

Quarterly Consolidated Financial Results for the 3rd Quarter, Ended December 31, 2023 (Japanese GAAP)

February 8, 2024

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listing: Tokyo

Code Number: 4118

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

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Scheduled date for filing financial statements: February 13, 2024 Scheduled date of dividend distribution: –

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

1. Consolidated Financial Results for the 3rd Quarter, Ended December 31, 2023

(from April 1, 2023 to December 31, 2023)

(1) Consolidated operating results

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr.1, 2023 – Dec. 31, 2023	564,728	(0.4)	21,611	(21.8)	19,351	(27.3)	13,438	(28.9)
Apr.1, 2022 – Dec. 31, 2022	567,143	11.5	27,621	(17.1)	26,601	(15.0)	18,890	(14.2)

Note: Comprehensive income: ¥28,437 million [2.3%] for the nine months ended December 31, 2023
¥27,794 million [1.6%] for the nine months ended December 31, 2022

	Basic net income per share	Diluted net income per share
Apr.1, 2023 – Dec. 31, 2023	¥ 207.04	¥ 206.45
Apr.1, 2022 – Dec. 31, 2022	286.61	285.86

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
As of December 31, 2023	¥ million 850,620	¥ million 455,509	51.2%
As of March 31, 2023	782,640	436,422	53.3

Reference: Equity (Shareholders' equity + Accumulated other comprehensive income):
¥435,175 million as of December 31, 2023
¥417,372 million as of March 31, 2023

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr.1, 2022 – Mar. 31, 2023	¥ –	¥ 55.00	¥ –	¥ 55.00	¥ 110.00
Apr.1, 2023 – Mar. 31, 2024	–	55.00	–		
Apr.1, 2023 – Mar. 31, 2024 (Forecasts)				55.00	110.00

Note: Changes in dividend forecast during the quarter under review: None

3. Forecast for Consolidated Financial Results for the Fiscal Year Ending March 31, 2024

(from April 1, 2023 to March 31, 2024)

(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	766,000	1.3	32,000	(8.8)	28,700	(11.5)	23,000	(0.0)	354.86

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

※ 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: None

2. Changes other than 1. above: None

3. Changes in accounting estimates: None

4. Restatements: None

(4) Number of shares issued (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 outstanding during the period
(calculated cumulatively from the beginning of the fiscal year):

December 31, 2023	68,000,000 shares	March 31, 2023	68,000,000 shares
December 31, 2023	3,086,253 shares	March 31, 2023	3,106,293 shares
December 31, 2023	64,908,638 shares	December 31, 2022	65,909,803 shares

※These financial statements are exempt from audit procedures to be performed by certified public accountants or an audit firm.

※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) Earnings Forecasts and Other Forward-looking Statements" under "1. Quarterly Consolidated Financial Results" on page 5.

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1. Quarterly Consolidated Financial Results

(1) Operating Results

➤ **State of the Global Economy - Increasingly uncertain economic outlook -**

During the first nine months (April 1 to December 31, 2023, "1-3Q") of the fiscal year ending March 31, 2024, global divisions deepened alongside the continuing impact of geopolitical risks, including the prolonged Ukraine crisis and the escalating situation in the Middle East. Further, monetary tightening in Europe and the U.S. and the shrinking Chinese economy were hampering the global economic recovery. Amid global inflation gradually easing and Western monetary policies reaching a turning point, demand-supply adjustments were continuing in many manufacturing industries, leaving the economic outlook uncertain.

➤ **Kaneka Group's Business Performance - Sales and profits decreased -**

Under these circumstances, Kaneka Group's business performance for 1-3Q was as follows. Consolidated net sales were ¥564,728 million (down 0.4% year-on-year), operating income was ¥21,611 million (down 21.8% year-on-year), ordinary income was ¥19,351 million (down 27.3% year-on-year), and net income attributable to owners of parent was ¥13,438 million (down 28.9% year-on-year). Under the continued severe demand environment, 3Q (October 1 to December 31, 2023) showed recovery, with earnings above the level of 2Q (July 1 to September 30, 2023). The recovery of overseas demands in E & I Technology and Performance Fibers was slower than expected, and a temporary adjustment in demand continued in Health Care Solutions Unit (SU). Nutrition SU further expanded profits. Portfolio transformation has been progressing steadily.

