ensure stable supply, greater economic efficiency, environmental compliance and safety in a sustainable manner. In Japan, there are various energy-related issues, including low energy self-sufficiency, regional dependence in oil and gas procurement, and greenhouse gas emissions. We strive to resolve these issues by offering solar cells as renewable energy sources and net zero energy management system materials for houses and buildings.

A growing number of solar cells installed globally

2020
591 GW
2030
1,760 GW

Source: IRENA Rethinking Energy 2017
“Accelerating the global energy transformation”

Kaneka Group's Efforts

Kaneka's technologies that expand solar power generation possibilities

Solar power generation is gaining attention as an important renewable energy source in Japan, which aims to create a low carbon society.

How much more energy can be generated from incoming sunlight? To this end, we have advanced the development of crystalline silicon solar cells and have achieved the world's highest*1 cell conversion efficiency of 26.63% in a practical size (180 m²) cell.

We are also trying to enable these solar cells to be placed not only on the ground and rooftops, but also on other surfaces, including building walls and openings. This will provide a wider range of choices for creating energy. However, we face many difficulties in realizing it, as we are strictly required to meet requirements, including securing durability and glare resistance under any environmental conditions and creating designs that do not detract from the original appearance. We will expand energy possibilities by resolutely addressing these challenges.

*1 As of August 21, 2017, for non-concentration type crystalline silicon solar cells [Search by Kaneka Corporation]



Kaneka Sustainable New Town
(Front) A show house that enables the physical experience of living in a Solar Circuit House

Wisely using energy in a “local production for local consumption” manner

Energy generated from natural resources should be efficiently used. One of our greatest strengths is that we offer a wide lineup of materials for net zero energy houses (ZEHs).*2

Specifically, our Solar Circuit House is a highly airtight, heat-insulating house that provides comfort and energy-saving performance. The entire house is completely covered with an insulation material called Kanelite Foam, and the Solar Circuit (SC) method, combining external heat insulation and double ventilation techniques, realizes a comfortable life without excessive dependence on air conditioners.

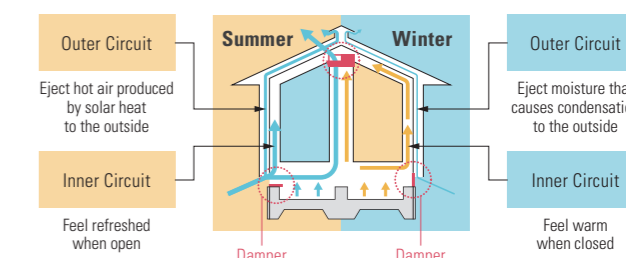
If equipped with VISOLA, a solar-cell system built into house tiles, the Solar Circuit House can have storage batteries and an energy management system, so that lighting equipment and air conditioners can be used with the electricity generated during daylight hours on sunny days, and surplus power can be sold. This can help local production for local consumption of energy.

We are also committed to realizing net zero energy buildings (ZEBs).*2 To promote ZEBs, it is important to increase the energy self-sufficiency rate by installing a photovoltaic system in various locations, including walls, windows and roofs. We are making progress on ZEB solutions, developing photovoltaic windows and photovoltaic walls (building integrated photovoltaics [BIPV]).

*2 A net zero energy house (ZEH) or a net zero energy building (ZEB) refers to a house or building that basically achieves zero net primary energy consumption (for air conditioning, hot-water supply, lighting and ventilation) annually by increasing heat insulating and energy saving properties and creating energy through photovoltaic systems.

Earthology Chemical Solution

➤ Solar Circuit (SC) method, combining external heat insulation and double ventilation techniques

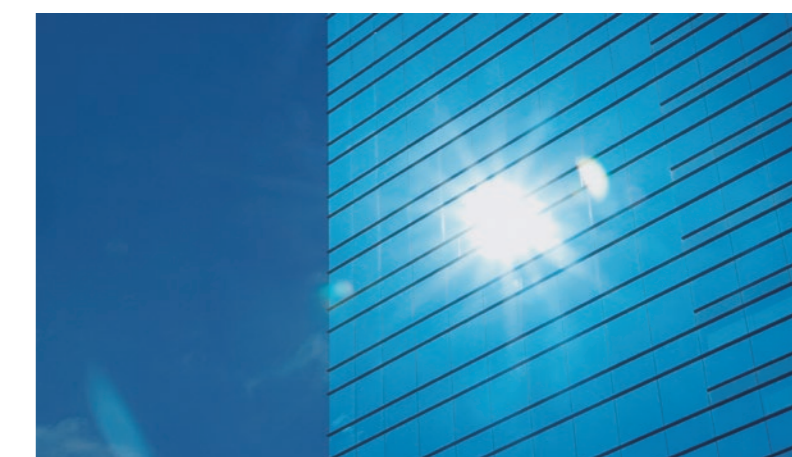


Kaneka “Dreamology” Center with low-reflective solar cells installed on walls and handrails equipped with thin-layer see-through solar cells that transmit light

Future Prospects

Proposing multiple business models, using diverse materials, to help resolve energy issues

The development of net zero energy management systems for houses and buildings designed with a focus on solar cells is reviewed globally. We will promote projects combining our diverse materials and multiple business models to enhance solutions to global energy issues.



Earthology Chemical Solution

Wellness-first and Comfortable Life

Offering highly functional materials to support the evolution of equipment that uses IoT and AI technologies fundamental to wellness and comfortable living

The arrival of an IoT- and AI-based society has rapidly improved the performance of digital devices and communication systems, and has brought significant changes to our work and life styles. These trends are expected to accelerate, leading to a surge in the use of home sensors and the evolution of wearable terminals and devices, such as smart glasses, followed by higher complexity and greater heat generation and densification in communication design.

To respond to these market changes, we have focused on heat- and cold-resistant polyimide film and polyimide-based graphite sheet with three times the thermal conductivity of copper, and have established an integrated production system for these materials. This enables us to quickly develop products tailored to customer needs.

We will continue to support equipment that serves as infrastructure for more comfortable lives.

Responding to globally ballooning demands

Investment in production equipment

Approx. **11 billion yen**

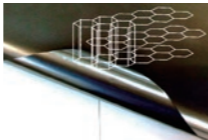
Ultra-heat-resistant
Polyimide film

Annual production capacity
Approx. **30% increase**



Ultra-high thermal conductivity
Graphite sheet

Annual production capacity
About **three times increase**



* Scheduled to operate in the spring of 2019

■ Expanding polyimide-related market

	2017	2018	2019	2020	~2025
Communication Devices / Sensors	Increase in the Number of Devices	Next-generation Mobile Communication “5G”		IoT / Trillion Sensors	
Information Instrument Displays		High-brightness, Thin, AR/VR and Smart Displays		Smart Glass Market	
Automobiles		Automotive Panels / Sensors		Power Module Output Capability	
Home Appliances		Smart Home Appliances / Robots		Surge in the Use of Home Sensors	
Power Devices / Aerospace Field		Sic / GaN Chips		Full-fledged Countermeasures against Heat in Aerospace Applications	

Active Human Life Solution

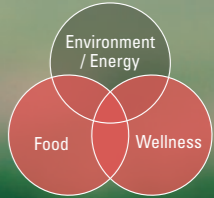
Supporting energetic and healthy living

Special Feature

3

Wellness

Supporting people’s desire for ongoing wellness and fulfilling lives through Kaneka’s technologies and businesses



Social Needs and Kaneka’s Plan

Supporting wellness by combining food and medicine in the era of 100-year lives

The era of 100-year lives is said to come in the near future. The key to living a productive life depends on wellness, which forms the basis of all activities. While the population is aging in Japan and the world, the use of big data is becoming more common, and AI and robot technologies are rapidly evolving. In this situation, the healthcare-related business environment is undergoing significant changes, having an enormous impact on social needs. There are expectations for the progress of advanced medical treatment and extended healthy life expectancies, while it is imperative to curb medical expenses.

Under these circumstances, we have contributed to people’s wellness mainly in therapeutic areas, offering pharmaceutical bulk and intermediates and endovascular therapy catheters. We aim to further contribute to people’s healthy lives by offering innovative solutions for medical treatment and disease prevention and prognosis through a unified approach to food and medicine with a focus on chemistry.

