

# Quarterly Financial Results for the 1st Quarter, Ended June 30, 2022 (Japanese GAAP, Consolidated)

August 10, 2022

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo

Code Number: 4118

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

Representative: Minoru Tanaka Title: President, Representative Director

Contact Person: Osamu Ishida Title: Executive Officer – Investors & Public Relations Department

Phone: +81-3-5574-8090

Scheduled date for submitting financial statements: August 12, 2022 Scheduled date of dividend distribution: —

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

## 1. Consolidated Business Performance for the 1st Quarter, Ended June 30, 2022

(from April 1, 2022 to June 30, 2022)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2022 – Jun. 2022	192,739	17.4	12,212	3.1	14,756	37.1	10,518	35.6
Apr. 2021 – Jun. 2021	164,106	29.6	11,848	483.9	10,765	-	7,757	-

Note: Comprehensive income: ¥17,664 million (108.6%) for the three months ended June 30, 2022

¥8,466 million (145.5%) for the three months ended June 30, 2021

	Net income per share	Fully diluted net income per share
	¥	¥
Apr. 2022 – Jun. 2022	161.22	160.80
Apr. 2021 – Jun. 2021	118.91	118.62

Note: Year-on-year changes in ordinary income and net income attributable to owners of parent in the first quarter ended June 30, 2021 are presented as “-,” since they exceed 1,000%.

## (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of June 30, 2022	754,017	425,833	53.1
As of March 31, 2022	726,959	412,204	53.3

Reference: Shareholders' equity: ¥400,332 million as of June 30, 2022

¥387,150 million as of March 31, 2022

## 2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2021 – Mar. 2022	¥ —	¥ 50.00	¥ —	¥ 60.00	¥ 110.00
Apr. 2022 – Mar. 2023	—				
Apr. 2022 – Mar. 2023 (Forecasts)		55.00	—	55.00	110.00

Note: Changes in dividend forecast during the quarter under review: No

## 3. Forecast for Consolidated Business Performance for the Year Ended March 31, 2023

(from April 1, 2022 to March 31, 2023)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	740,000	7.0	48,000	10.2	43,000	5.3	28,000	5.7	420.60

Note: Revisions to consolidated business performance forecasts during the quarter under review: No

※ Notes

- (1) Changes in principal subsidiaries during the term: None
- (2) Application of simplified methods of accounting and specific accounting methods: None
- (3) Changes in accounting principles, changes in estimates, or restatements
  - 1. Changes owing to revisions in accounting standards: Yes
  - 2. Changes other than 1. above: None
  - 3. Changes in accounting estimates: None
  - 4. Restatements: None

Note: For details, please refer to the section entitled “(3) Notes to the Consolidated Financial Statements (Changes in Accounting Principles)” under “2. Quarterly Consolidated Financial Statements and Main Notes” on page 9.

(4) Number of shares outstanding (common stock)

- 1. Number of shares issued at the end of the period (including treasury stock):
- 2. Number of shares of treasury stock at the end of the period:
- 3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year):

June 30, 2022	68,000,000 shares	March 31, 2022	68,000,000 shares
June 30, 2022	2,754,228 shares	March 31, 2022	2,761,323 shares
June 30, 2022	65,243,568 shares	June 30, 2021	65,238,881 shares

※These financial statements are exempt from audit procedures

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

The business performance forecasts and certain other statements contained in this document are forward-looking statements, which are based on information currently available to the Company and certain assumptions determined to be reasonable by the Company. For a variety of reasons, actual performance may differ substantially from these forecasts. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements. For cautionary items used in business performance forecasts, please refer to the section entitled “(3) Consolidated Business Forecasts” under “1. Quarterly Consolidated Business Performance” on page 4.

## Supplementary Materials

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## 1. Quarterly Consolidated Business Performance

## (1) Consolidated Business Performance

➤ **State of the Global Economy - Heightened Uncertainty About the Future -**

In the first quarter (April 1 to June 30, 2022, "1Q"), the global economy saw a moderate recovery as society moved toward normalization with the easing of COVID-19. That said, in addition to the prolonged situation in Ukraine and soaring raw material and fuel prices, since the latter half of 1Q, the impact of the lockdown in Shanghai, China and the progression of historical inflation and monetary tightening in the U.S. and Europe—combined with currency fluctuations and ongoing supply chain disruptions—have made the outlook for the future increasingly uncertain.