Business performance for the first nine months (April 1, 2023 to December 31, 2023) (Millions of yen)

	FY2022 1-3Q(Apr.-Dec.)	FY2023 1-3Q(Apr.-Dec.)	Difference (year-on-year)
Net sales	567,143	564,728	(2,415) (0.4%)
Operating income	27,621	21,611	(6,010) (21.8%)
Ordinary income	26,601	19,351	(7,249) (27.3%)
Net income attributable to owners of parent	18,890	13,438	(5,451) (28.9%)

Net sales by business segments

(Millions of yen)

	Net sales				Difference (year-on-year)
	FY2023				
	1Q	2Q	3Q	Total	
Material SU	77,659	78,814	81,444	237,919	(12,788) (5.1%)
Quality of Life SU	40,878	43,880	46,638	131,397	388 0.3%
Health Care SU	17,745	18,448	17,209	53,403	751 1.4%
Nutrition SU	46,037	46,006	49,038	141,082	9,094 6.9%
Others	419	226	280	925	137 17.5%
Total	182,740	187,376	194,611	564,728	(2,415) (0.4%)

※SU : Solutions Unit

Operating income by business segments (Millions of yen)

	Operating income				Difference (year-on-year)
	FY2023				
	1Q	2Q	3Q	Total	
Material SU	5,513	6,610	6,996	19,119	(3,351) (14.9%)
Quality of Life SU	2,939	4,159	4,655	11,754	(1,301) (10.0%)
Health Care SU	2,967	2,926	2,451	8,344	(3,636) (30.4%)
Nutrition SU	2,277	2,298	3,820	8,395	4,002 91.1%
Others	288	101	151	541	146 37.0%
Adjustment	(8,381)	(9,093)	(9,070)	(26,545)	(1,869) -
Total	5,603	7,002	9,004	21,611	(6,010) (21.8%)

※SU : Solutions Unit

The operating performance by business segment was as follows:

① Material Solutions Unit

This unit recorded decreased sales and profits due to sluggish market conditions for Vinyls and Chlor-Alkali, although Modifiers and Modified Silicone polymers recovered its demand despite continued stagnation in Europe and the U.S.

- For Vinyls and Chlor-Alkali, sales of both PVC and caustic soda remained weak due to the shrinking Chinese economy and a decline in the Asian market. While the market is expected to take some time to recover, we are refining our specific technologies in global niche markets and strengthening our structure to remain unaffected by fluctuations in raw materials and market conditions.
- For Modifiers, demand for non-PVC products and PVC products in the Asian market have been on a steady recovery since 3Q, while the demand-supply adjustments for construction use are prolonged on the back of ongoing high inflation and high interest rates in Europe and the U.S.
The adoption of epoxy masterbatch (MX) has been growing for EV structural adhesives, and developments for new applications are progressing.
- For Modified Silicone polymers, sales and profits increased amid sluggish construction demand, thanks to strong sales in response to its unique functional characteristics and successful improvement of profit margin. On the back of sales expansion to new regions and applications, we are increasing production capacity in Belgium as planned, to address the rising global demand.
- For Green Planet, progress has been made in joint development and product launch with major brand holders in Japan, the U.S., and Europe. As construction to increase capacity for large projects is progressing as planned, we are focusing on building a supply chain that includes processing technology.

② Quality of Life Solutions Unit

This unit recorded increased sales but decreased profits due to delayed recovery in the smartphone market and the African hair accessory market.

- For Foam & Residential Techs, although demand was weak, profit margin improved mainly through price revisions of expandable polystyrene beads. Demand is recovering for expanded polyolefin foam products in the automotive sector, both in Japan and overseas, and its adoption in EV applications is expanding. Both sales and profits increased overall.
- For PV & Energy management, sales of high-efficiency photovoltaic modules for single home, multi-family home are firm. With a focus also on development for in-vehicle applications and BIPV (Building Integrated PV), we are strengthening our production capacity in anticipation of expanded adoption in the future.
- For E & I Technology, although the smartphone market demand showed a gradual recovery, we are expecting polyimide products to begin its strong recovery in 4Q (January 1 to March 31, 2024) or later. Although there was a temporary demand adjustment for acrylic resins for large-screen TVs, demand for

polyimide varnishes for organic EL remained on track for growth.