Kaneka Group’s Efforts

Promoting sustainable dairy farming to create high-value-added dairy products

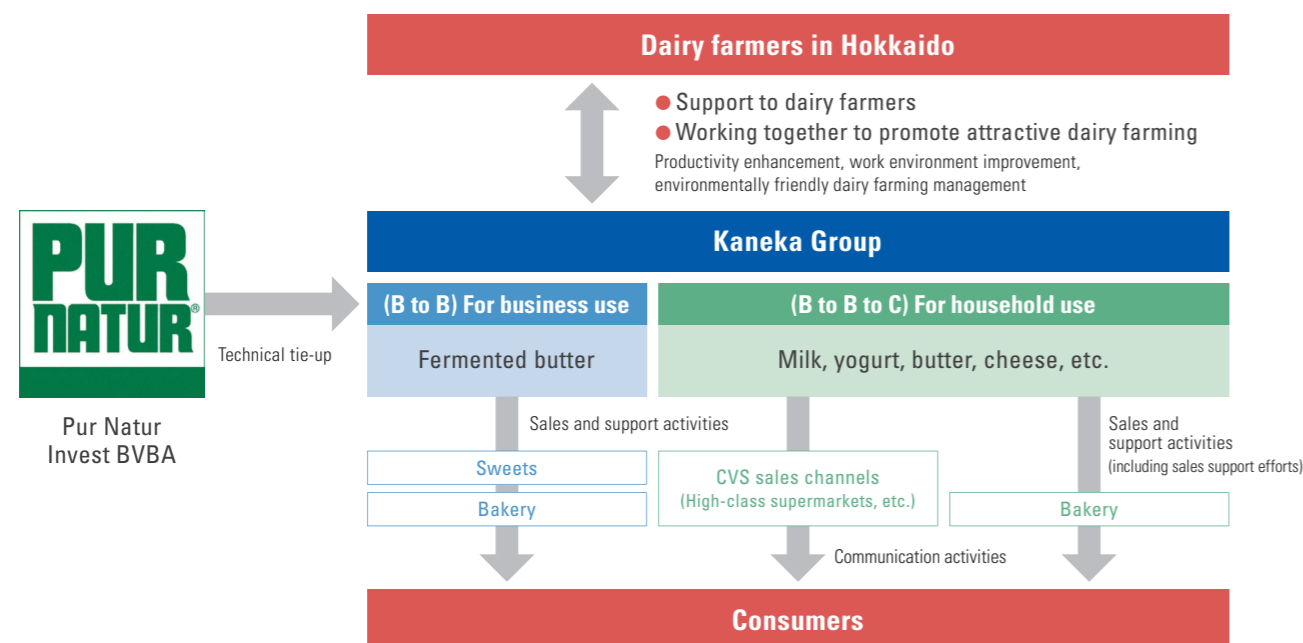
A good diet is one of the means for people to maintain and improve their health. We aim to contribute to wellness by offering food eaten on a daily basis, including dairy products.

However, Japan’s dairy farming faces a difficult environment due to the lack of successors and labor, and accelerated retirement from farming. We are promoting sustainable dairy farming, considering attractive dairy farming together with dairy farmers, as our business development philosophy.

Based on our food production support activities, we help increase productivity in dairy farming and improve the farming work environment.

To ensure that dairy products gain a high reputation in the market, it is essential to develop high-quality products, pursuing good taste. Accordingly, in January 2018, we established a technical tie-up with Pur Natur Invest BVBA (“Pur Natur”), a Belgian company marketing its organic dairy products in European countries with high technical capabilities. By integrating

■ Kaneka’s ideal model for circular dairy farming management



high-quality raw milk from Hokkaido with Pur Natur’s unique manufacturing method, we will offer high-quality and delicious milk to meet the growing need for organic products.



Milk for Bread



Fermented butter



Lactic acid bacteria

Power of lactic acid bacteria with much potential

Lactic acid bacteria have been drawing attention for their effects on growth and the immune system as well as new effects to allergic symptoms and infectious diseases. The market size of health food using lactic acid bacteria exceeds \$2 billion in North America. In Japan, market demand is expected to rise higher than ever.

In March 2018, we acquired AB-Biotics, S. A. (“ABB”), a Spanish company specializing in lactic acid bacteria, concluding a license agreement that grants us exclusive rights for production and sales of ABB’s products in North America (U.S. and Canada) and Japan. ABB possesses advanced R&D capability, with more than 550 original probiotics* strains from human healthy intestinal samples. ABB sells a wide range of clinically documented probiotics products, which improve the intestinal environment and have clear effects to decrease the risk of cardiovascular, periodontal and infectious diseases, to health food and pharmaceutical companies worldwide.

Meanwhile, we have been expanding our functional food business globally, including the marketing of reduced coenzyme Q10 (Kaneka QH) and other functional food materials fully supported by evidence data regarding their safety and beneficial effects to humans.

Capitalizing on the two companies’ strengths, we will further exploit the potential of lactic acid bacteria

to bring benefits to our lives.

* Probiotics: Live microbial community and foods containing live microbial community, giving beneficial effects to the human body by improving the intestinal environment and controlling intestinal function and the immune system

Contributing to QOL improvement in patients from the disease prevention to the prognosis stage

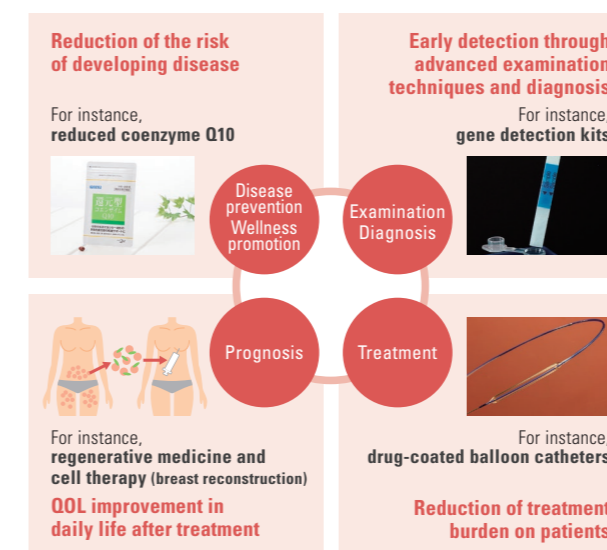
While working on disease prevention through wellness promotion, we are expanding the scope of our contribution by offering various solutions to cover patients at the prognosis stage after treatment.

In the case of mastectomy due to breast cancer, most patients undergo breast reconstruction to relieve their emotional distress and inconvenience.

In our technology for regenerative medicine and cell therapy, adipose-derived stem cells, which are separated from fat sucked out of a patient’s abdominal or femoral region, are mixed with the extracted fat again and are injected into the patient by syringe. This method attains a higher retention rate of fat than conventional fat transfer. It is also expected to safely reconstruct breasts closely to their former shapes because it uses the patient’s own stem cells. It can also tremendously reduce the amount of collected adipose-derived stem cells by culturing them using our unique technology.

We believe that our technology not only reduces the physical burden of treatment, but also enables patients to resume a normal life after treatment, ensuring a high QOL.

➤ Support from the disease prevention to the prognosis stage



Active Human Life Solution

Future Prospects

Aiming to expand food- and wellness-related businesses

For the dairy products business, we plan to bring yogurt and other dairy products to the market. In addition, the construction of a full-fledged dairy products manufacturing factory in Hokkaido is under consideration, aiming to achieve net sales of 20 billion yen in five years’ time.

Considering that organic dairy farming is ideal for circular dairy farming management, we will work to expand the domestic organic dairy products market in cooperation with a Belgian dairy farmer group and domestic related research institutes.

For the lactic acid business, we aim to accomplish sales of 10 billion yen in five years’ time by gradually launching products combining ABB’s probiotics products with our functional food materials and dairy products in developing markets.

For the entire healthcare business, we aggressively incorporate advanced technologies while strengthening resource allocation in the life science field, pursuing themes with speed and scale. In 2017, to significantly expand our biopharmaceutical production capacity, we made capital investment of approximately 5 billion yen in Kaneka Eurogentec S.A., our group company, aiming to increase its production capacity four-fold by 2020.

Thus, we will pursue our businesses from multiple angles to ensure that people live healthy and fulfilling lives.