➤ **Kaneka Group's Business Performance – Increase in Sales and Profits-**

In this business environment, the Kaneka Group's business performance for 1Q was as follows. Consolidated net sales amounted to ¥192,739 million (up 17.4% year-on-year), operating income was ¥12,212 million (up 3.1% year-on-year), and ordinary income was ¥14,756 million (up 37.1% year-on-year). Net income attributable to owners of parent was ¥10,518 million (up 35.6% year-on-year).

Despite the drastically changing environment, we steadily demonstrated our strengths in "Adaptability", and both our foundation businesses (Vinyls and Chlor-Alkali, Modifiers, Performance Fibers, etc.) and leading-edge businesses (Health Care Solutions Unit, E & I Technology, Modified Silicone polymers, etc.) have kept up their strong momentum, resulting in a year-on-year increase in sales and profits.

Business performance for the first three months (April 1, 2022 to June 30, 2022) (Millions of yen)

	FY2021 1Q(Apr.-Jun.)	FY2022 1Q(Apr.-Jun.)	Difference (year-on-year)
Net sales	164,106	<b>192,739</b>	28,632 17.4%
Operating income	11,848	<b>12,212</b>	363 3.1%
Ordinary income	10,765	<b>14,756</b>	3,990 37.1%
Net income attributable to owners of parent	7,757	<b>10,518</b>	2,760 35.6%

Net sales and operating income by segments for the first three months (April 1, 2022 to June 30, 2022) (Millions of yen)

	Net sales			Operating income		
	FY2021 1Q(Apr.-Jun.)	FY2022 1Q(Apr.-Jun.)	Difference (year-on-year)	FY2021 1Q(Apr.-Jun.)	FY2022 1Q(Apr.-Jun.)	Difference (year-on-year)
Material SU	69,967	<b>88,919</b>	18,951 27.1%	9,311	<b>10,756</b>	1,444 15.5%
Quality of Life SU	40,856	<b>45,000</b>	4,144 10.1%	4,586	<b>4,600</b>	13 0.3%
Health Care SU	13,220	<b>16,623</b>	3,403 25.7%	2,310	<b>3,856</b>	1,546 66.9%
Nutrition SU	39,753	<b>41,879</b>	2,125 5.3%	1,429	<b>806</b>	(623) (43.6%)
Others	308	<b>316</b>	7 2.4%	177	<b>186</b>	9 5.4%
Adjustment	-	-	-	(5,967)	<b>(7,994)</b>	(2,027) -
Total	164,106	<b>192,739</b>	28,632 17.4%	11,848	<b>12,212</b>	363 3.1%

※SU : Solutions Unit

The operating performance by business segment was as follows:

### ① Material Solutions Unit

- In Vinyls and Chlor-Alkali, the demand for PVC in the Asian market followed a solid growth. Overseas market prices for caustic soda remained high, contributing to increased earnings.
- In Modifiers, we secured earnings by promoting price pass-throughs amid a slowdown in demand for building materials and other applications in Europe and the U.S.
- In Modified Silicone polymers, sales expanded steadily in Europe and the U.S. In view of the fact that the market for sealants and adhesives is expected to expand due to the promotion of insulation retrofitting and energy savings in Europe, as part of efforts to achieve carbon neutrality, we decided to increase our capacity in Belgium. We will consider further capacity increase on a global basis. In addition, on August 1 of this year, Cemedine Co., Ltd. became a wholly owned subsidiary of Kaneka, and we will work to maximize synergies between the two companies to quickly strengthen our businesses.
- Demand for KANEKA Biodegradable Polymer Green Plant™ is growing in conjunction with the April implementation of Japan's "Plastic Resource Circulation Act", which is accelerating moves toward reducing disposable plastics. Social implementation is steadily expanding in Japan, and joint development with major brand holders is underway in Europe and the U.S. Additionally, Green Planet™ is highly regarded as a practical example of a core technology under Japan's "biomanufacturing" policy. Our technology development plan to produce Green Plant™ from CO<sub>2</sub> and hydrogen using hydrogen-oxidizing bacteria has been attracting attention through the mass media coverage.