- For Performance Fibers, the African hair accessory market bottomed out in 1Q (April 1 to June 30, 2023), but demand recovery was slower than expected and remained weak. The market highly evaluates our new high-performance products with light-weight, water-repellent, and anti-bacterial properties. We are focusing on efforts to expand sales of these new products, along with extending sales channels to untapped regions in Africa.

③ Health Care Solutions Unit

This unit recorded increased sales but decreased profits due to longer-than-expected customer shipment adjustments in Pharma, despite solid performance in Medical.

- For Medical, the sales of blood purification devices and catheters were strong both domestically and internationally. We have taken measures to strengthen our sales system in the U.S. market, which has the big potential to expand our business. The construction of a production facility for blood purification devices in Hokkaido (Japan) is proceeding as planned to start operation this spring. We will steadily launch innovative technologies planned for introduction and continue to bring high-value-added products to market. In addition, we are expanding our lineup of catheter products with open innovation, such as by acquiring a company with biodegradable magnesium stent technology and by importing and selling of stents used to retrieve blood clots.
- Pharma is experiencing longer-than-expected effects from customers' shipment adjustments in fields including COVID-19 vaccines. For the Bio-CDMO business of Kaneka Eurogentec S.A., we focus on acquiring a wide variety of new biopharmaceutical projects of various scale by taking advantage of the high reputation of plasmid technology. For mRNA, in addition to strengthening our production system to meet growing global demand, we will promote its adoption in therapeutics for genetic diseases and cancer. For small molecule pharmaceuticals, we are moving ahead to acquire large projects in both domestic and overseas markets based on our sales track record.

④ Nutrition Solutions Unit

This unit recorded substantial increases in both sales and profits owing to the continued strong performance of Foods and Supplemental Nutrition. Solid performance is expected to continue into 4Q.

- For Supplemental Nutrition, the sales of the active form of coenzyme Q10 remained firm in the U.S. and expanded in Asia and Oceania, particularly for Chinese cross-border e-commerce. We will further aim to create new markets by reinforcing the strategic technology development and sales promotion of “Business to Business” and “Business to Consumer”. For the probiotics business which leads to improved intestinal environment and prevents presymptomatic disease, sales are also expanding. We are focusing on exploring new markets in the U.S. where is the biggest market, and also China, Asia, Russia, Central and South America, and reinforcing our production base.
- For Foods, a shift to the sales of high-value-added products and improved profit margin largely contributed to business performance. We will continue to enhance our marketing and product planning capabilities, and strive to reinforce our business foundation. Moreover, we are expanding new high-value-added businesses including organic dairy products such as yogurt. Kaneka Foods Corporation will improve profitability by accelerating the digital transformation of its business.

(2) Financial Position

➤ Assets, Liabilities, Net Assets

At the end of 3Q of the current fiscal year, total assets were ¥850,620 million, up ¥67,980 million from the previous fiscal year-end. This is due to an increase in inventory assets as well as in property, plant and equipment resulting from expanded capital investment and an increase in overseas group companies' assets denominated in yen resulting from the weakening of yen.

Liabilities totaled ¥395,111 million, up ¥48,894 million, primarily reflecting an increase in loans payable and bonds payable.

Net assets were ¥455,509 million, up ¥19,086 million, owing chiefly to an increase in foreign currency translation adjustments resulting from the weakening of yen and an increase in valuation difference on available-for-sale securities due to an increase in the fair value of shares held.

Equity ratio was 51.2%.

(3) Earnings Forecasts and Other Forward-looking Statements

The IMF has released its latest outlook for global GDP growth in 2024, projecting a 3.1% increase, up 0.2% from October 2023. The U.S. and emerging economies are forecasted to have positive growth rates over October on the back of faster-than-expected easing of inflation, while Europe and Japan are projected to experience negative growth rates, making the overall global economic trends difficult to predict.

In addition, the uncertainty in the Middle East is growing in severity, raising concerns about their potential impact on the economy.

Despite this intensifying uncertainty in the global economy, we expect Health Care SU to, although customers' shipment adjustments may continue for Pharma, increase the sales of new products as its engagement with customers in Pharma and Medical progress consistently.