List of Directors



Kimikazu Sugawara
Chairman of the Board
(Representative Director)



Mamoru Kadokura
President
(Representative Director)



Minoru Tanaka
Executive Vice President
(Representative Director)



Shinichiro Kametaka
Member of the Board
Senior Managing Executive
Officer



Shinobu Ishihara
Member of the Board
Senior Managing Executive
Officer



Akira Iwazawa
Member of the Board
Managing Executive Officer



Hidesuke Amachi
Member of the Board
Managing Executive Officer



Kazuhiko Fujii
Member of the Board
Managing Executive Officer



Yasuaki Nuri
Member of the Board
Managing Executive Officer



Takeo Inokuchi
Independent Member of
the Board



Mamoru Mohri
Independent Member of
the Board

Audit & Supervisory Board Members

Hideyuki Matsui
Masami Kishine
Hiroshi Fujiwara (Outside)
Yasuhiro Uozumi (Outside)

Managing Executive Officers

Atsushi Kawakatsu	Yoshiki Takeoka
Ikuo Aoi	Katsunobu Doro
Fuminori Hoya	Jun Enoki
Masaaki Kimura	Yasuhiro Sumi

Executive Officers

Haruhiko Maki	Masahiro Ueda
Riichi Nishimura	Takuo Ishibashi
Kan Okabe	Shinji Mizusawa
Toshio Komori	Kazuo Ochiai
Takamune Yasuda	Minetoshi Marufuji
Hitoshi Yahara	Yasuyoshi Ueda

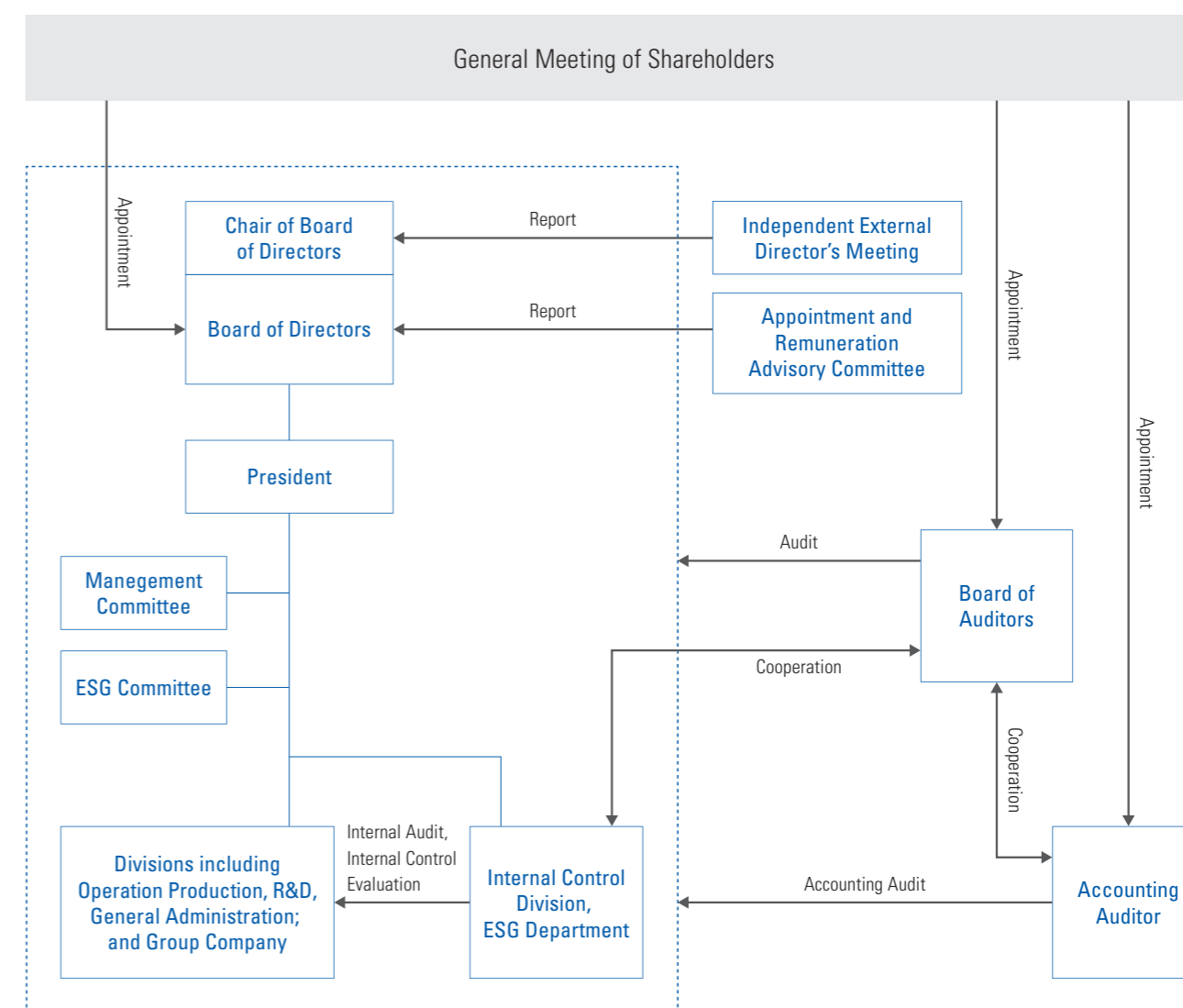
Corporate Governance

Basic Policy

Guided by our Corporate Philosophy, we at Kaneka aim to achieve sustainable growth and improve corporate value in the medium to long term. As good

citizens, we will conduct our business activities while respecting all stakeholders.

➤ Diagram of Corporate Governance System



* Since FY 2018 when Kaneka launched the ESG management initiatives, the term “CSR” we conventionally used has been replaced by “ESG.”

Corporate Governance

Corporate Governance Structure

Organizational Design

We currently have two independent external directors and two independent external auditors. Since both the overseeing of business operations by the Board of Directors and auditing by the Board of Auditors are functioning well, Kaneka has chosen to be a Company with Board of Auditors under the Companies Act.

Directors and the Board of Directors

The Board of Directors, on behalf of the shareholders, seeks to ensure efficient and effective corporate governance in order to realize the company’s sustainable growth and increase corporate value in the medium to long term. The Board of Directors exercises its oversight functions on overall management to ensure fairness and transparency, as well as to appoint management positions, evaluate and determine remuneration, evaluate serious risks and determine strategies to counter them, and make the best decisions on important business operations. The Board of Directors makes resolutions on important matters related to the management of the Kaneka Group after deliberation by the Management Committee, which includes the president. There are at most 13 members on the Board of Directors. Of these, two are independent external directors to strengthen the oversight function. Directors serve for a period of one year to clearly define management responsibilities.

Auditors and the Board of Auditors

Auditors and the Board of Auditors, on behalf of the shareholders, seek to ensure healthy and sustainable corporate growth and to establish a structure with good corporate governance that can gain social trust by checking on the performance of directors in regard to their duties. The Board of Auditors comprises four members, two of whom are independent external auditors in principle, and performs audits in coordination with the Accounting Auditor and the ESG Department Internal Control Division’s. Auditors are given space to periodically exchange views with the president, and monitor the state of business operations when necessary, by attending key meetings of the Board of Directors and those of the Management Committee, which decides on the implementation of important matters, as well as division head meetings.

Ad Hoc Committees

Independent external directors meetings are held, and an appointment and remuneration advisory committee will be created as an ad hoc committee.

Implementation of Business Operations

Kaneka has adopted the executive officer system to separate the oversight function of directors from the implementation function of business operations, which also facilitates decision-making and clearly defines roles. The Board of Directors decides on key management strategies and business operations of the entire Kaneka Group, while executive officers handle business operations in their respective areas of responsibility. While division heads, including executive officers appointed by the Board of Directors, are given extensive authority over daily business execution, directors are responsible for specific divisions and oversee the business execution in their respective divisions. Monthly division head meetings are held to enable the directors and auditors to directly hear progress reports from each division head. The Internal Control Division of the ESG Department evaluates the effectiveness of internal control and conducts an internal audit.

Standards for Independence of External Directors/Audit & Supervisory Board Members

We have defined the Standards for Independence of External Directors/Audit & Supervisory Board Members to guarantee the independence of independent external directors and auditors in practice. The standards are disclosed in our corporate governance report, etc.

Selection Criteria for Directors

At Kaneka, directors are selected by the Board of Directors, on the basis of character, judgment, expertise and experience as well as ethics without limitations on gender, age, nationality and other attributes, after deliberation by the Appointment and Remuneration Advisory Committee, which is comprised of representative directors and independent external directors.

Analysis and Evaluation of Effectiveness of the Board of Directors

Kaneka regularly implements an analysis and evaluation of the effectiveness of the Board of Directors, and discloses a summary of the evaluation results. Specifically, the Chair of Board of Directors periodically receives reports from the Independent External Director’s Meeting and opinions from the internal directors. Based on these reports, the current status of operations of the Board is evaluated. In this fiscal year’s evaluation process, the Independent External Director’s Meeting held discussions focusing on the operation of the Board of Directors (number of meetings held, frequency, length, contents of information provided beforehand, contents of agendas, deliberations, etc.), role of external directors, and risk management. Based on the discussion results, the Board of Directors conducted a self-evaluation. As a result, it has been confirmed that the Board of Directors functions effectively in making decisions on important matters for the Group such as risk management and supervising business execution. We will continue to enhance the effectiveness of our Board of Directors through effectiveness evaluations.