### ② Quality of Life Solutions Unit

- In Foam & Residential Techs, we are proceeding with price increases of expandable polystyrene resin and extruded polystyrene foam boards amid rising raw material and fuel prices. Sales of polyolefin foam remained sluggish during a continuing global trend of automobile production cutbacks.
- In PV & Energy management, sales of residential high-efficiency photovoltaic modules expanded due to government efforts to promote widespread use of renewable energy, as well as efforts by housing manufacturers to increase their zero-energy housing (ZEH) ratios due to soaring fuel prices and concerns about electricity shortages. In addition, demand for "see-through photovoltaic modules" and "wall-mounted solar panels" is expanding against the backdrop of accelerated social implementation of zero-energy building (ZEB).
- In E & I Technology, sales of polyimide film for smartphones, polyimide varnish for OLED displays, and resins for acrylic film for TVs remained steady. With demand increasing going forward, we decided to increase production capacity for resins for acrylic films.
- In Performance Fibers, demand for hair accessory products for the African market has remained strong, and sales of flame-retardant materials have been steady, primarily in Europe and the U.S. We are working to pass on price increases in the face of soaring raw material and fuel prices.

### ③ Health Care Solutions Unit

- In Medical, the number of standby cases in Japan and overseas recovered to pre-COVID-19 levels, and the sales of catheters and blood purification devices for arteriosclerosis obliterans (ASO) treatment and such, expanded steadily. We have completed capacity increase of our plant in Vietnam. We will strengthen our supply system and will accelerate the global expansion of the Medical business. Following the introduction of our PCR testing kit, we have also launched a COVID-19 antigen testing kit which contributes to preventing the spread of infections.
- In Pharma, we are making good progress in contract manufacturing of COVID-19 vaccines at

Kaneka Eurogentec S.A. We are also hurrying to implement a joint research project of biopharmaceutical production technology with the University of Louvain in Belgium. In addition, sales related to a large new project for an antiviral drug in small molecule pharmaceuticals, and sales of Protein A chromatography resin for purification of antibody drugs contributed to business results.

#### ④ Nutrition Solutions Unit

- In Supplemental Nutrition, sales of the active form of coenzyme Q10 continued strong. In Japan, the “Watashi no Chikara (My Energy)™” series with functional claims of products containing the active form of coenzyme Q10 enhanced the product lineup.
- Foods & Agris saw a partial recovery in demand due to the easing of COVID-19 movement restrictions, but sales were weak due to record-breaking heat waves and reports of food price hikes, which led to restrained purchasing. We are focusing on securing spreads by price revisions in response to soaring prices for fats, oils and other raw materials. In August, we launched new foods with functional claims, including “Watashi no Chikara (My Energy)™ - Q10 Yogurt” and “Watashi no Chikara (My Energy)™ - Q10 Yogurt drink type”. We will continue enhancing our products that focus on flavor and health.

#### (2) Consolidated Financial Position

Total assets and net assets at the end of 1Q of the current fiscal year reached record highs, mainly due to solid growth in overseas markets in the Material Solutions Unit and others, as well as business expansion in the Health Care Solutions Unit.

Total assets were ¥754,017 million as of June 30, 2022, up ¥27,057 million compared with March 31, 2022, mainly due to an increase in notes and accounts receivable-trade and inventory assets. Liabilities totaled ¥328,183 million, up ¥13,428 million, primarily reflecting an increase in notes and accounts payable-trade and loans payable. Net assets were ¥425,833 million, up ¥13,629 million, owing chiefly to an increase in foreign currency translation adjustment.

#### (3) Consolidated Business Forecasts

The IMF lowered its July forecast for 2022 global GDP growth to 3.2%. The global economy is experiencing a sharp slowdown due to a combination of historical inflation, significant interest rate hikes in Europe and the U.S., slower growth in Asia triggered by the lockdown in China, the stalemate in Ukraine, and the re-expansion of COVID-19 infections. The business environment is growing increasingly uncertain, due to the anticipated temporary demand adjustment phase in each industry.

Under these circumstances, we will continue to maximize our “Adaptability” to changes in the business environment and leverage our strong global and local networking capabilities in overseas markets to improve the competitiveness of our foundation businesses (Vinyls and Chlor-Alkali Modifiers, Performance Fibers, etc.) and accelerate the growth of our leading-edge businesses (Health Care Solutions Unit, E & I Technology, Modified Silicone polymers, etc.), steadily strengthening our revenue base.

Considering the above, the Group has not revised its forecasts for consolidated business performance announced on May 12, 2022.