Our Efforts to Strengthen the Governance Capacity

2006	<ul style="list-style-type: none">● Introduced the executive officer system● Changed the number of directors from 21 to 13● Formulated the Basic Policy on Internal Control System
2011	<ul style="list-style-type: none">● Appointed an outside director
2013	<ul style="list-style-type: none">● Formulated the Criteria for Independence of Outside Directors
2015	<ul style="list-style-type: none">● Increased the number of outside directors from 1 to 2● Formulated the Basic Policy on Corporate Governance● Established the Appointment and Remuneration Advisory Committee● Established the Independent Outside Officers Meeting
2016	<ul style="list-style-type: none">● Commenced the effectiveness evaluation on the Board of Directors

Business Risks and Uncertainties

Basic Policy

Our basic risk management policy is that each division identifies operational risks and other types of risks that it may face, takes appropriate preventive measures, and responds appropriately in cooperation with other relevant divisions if a risk manifests itself.

For preventive measures against potential risks including those related to ethics and legal compliance, the Compliance Subcommittee of the ESG Committee oversees the development and implementation of the company-wide plans.

When a risk occurs or is likely to occur, the Risk Management Committee handles the risk in cooperation with the relevant divisions.

We regularly check whether the above-mentioned activities are implemented properly to prevent our risk management system from falling into mere formality, and strive to maintain and improve its effectiveness.

Business-Related Risks

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
2. Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)
3. Risks of price fluctuations of raw materials and fuels
4. Risks associated with product liability, industrial accidents and large scale disasters
5. Risks associated with the protection of intellectual property rights
6. Impact of environment related regulations
7. Risks associated with legal action
8. Other risks

See the Financial Section for more details

Strengthening of Information Security

Kaneka Group has established a Basic Information Management Policy, and works to disseminate it to all employees, thereby ensuring appropriate management of information.

Basic Information Management Policy

1. Observance of laws/regulations and rules
The trust and confidence of society and customers is the most precious asset the Group must protect.
Complying with laws and regulations, social norms, and internal regulations/procedures is the basic principle that all individuals engaged in business activities should follow.
2. Protection of confidential information
Confidential information concerning manufacturing processes, research, sales, etc. is the source of the Group's competitiveness. All individuals engaged in business activities must be fully aware of this, and must not leak such information or use it for illicit purposes. In particular, data requiring strict handling, such as personal information and information entrusted as confidential from other entities, must be identified as such and managed strictly by the person in charge of information management at each company.
3. Establishment of systems/structures
In order to sustain and expand the Group's business, it is essential to make effective use of information and increase the efficiency of business operations.
In addition to establishing rules regarding information security and continuing to improve information systems to ensure safe, effective use of information, the persons responsible for information management should be determined to ensure appropriate information management.
4. Implementation of training and awareness-raising programs
With the strengthening of Group management and increased use of external resources, people with diverse values and ethics are involved in Kaneka's business operations.
To ensure smooth cooperation with these members, efforts should be made to raise awareness of information security risks and to enhance and continue training on information security including ethical aspects.

To protect its information assets from risks including cyberattacks, Kaneka Group continues striving to enhance security levels, by utilizing the knowledge of external experts.

To increase employees' awareness and sensitivity toward prevention of risks such as leakage, falsification and illicit use of information, we issued the "Information Security Guidebook" in 2006. We work to raise employee awareness and understanding of information security, through various measures such as regular hierarchical training, audits, and e-learning courses.



Information Security Guidebook

Compliance

Basic Policy

Viewing compliance as an important management issue, we implement various initiatives to ensure all directors and employees comply with all applicable laws and regulations.

Compliance Awareness Raising

Our corporate Intranet provides ready access to our Compliance Guidebook, which provides a clear explanation of our Ethical Code of Conduct as well as the laws and regulations to be observed by all of our directors and employees. Additionally, a variety of training sessions and meetings, and activities of the Compliance Subcommittee ensure that we strictly adhere to our compliance policies.

Self-Check in Training Session

The compliance online course for all employees, launched in 2014, was expanded to include Group companies in Japan in 2016; a total of 5,042 participants from 43 companies have participated since 2014.

Training sessions on the Antimonopoly Act are conducted regularly with all of managerial officers from the Kaneka and Group companies in Japan who are involved in sales, purchasing, and business development, all of whom are required to submit a pledge.

Internal Audits and Establishment of Consultation Hotlines

ESG evaluation audits were carried out for all Group companies in Japan, the U.S. and Europe. Going forward, Group companies outside Japan will be included as well.

We have also set up compliance consultation hotlines both internally and with outside law firms in order to answer inquiries from those within the Group. We strive to respond quickly to provide a rapid resolution to any concerns that may arise.



A compliance training session

Intellectual Property

Basic Policy

Kaneka has established the Intellectual Property Department as an organization directly under the President to secure rights for our R&D results as a form of intellectual property, such as patents, thereby protecting our products from being imitated.

The Intellectual Property Department formulates and implements intellectual property strategies, including the establishment of a patent application portfolio, in cooperation with the business and R&D divisions.

We also have various in-house patent incentive programs, including an incentive program for patent applications, a patent master incentive program for the acquisition of a certain number of registered patents, and an incentive program for overseas patent registration. We actively create intellectual property by increasing application incentives for employees.

Moreover, we respect the intellectual property rights of other companies and, to avoid disputes, are sure to conduct patent searches and secure patent clearance at each phase of business development including theme proposal, commercialization and specification changes.

Establishment of Patent Portfolio and Execution of Patent Rights

In fiscal 2017, we acquired patent rights for a manufacturing method of flame-retardant expandable styrene; thermal storage materials capable of maintaining a predetermined temperature above 0°C, for storage and transportation applications; roll-in margarine that provides a low-trans-fatty-acid content but has superior formability and texture; and new lactic acid bacteria that have the functions of resisting fatigue and improving blood circulation.

Biodegradable polymer has superior biodegradability in the marine environment, and patents for resin compositions with superior moldability were registered in Japan, the United States, and Europe. In the United States, a patent was registered for a protein medicine that is effective for kidney disease that frequently affects cats kept as pets. In Japan, a patent was registered for simple formation of cellular aggregates that will contribute to the large-scale suspension culturing of iPS cells.

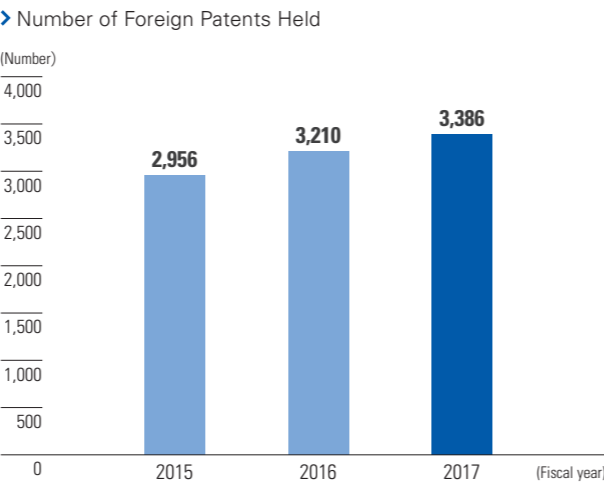
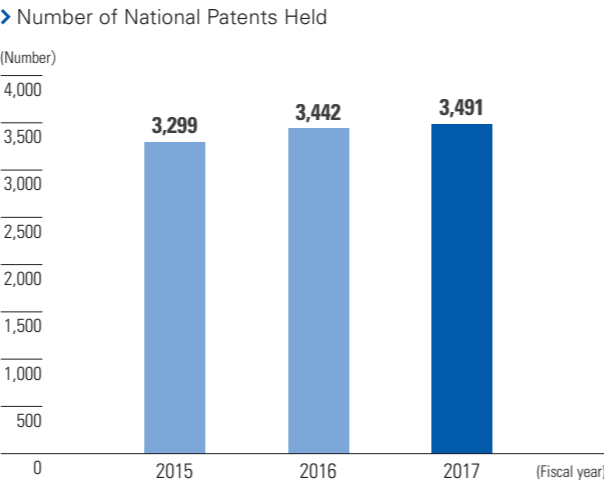
In Europe, based on the patent right for reduced form coenzyme Q10, we issued warnings to infringing products and had them excluded from the market. For artificial hair-related products, we detected products

infringing on our trademark rights, and had them confiscated with the cooperation of Chinese and French customs.

Number of Patents Held

In reflection of our efforts to increase the patent registration ratio and to strengthen our foreign patent portfolio, which have been reinforced since FY 2011, a large number of patents relating to Organic EL (OEL) lighting panels, solar cells, medical devices, expandable plastics, etc. were registered in Japan. Meanwhile, many patents relating to modified silicone liquid polymers, solar cells, graphite sheets, biodegradable polymers, etc. were registered overseas.

Consequently, the number of patents held by the Group increased both in Japan and overseas, with domestic and foreign patents totaling 3,491 and 3,386, respectively as of the end of fiscal 2017.



ESG Promotion System

Basic Policy

In June 2018, Kaneka Group established the ESG Charter to evolve its ESG management. Aiming to provide valuable solutions globally with a focus on chemistry, the ESG Charter serves as an action agenda for each employee to materialize our Corporate Philosophy.

ESG Promotion System

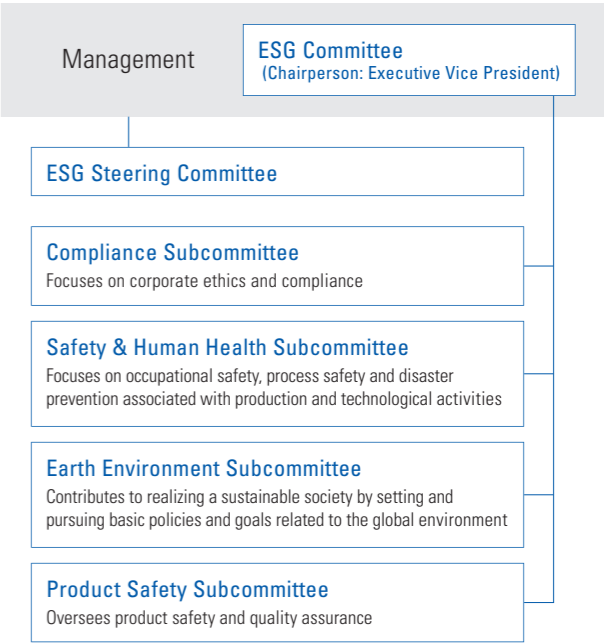
The ESG Committee and the ESG Steering Committee promote Group-wide ESG activities in line with the ESG Charter.

The ESG Committee leads the Group's efforts in addressing environmental, social and governance issues. The Committee also inspects and evaluates the implementation status of the activities of each Subcommittee, shares information about key issues, and determines the direction of the necessary management measures.

In fiscal 2017, the ESG Committee met once, and the four Subcommittees (Safety and Human Health, Earth Environment, Product Safety, and Compliance Subcommittees) met once each.

The ESG Steering Committee discusses important matters related to ESG management from a company-wide perspective to promote the ESG Committee's activities effectively.

➤ Diagram of ESG Promotion System



ESG Inspections

To inspect the legal and regulatory compliance status of the Kaneka Group and to improve its occupational safety and health performance, ESG inspections are carried out, comprising ESG safety and quality inspections and ESG evaluation audits.

In fiscal 2017, we conducted ESG safety and quality inspections at all parent Manufacturing Sites, 14 sites of 13 Group companies in Japan, and four sites of four Group companies outside Japan, focusing on their material risk management status and change management status (multifaceted evaluation and effectiveness evaluation). We also conducted ESG evaluation audits relating to competition laws, including the Antimonopoly Act, for all business operations divisions, 26 Group companies in Japan, and five outside Japan.

From fiscal 2018, we conduct ESG safety and quality inspections and ESG evaluation audits on a continuous basis.

Environment

Basic Policy

In keeping with our ESG Charter, we at the Kaneka Group will contribute to realizing sustainable development and the enrichment of society by conserving resources and reducing environmental impacts at each stage of the entire product lifecycle.

Important matters pertaining to the protection of the global environment are decided by the ESG Committee. Meanwhile, issues on global environment protection are shared and further discussed at the management meeting, the plant management meeting, and other meetings. The medium-term management plan also focuses on strengthening initiatives on important matters to further improve our ESG management.

Eco-Friendly Products

Kaneka Groups is engaged in various environmental initiatives.

Focusing on eco-friendly management from fiscal 2017, we will define, enhance, and expand our eco-friendly products*.

* Products that can contribute to reducing global environmental impacts at the stages of customer use, disposal and recycling, compared to conventional products

<div><div>Energy Creation</div></div> <div><p>Product name</p><p>VISOLA SoltileX GRANSOLA</p><p>Intended use</p><p>Solar power generation systems</p><p>Reason for environmental contribution</p><p>Creating energy with houses equipped with this product</p></div>	<div><div>Energy Storage</div></div> <div><p>Product name</p><p>Residential electricity storage systems</p><p>Intended use</p><p>Residential stationary batteries</p><p>Reason for environmental contribution</p><p>Storing energy by houses equipped with this product</p></div>	<div><div>Energy Saving</div></div> <div><p>Product name</p><p>Kanepearl</p><p>Intended use</p><p>Residential/automotive foams</p><p>Reason for environmental contribution</p><p>Saving energy as insulation and lightweight residential/automotive materials</p></div>	<div><div>Energy Saving</div></div> <div><p>Product name</p><p>Eperan</p><p>Intended use</p><p>Automotive parts Package cushioning materials</p><p>Reason for environmental contribution</p><p>Saving energy as lightweight automotive parts</p></div>	<div><div>Waste Reduction</div></div> <div><p>Product name</p><p>PHBH</p><p>Intended use</p><p>Biodegradable polymers (Packaging materials, garbage bags, foams)</p><p>Reason for environmental contribution</p><p>A naturally derived and biodegradable polymers that has little environmental impact when discarded</p></div>	<div><div>Clearing Agents for Chemical Pollutants</div></div> <div><p>Product name</p><p>KANEKA Surfactin</p><p>Intended use</p><p>Biosurfactant, Cleaning agents</p><p>Reason for environmental contribution</p><p>A naturally derived and biodegradable material friendly to the environment</p></div>
--	---	---	--	--	--

Initiatives to Reduce CO2 Emissions

We are undertaking efforts to address climate change, with the Earth Environment Subcommittee established under the ESG Committee. We are working to promote energy-efficient use to reduce CO2 emissions through various measures, for example by utilizing our own environmental capital investment program.

- Our carbon intensity*1 was 91.5, which reached the company's goal.
- Our energy intensity*2 decreased by 0.2% year-on-year. Although this did not reach our goal (a decrease of 1.0% year-on-year), we achieved our goal of a decrease of 2.1% in a five-year average rate of change. Since the start of the Business Operator Classification Assessment System under the Energy Saving Act, we have maintained the S-Class position (a business operator excellent in saving energy) for four consecutive years. We will work to streamline our production processes through innovation to reduce CO2 emissions.

*1 A ratio of energy-origin CO2 emissions per unit of output of a product

*2 A general indicator of energy consumption which assesses production efficiency based on the energy requirements to produce a unit of output

Promotion of 3R Initiatives (Reduce, Reuse and Recycle)

We at the Kaneka Group promote the 3Rs to protect the global environment through efforts to save resources and reduce CO2 emissions, and other means. Regarding waste produced by the Kaneka Group, we conduct 3R activities mainly at the stage of production. We also facilitate continuous improvement activities through process analysis with the Material Flow Cost Accounting (MFCA) approach.

Pollution Control

Kaneka engages in production activities in compliance with the standards specified in the Air Pollution Control Act and the Water Pollution Control Act as well as the criteria included in agreements made with local governments. We will continue to thoroughly comply with these standards and criteria.

Biodiversity Conservation

Considering the impacts of our businesses on ecosystems, we at Kaneka strive to develop technologies, materials and products that have less environmental impacts, as well as to mitigate environmental impacts of our production.

As part of our corporate social responsibility efforts, we also collaborate with stakeholders outside the company in biodiversity conservation activities.



An adult firefly observed in the biotope at the Osaka Manufacturing Site

Safety

Occupational Safety, Process Safety and Disaster Prevention

Placing the top priority for management on safety, we have established the Basic Policy on Safety, under which all employees as well as all persons working at the Kaneka Group and our partner companies aim for no accidents and no disasters.

To share the importance of safety, members of top management inspect plants to check the on-site situation and create an opportunity to talk with employees. Through our safety-related efforts, the actual safety situation is checked by the Safety and Human Health Subcommittee to clarify important matters related to safety that should be addressed in the following fiscal year, which are finally decided by the ESG Committee.

In 2017, we worked on (1) boosting personal safety awareness, (2) enhancing employees' professional skills and (3) building systems needed to ensure safety as important matters.

We will work to achieve no-accident and no-disaster operations by determining the real causes of individual accidents and disasters, making employees thoroughly aware of basic actions, implementing risk assessment, instructing employees to make preoperative risk predictions, and sharing information on accidents and disasters.