## 2. Quarterly Consolidated Financial Statements and Main Notes

## (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 1st Quarter As of June 30, 2022
<b>Assets</b>		
Current assets		
Cash and deposits	41,735	40,978
Notes and accounts receivable-trade, and contract assets	164,128	171,195
Short-term investment securities	217	143
Merchandise and finished goods	69,183	78,977
Work in process	12,171	12,098
Raw materials and supplies	59,128	62,305
Other	17,897	19,581
Allowance for doubtful accounts	(1,552)	(1,672)
<b>Total current assets</b>	<b>362,910</b>	<b>383,608</b>
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	92,052	95,019
Machinery, equipment and vehicles, net	110,339	112,500
Other, net	68,883	68,945
<b>Total property, plant and equipment</b>	<b>271,275</b>	<b>276,465</b>
Intangible assets		
Goodwill	2,559	2,688
Other	12,417	12,714
<b>Total intangible assets</b>	<b>14,977</b>	<b>15,403</b>
Investments and other assets		
Investment securities	58,609	56,909
Other	19,488	21,935
Allowance for doubtful accounts	(300)	(305)
<b>Total investments and other assets</b>	<b>77,796</b>	<b>78,539</b>
<b>Total noncurrent assets</b>	<b>364,049</b>	<b>370,408</b>
<b>Total assets</b>	<b>726,959</b>	<b>754,017</b>

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 1st Quarter As of June 30, 2022
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable-trade	92,068	96,210
Short-term loans payable	89,992	94,948
Income taxes payable	3,466	3,552
Provision	134	4
Other	48,839	52,156
Total current liabilities	234,502	246,873
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	28,627	28,517
Provision	2,626	2,518
Net defined benefit liability	31,559	31,236
Other	7,439	9,038
Total noncurrent liabilities	80,253	81,310
Total liabilities	314,755	328,183
<b>Net assets</b>		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	31,392	31,415
Retained earnings	309,507	316,105
Treasury stock	(11,528)	(11,499)
Total shareholders' equity	362,417	369,069
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,331	20,005
Deferred gains or losses on hedges	(4)	11
Foreign currency translation adjustment	4,381	12,105
Remeasurements of defined benefit plans	(975)	(859)
Total accumulated other comprehensive income	24,732	31,263
Subscription rights to shares	619	530
Non-controlling interests	24,435	24,969
Total net assets	412,204	425,833
Total liabilities and net assets	726,959	754,017



## (2) Quarterly Consolidated Statements of Income and Comprehensive Income

## Quarterly Consolidated Statements of Income

(Millions of yen)

	FY2021 1st Quarter From April 1, 2021 to June 30, 2021	FY2022 1st Quarter From April 1, 2022 to June 30, 2022
Net sales	164,106	192,739
Cost of sales	115,882	139,650
Gross profit	48,224	53,088
Selling, general and administrative expenses	36,375	40,876
Operating income	11,848	12,212
Non-operating income		
Dividends income	703	836
Foreign exchange gains	—	2,314
Equity in earnings of affiliates	36	53
Other	215	327
Total non-operating income	954	3,531
Non-operating expenses		
Interest expenses	274	306
Loss on retirement of noncurrent assets	298	381
Foreign exchange losses	124	—
Other	1,340	299
Total non-operating expenses	2,038	987
Ordinary income	10,765	14,756
Income before income taxes	10,765	14,756
Income taxes-current	2,636	4,143
Income taxes-deferred	(15)	(218)
Total income taxes	2,621	3,925
Net income	8,144	10,830
Net income attributable to non-controlling interests	386	312
Net income attributable to owners of parent	7,757	10,518

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2021 1st Quarter From April 1, 2021 to June 30, 2021	FY2022 1st Quarter From April 1, 2022 to June 30, 2022
Net income	8,144	10,830
Other comprehensive income		
Valuation difference on available-for-sale securities	(968)	(1,336)
Deferred gains or losses on hedges	(2)	16
Foreign currency translation adjustment	1,092	8,031
Remeasurements of defined benefit plans, net of tax	204	121
Share of other comprehensive income of associates accounted for using equity method	(4)	0
Total other comprehensive income	322	6,833
Comprehensive income	8,466	17,664
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,990	17,049
Comprehensive income attributable to non-controlling interests	475	614

(3) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

(Notes in the Event of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Changes in Accounting Principles)

ASC Topic 842 "Leases" has been applied to overseas subsidiaries that apply US GAAP from the current first quarter consolidated accounting period. The impact of the application of this accounting standard on quarterly consolidated financial statements is negligible.