Mental Health Care

Mental health care activity is necessary to maintain employees' mental health. In addition to providing care to those with high stress levels, identified through stress checks (which were introduced in 2016), we launched efforts to improve the workplace environment based on the stress check results. Such efforts involve conducting stress check group analysis for each workplace, identifying problems based on the analysis results, and working to solve the identified problems.

Basic Safety Policies

- **Safety forms our management foundation, and is the basis of all corporate activities.**
We take action with priority given to ensuring safety in all activities in the company.
- **Safety is the foundation of local and world-wide communities' confidence in Kaneka.**
We do our best to develop their trust.
- **Safety is based on our belief that "All accidents can be prevented."**
We always move forward without being satisfied with lukewarm results.
- **Safety is the responsibility of every employee in accordance with his/her duties.**
We fulfill our responsibilities by mutually clarifying the duties we have assumed.
- **Safety must be maintained continuously.**
We ensure safety through steady efforts on a daily basis.

Product Responsibility

The Product Safety Subcommittee under the ESG Committee and its implementation bodies, namely the Product Safety Review Conference and Quality Management Conference, are responsible for all matters relating to product safety and quality assurance within the Kaneka Group.

Quality Management

We at the Kaneka Group strive to benefit society and satisfy our customers, through providing a stable supply of safe and reliable products. To that end, we undertake quality management activities to ensure the safety and quality of our products at all stages of design, development, manufacturing and sales.

In fiscal 2017, related activities included the following:

- We examined the certification status of inspectors and confirmed that there were no problems.
- We reorganized the existing Quality Assurance Promoters Conference to comprise persons in charge of quality management in each business division, and operated the Quality Management conference under the new structure.
- We undertook a range of activities to build the capacity of our employees, including through outside seminars and in-house lectures by external experts.
- We continued to provide employees in the business and research divisions with e-learning regarding quality control as part of strengthening the foundation of quality management.

Chemical Substance Management

Internationally, regulatory systems are becoming more stringent in order to achieve appropriate management of chemical substances related to consumer products. We strictly follow Japanese and international laws and regulations, and also actively offer information for the proper handling of our products, through displaying the Globally Harmonized System of Classification and Labelling of Chemicals (GHS) labels and providing a safety data sheet for products.

Job Satisfaction

Human Resource Development through Kaneka 1-on-1 —Promoting Growth through Dialogue—

Amid the arrival of the age of change, our corporate mission is to overcome all of our issues and grow flexibly.

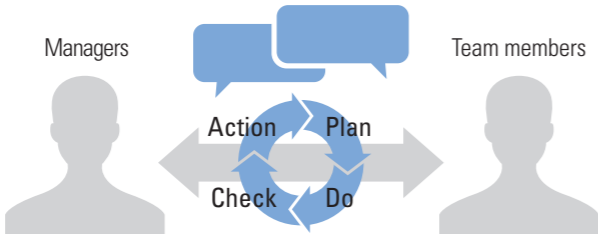
Kaneka is naturally a human-driven company. Considering that the results and value of work are generated on-site, we focus on developing employees' abilities under the idea that it is people who identify issues and resolve them. Believing that the age of change offers a great opportunity for people to show outstanding performance, we have started a new and extremely unique personnel system that grew out of the old one.

The core concept of the new personnel system is to promote employees' goal attainment and ability development by making them face their issues head-on through frequent dialogue between managers and team members and to shift to a new way of working that grows people and their work for a lifetime.

Specifically, the system requires managers and team members to dialogue (communicate) with each other twice a month, with the aim of strengthening the relationship between them through dialogue (communication) and to encourage subordinates to behave autonomously and voluntarily by stimulating their spontaneous motivation.

It also aims to accelerate the employees' ability development and human resource development in general by shortening the PDCA cycle through regular dialogue and to promote efficient and effective operations by flexibly modifying the subsequent strategies for achieving goals.

To operate "Kaneka 1-on-1" in accordance with its aims, we hold workshops to help employees understand its purposes as well as training sessions that enable them to acquire coaching skills on a continuous basis.



Purpose	Think and act for ourselves and take on challenges from a higher and broader perspective
Consciousness	<ul style="list-style-type: none">● Fostering an understanding of Kaneka's corporate policies and mission● Flexibly reviewing initiatives according to environmental changes● Promoting challenging actions for achieving goals● Accelerating human resource development● Promoting ability development
Dialogue	<ul style="list-style-type: none">● Sharing the progress toward growing and achieving goals● Sharing the good results produced by members and their plus points● Sharing worries and issues faced by members to grow and achieve goals● Sharing the direction and specific actions toward members' growth and goal achievement

Work Culture Innovation

To maximize the productivity of the organization through effective use of time, information and human resources, which are precious management resources, we have established the Work Culture

Committee. The Committee reviews how regular large meetings should be conducted, to make meetings a place of proposals and decisions.

Development of Leaders

As part of our efforts to develop leaders who will drive reform and growth, we enhanced our training programs that focus on early development of leaders and management personnel. In fiscal 2017, with the aim of developing leadership skills and awareness among personnel both in and outside Japan, we held

Hitotsubu-no Tane Momi Juku and Kaneka Creative Corner for next-generation leaders, and the Leadership Challenge Workshop for current leaders. We also continued to implement job rotation by enhancing cooperation between the human resource department and other divisions.

Diversity

Active Promotion of Female Employees

On April 1, 2018, under the "Stand Close Together" strategy, we set up a project that spanned the entire company solely consisting of female members. Its activities have been initiated to expand Kaneka's business and increase its corporate value and brand power.

As in the last fiscal year, in fiscal 2018 we have focused on the themes contained in the Action Plan, which was developed based on the Act on Promotion of Women's Participation and Advancement in the Workplace. The Career Consultation Desk is held at three sites for women to brush up their career image. To promote the appointment of female managers, we create personalized training plans for candidates and provide support for them on a continuing basis. Regarding recruitment, the employment rate of female students who graduated from technical colleges and universities in fiscal 2018 was approximately 32%.

While creating a women-friendly company environment, we will continue our active efforts to hire women and build their capacity.

Hiring and Support of Employees with Various Nationalities

Of approximately 10,000 employees of the Kaneka Group, there are over 2,500 employees with foreign nationalities engaged in operations worldwide. In overseas group companies, some of them are working in top management.

In the Kaneka Corporation, there are more than 40 employees with foreign nationalities. In order for them to quickly become accustomed to the workplace and play an active role, we offer them continuous support, including Japanese language training.

Employment of Persons with Disabilities

The employment rate for persons with disabilities in fiscal 2017 reached 2.19%, achieving the legally mandated employment rate (2.0%). We will continue to actively employ persons with disabilities and support employment efforts by our group companies by expanding the range of occupational opportunities and creating a welcoming workplace.

Employment of Senior Citizens

In light of the Amended Act on Stabilization of Employment of Elderly Persons, which took effect in April 2013, we revised our system for senior contract employees to accommodate those who wish to continue their employment up to age 65.

In fiscal 2017, we conducted career design training for 50- and 55-year-old employees, to encourage them to see their retirement from the company at age 60 as a turning point where they can take up new work with enthusiasm.

Consolidated Financial Statements

Consolidated Balance Sheets

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets			
Current assets:			
Cash and cash equivalents	¥ 47,414	¥ 41,018	\$ 446,291
Notes and accounts receivable - trade			
Unconsolidated subsidiaries and affiliates	795	760	7,483
Other	141,400	124,722	1,330,949
Inventories	104,215	96,749	980,939
Short-term loans receivable from unconsolidated subsidiaries and affiliates	1,735	1,672	16,331
Deferred tax assets	5,639	5,871	53,078
Other current assets	11,684	10,001	109,978
Allowance for doubtful accounts	(973)	(354)	(9,159)
Total current assets	311,909	280,439	2,935,890
Property, plant and equipment:			
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:	9,892	10,252	93,110
Investments and other assets:			
Investment securities:			
Unconsolidated subsidiaries and affiliates	5,514	4,035	51,901
Other	63,857	59,031	601,064
Long-term loans receivable	1,229	1,301	11,568
Deferred tax assets	1,259	2,611	11,851
Other	10,145	9,916	95,491
Allowance for doubtful accounts	(270)	(229)	(2,541)
Total investments and other assets	81,734	76,665	769,334
	¥ 641,010	¥ 592,900	\$ 6,033,603

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.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Liabilities and net assets			
Current liabilities:			
Short-term loans payable	¥ 50,356	¥ 42,889	\$ 473,983
Current portion of long-term loans payable	9,298	9,405	87,519
Notes and accounts payable:			
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	10,000	10,000	94,127
Long-term loans payable	45,848	50,336	431,551
Net defined benefit liability	37,325	37,310	351,327
Provision for directors' retirement benefits	297	319	2,796
Deferred tax liabilities	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			
Net assets			
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	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

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.