## (Segment Information)

I Term from April 1, 2021 to June 30, 2021

## 1) Sales and Income by Segment

(Millions of yen)

	Reporting segments					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	69,967	40,856	13,220	39,753	163,798	308	164,106	-	164,106
Intersegment	216	12	-	6	235	269	505	(505)	-
Total	70,184	40,869	13,220	39,760	164,034	577	164,612	(505)	164,106
Segment profit	9,311	4,586	2,310	1,429	17,638	177	17,815	(5,967)	11,848

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

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

## 2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	17,638
Segment profit of Others	177
Elimination of intersegment transactions	1
Companywide expenses (Note)	(5,980)
Other adjustments	11
Operating income in the quarterly consolidated statements of income	11,848

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

## II Term from April 1, 2022 to June 30, 2022

## 1) Sales and Income by Segment

(Millions of yen)

	Reporting segments					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	88,919	45,000	16,623	41,879	192,422	316	192,739	-	192,739
Intersegment	82	8	-	14	105	281	386	(386)	-
Total	89,002	45,009	16,623	41,893	192,527	597	193,125	(386)	192,739
Segment profit	10,756	4,600	3,856	806	20,019	186	20,206	(7,994)	12,212

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

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

## 2) Reconciliations between Segment Total and Quarterly Consolidated Statements of Income (Adjustments)

(Millions of yen)

Income	Amount
Segment total	20,019
Segment profit of Others	186
Elimination of intersegment transactions	2
Companywide expenses (Note)	(8,012)
Other adjustments	15
Operating income in the quarterly consolidated statements of income	12,212

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

## (Subsequent Events)

(Cemedine made a wholly-owned subsidiary in a stock swap)

At a meeting of the Board of Directors held on May 12, 2022, the Company resolved to conduct a stock swap ("the stock swap") with Cemedine Co., Ltd. ("Cemedine") in which the Company becomes the wholly-owning parent company and Cemedine becomes the wholly-owned subsidiary company. Both parties concluded a stock swap agreement on the same day.

The stock swap was carried out on August 1, 2022 to make Cemedine a wholly-owned subsidiary company in accordance with simplified stock swap procedures not requiring approval by resolution of the Company's General Meeting of Shareholders pursuant to Paragraph 2 of Article 796 of the Companies Act and in accordance with a resolution of Cemedine's Ordinary General Meeting of Shareholders convened on June 15, 2022.

The ordinary shares of Cemedine were delisted from the Standard Market of the Tokyo Stock Exchange on July 28, 2022.

## 1. Transaction overview

## (1) Name and business of entity subject to the business combination

Name: Cemedine Co., Ltd.

Business: Manufacture and sale of adhesives and sealing materials

## (2) Date of business combination

August 1, 2022

## (3) Legal form of business combination

Stock swap in which the Company becomes the wholly-owning parent company and Cemedine the wholly-owned subsidiary company

## (4) Name of corporation after combination

No change.

## (5) Purpose of the stock swap

To deepen collaboration between both company groups and expedite management decisions and to also further enhance the corporate value of both groups by more effectively utilizing their assets, technologies, know-how, overseas networks, and other management resources.

## 2. Overview of accounting treatment

Accounting treatment for a common control transaction will be applied based on the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019).

## 3. Swap ratio and number of shares delivered by class, as well as calculation method of swap ratio

## (1) Swap ratio and number of shares delivered by class

	Kaneka Corporation (wholly-owning parent company)	Cemedine Co., Ltd. (wholly-owned subsidiary company)
Allotment ratio for the stock swap	1	0.282
Number of shares delivered in the stock swap	1,950,265 shares of the Company's common stock	

## Notes: 1. Share allotment ratio

0.282 shares of the Company were delivered in exchange for one share of Cemedine. However, the 8,218,700 shares of Cemedine held by the Company were not allocated in the stock swap.

## 2. Shares of the Company delivered in the stock swap

All of the shares delivered were appropriated to the Company's treasury stock.

## (2) Calculation method of swap ratio

In order to ensure fairness and appropriateness in the calculation of the swap ratio, both the Company and Cemedine separately requested a third-party appraiser independent of either company to calculate the swap ratio. The Company selected Nomura Securities Co., Ltd. and Cemedine selected SMBC Nikko Securities Inc. as their respective financial advisor and third-party appraisers.

Both the Company and Cemedine carried out examinations in light of their due diligence of the other party and with reference to the results of the swap ratio calculation received from their respective third-party appraisers and then thoughtfully discussed and negotiated on multiple occasions the terms and conditions of the stock swap, including the swap ratio, after taking into overall account the financial situation, assets, future outlook, and other factors of both companies. As a result, the Company and Cemedine judged the swap ratio to be fair and that the stock swap would be beneficial to the shareholders of both companies. Accordingly, it was decided that conducting the stock swap with the calculated swap ratio would be appropriate.