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
	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	954	—	1,313	8,980
Compensation expenses	—	—	(668)	—
Litigation expenses	(1,088)	(963)	(1,177)	(10,241)
Restructuring charges	(1,782)	—	—	(16,773)
Gain on step acquisitions	1,430	—	230	13,460
Impairment loss	—	—	(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:				
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

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.

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
	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	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

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.

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
	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)

Continued on the following page.

	Millions of yen			Thousands of U.S. dollars
	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

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.

Consolidated Statements of Cash Flows

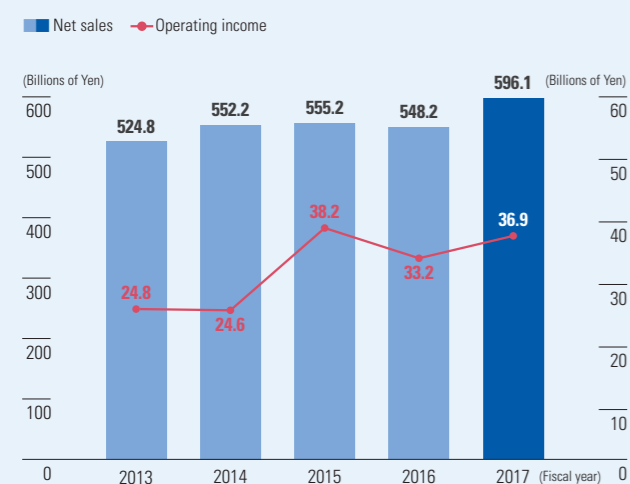
KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018, 2017 and 2016

	Millions of yen			Thousands of U.S. dollars
	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

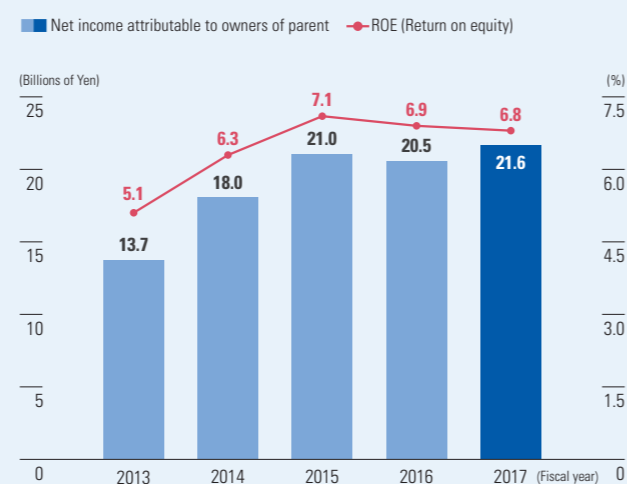
The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate on March 31, 2018, which was ¥106.24 to U.S. \$1.00.

Financial Highlights

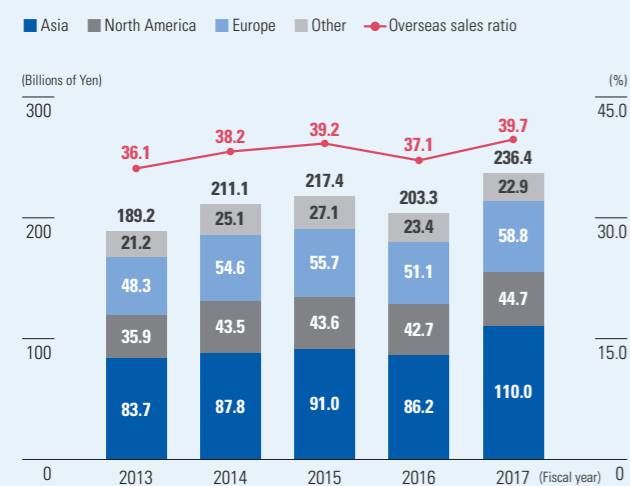
> Net Sales / Operating Income



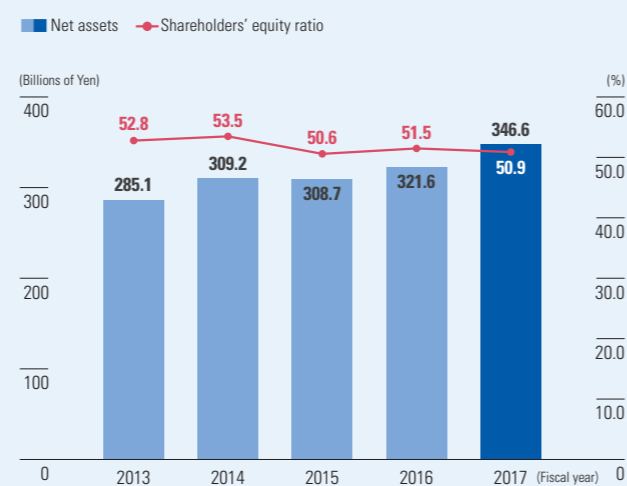
> Net Income Attributable to Owners of Parent / ROE



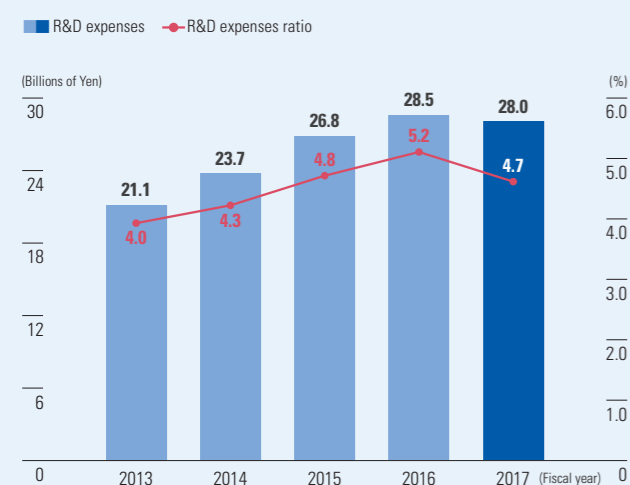
> Overseas Sales / Overseas Sales Ratio



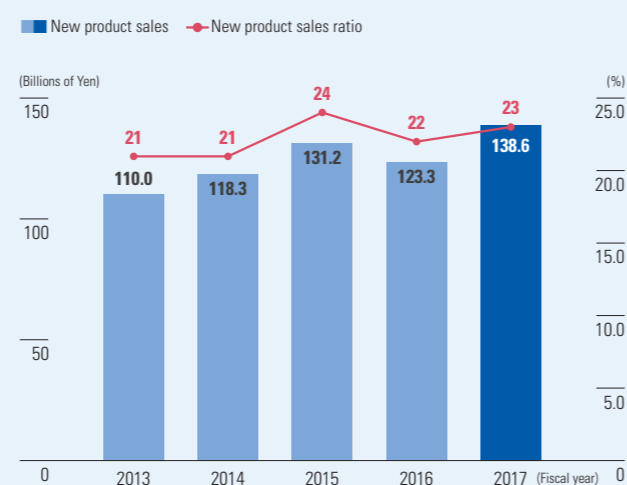
> Net Assets / Shareholders' Equity Ratio



> R&D Expenses / R&D Expenses Ratio

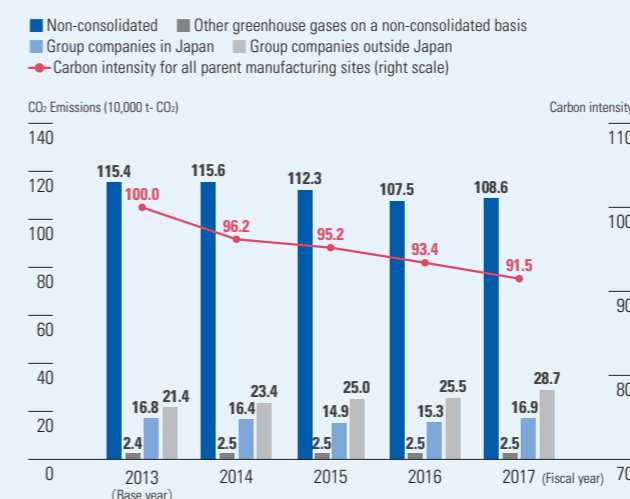


> New Product Sales / New Product Sales Ratio

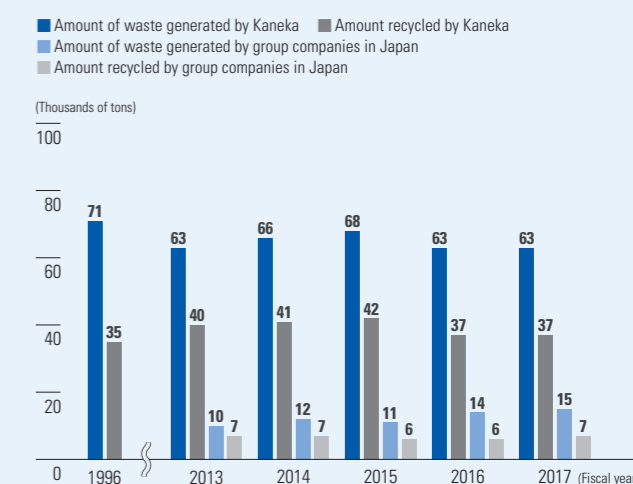


Nonfinancial Highlights

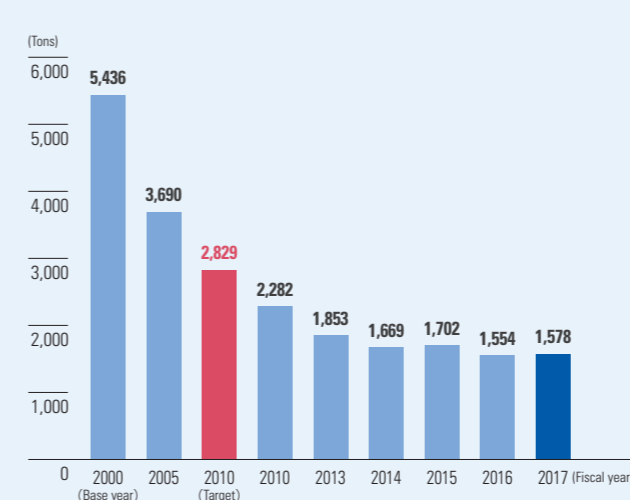
> CO₂ Emissions from Energy Consumption and Carbon Intensity



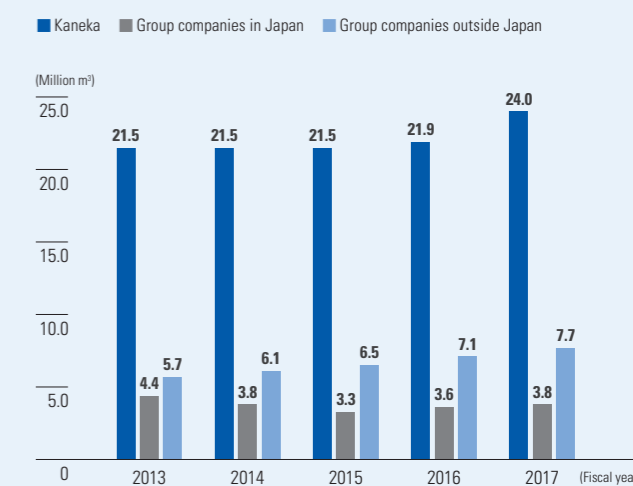
> Waste Generated and Recycled



> VOC Discharge: Voluntary Plan and Performance



> Water Consumption



Corporate Profile

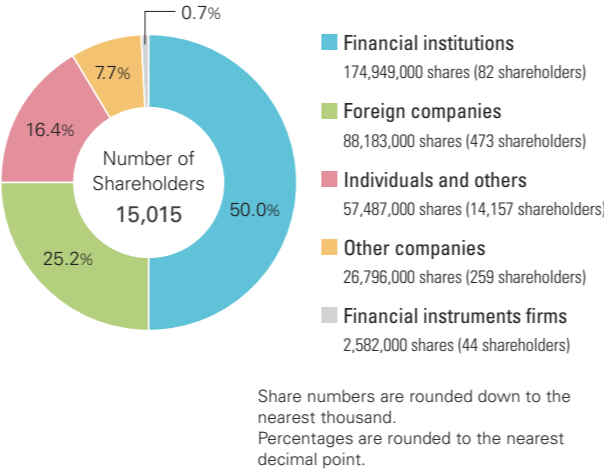
Corporate Profile

Name	KANEKA CORPORATION	Facilities in Japan	Sales Office Nagoya (Aichi Prefecture)
Offices	Tokyo Head Office 1-12-32, Akasaka, Minato-ku, Tokyo 107-6028, Japan Tel: +81-3-5574-8000 Fax: +81-3-5574-8121 Osaka Head Office 2-3-18, Nakanoshima, Kita-ku, Osaka 530-8288, Japan Tel: +81-6-6226-5050 Fax: +81-6-6226-5037	Manufacturing Site Takasago (Hyogo Prefecture) Osaka (Osaka Prefecture) Shiga (Shiga Prefecture) Kashima (Ibaraki Prefecture)	
Date of Establishment	September 1, 1949	Research Institutes	Material Solutions New Research Engine BDP Technology Laboratories Biotechnology Research Laboratories Regenerative Medicine and Cell Therapy Laboratories Photovoltaic & Thin Film Device Research Laboratories Process Development Research Laboratories Process Technology Laboratories
Paid-in Capital	33,046 million yen (As of March 31, 2018)	Affiliated Companies	110 Subsidiaries (Including 43 (in Japan) and 41 (outside Japan) consolidated subsidiaries)
Net Sales	596.142 billion yen (Fiscal years ended March 2018)		
Number of employees (Including consolidated subsidiaries)	10,234 (As of March 31, 2018)		

Investor Information (As of March 31, 2018)

Common Stock Traded	Tokyo, Nagoya
Transfer Agent	Mitsubishi UFJ Trust and Banking Corporation, Osaka Branch 3-6-3, Fushimimachi, Chuo-ku, Osaka 541-8502, Japan
Accounting Auditor	KPMG AZSA LLC Ginsen Bingomachi Bldg., 3-6-5, Kawaramachi, Chuo-ku, Osaka 541-0048, Japan
Authorized Capital	750,000,000 shares
Issued Shares	350,000,000 shares
Number of Shareholders	15,015

Shareholder Composition



Common Stock Price Range (Tokyo Stock Exchange; Yen)

Years ended March 31	2014	2015	2016	2017	2018
High	710	898	1,278	1,061	1,114
Low	495	558	810	643	815

Global Network

EUROPE / AFRICA

- Kaneka Europe Holding N.V.
 - Kaneka Belgium N.V.
 - Kaneka Pharma Europe N.V.
 - Kaneka Eurogentec S.A.
 - Kaneka Modifiers Deutschland GmbH
 - Eurogentec Deutschland GmbH
 - Eurogentec Proteomics GmbH
- Eurogentec Ltd.
 - Eurogentec France S.A.S.U.
 - Eurogentec Nederland B.V.
 - AB-Biotics, S.A.
 - Kaneka Africa Liaison Office
 - Kaneka's European Photovoltaics Research Laboratory



ASIA / OCEANIA

- Kaneka Asia Co., Ltd.
 - Kaneka Trading (Shanghai) Co., Ltd.
 - Kaneka Eperan (Suzhou) Co., Ltd.
 - HiHua Fiber Co., Ltd.
 - Kaneka (Foshan) High Performance Materials Co., Ltd.
 - Cemedine Shanghai Co., Ltd.
 - Dalian Showa Plastic Co., Ltd.
 - Kaneka (Malaysia) Sdn. Bhd.
 - Kaneka Eperan Sdn. Bhd.
 - Kaneka Paste Polymers Sdn. Bhd.
 - Kaneka Innovative Fibers Sdn. Bhd.
 - Kaneka Apical Malaysia Sdn. Bhd.
 - Kaneka MS Malaysia Sdn. Bhd.
 - Kaneka Singapore Co. (Pte) Ltd.
 - Kaneka Pharma Vietnam Co., Ltd.
 - Vina Showa Co., Ltd.
 - Kaneka (Thailand) Co., Ltd.
 - Asia Cemedine Co., Ltd.
- Showa Global (Thailand) Co., Ltd.
 - Cemedine (Thailand) Co., Ltd.
 - Kaneka India Pvt. Ltd.
 - PT. Kaneka Foods Indonesia
 - Kaneka Taiwan Corporation
 - Taiwan Cemedine Co., Ltd.
 - Kaneka Korea Corporation
 - Cemedine Philippines Corporation
 - Showa Global Ltd.
 - TGA Pastry Company Pty. Ltd.



AMERICA

- Kaneka Americas Holding, Inc.
- Kaneka North America LLC
- Kaneka Pharma America LLC
- Kaneka Aerospace LLC
- Anaspec Inc.
- Cemedine America Co., Ltd.
- Cemedine North America LLC
- Eurogentec North America Inc.
- Kaneka South America Representative Ltd.
- Kaneka US Material Research Center
- Kaneka US Innovation Center