Nutrition SU, composed of Foods and Supplemental Nutrition, is expected to continue contributing significantly to business performance driven by steady progress in new business development combined with favorable profit margin.

As for the Material SU and QoL SU, demand-supply adjustments are to continue for Vinyls and Chlor-Alkali, and the markets for E & I Technology and Performance Fibers are recovering at a more moderate pace than expected.

After bottoming out in 1Q, our overall performance has steadily recovered throughout 2Q and 3Q, and we anticipate this trend to continue into 4Q.

We will remain committed to developing new products based on technological innovations and strengthening our cost competitiveness.

Based on the business performance up until 3Q and the business environment outlook, we have revised our forecast for consolidated business performance announced on November 9, 2023.

Revisions to the forecast for consolidated business performance for the fiscal year ending March 31, 2024 (April 1, 2023 to March 31, 2024)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Net income per share
	¥ million	¥ million	¥ million	¥ million	¥
Previous forecast (A)	779,000	35,500	33,500	26,000	400.58
Current forecast (B)	766,000	32,000	28,700	23,000	354.86
Difference (B-A)	(13,000)	(3,500)	(4,800)	(3,000)	
Difference (%)	(1.7)	(9.9)	(14.3)	(11.5)	
(Reference: Year ended March 31, 2023)	755,821	35,087	32,411	23,008	349.59

Revisions to the forecast for business performance by business segments (Millions of yen)

	Net sales			Operating income		
	Previous forecast	Revised forecast	Difference	Previous forecast	Revised forecast	Difference
Material SU	332,000	324,600	(7,400) (2.2%)	25,700	25,900	200 0.8%
Quality of Life SU	180,000	177,500	(2,500) (1.4%)	17,400	16,100	(1,300) (7.5%)
Health Care SU	79,000	75,500	(3,500) (4.4%)	16,000	13,500	(2,500) (15.6%)
Nutrition SU	187,000	187,300	300 0.2%	12,000	12,000	- -
Others	1,000	1,100	100 10.0%	600	600	- -
Adjustment	-	-	-	(36,200)	(36,100)	100 -
Total	779,000	766,000	(13,000) (1.7%)	35,500	32,000	(3,500) (9.9%)

※SU : Solutions Unit

2. Quarterly Consolidated Financial Statements and Main Notes
(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2022 As of March 31, 2023	FY2023 3rd Quarter As of December 31, 2023
Assets		
Current assets		
Cash and deposits	41,774	45,434
Notes and accounts receivable-trade, and contract assets	170,154	180,202
Short-term investment securities	94	-
Merchandise and finished goods	89,223	95,626
Work in process	13,317	12,169
Raw materials and supplies	65,574	68,161
Other	18,327	25,835
Allowance for doubtful accounts	(1,502)	(1,802)
Total current assets	396,964	425,628
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	96,399	96,514
Machinery, equipment and vehicles, net	107,829	106,569
Other, net	88,385	116,813
Total property, plant and equipment	292,615	319,897
Intangible assets		
Goodwill	2,201	4,631
Other	13,987	13,950
Total intangible assets	16,189	18,581
Investments and other assets		
Investment securities	57,422	66,607
Other	19,731	20,208
Allowance for doubtful accounts	(283)	(303)
Total investments and other assets	76,870	86,513
Total noncurrent assets	385,675	424,992
Total assets	782,640	850,620

(Millions of yen)

	FY2022 As of March 31, 2023	FY2023 3rd Quarter As of December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	88,663	104,628
Short-term loans payable	116,491	123,197
Current portion of bonds payable	-	5,000
Income taxes payable	5,055	3,112
Provision	119	4
Other	47,912	58,505
Total current liabilities	258,242	294,448
Noncurrent liabilities		
Bonds payable	10,000	15,000
Long-term loans payable	33,706	37,961
Provision	2,375	2,062
Net defined benefit liability	20,829	20,112
Other	21,063	25,526
Total noncurrent liabilities	87,974	100,663
Total liabilities	346,217	395,111
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	32,245	30,348
Retained earnings	323,213	329,496
Treasury stock	(11,407)	(11,333)
Total shareholders' equity	377,098	381,557
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	22,204	29,231
Deferred gains or losses on hedges	(3)	(1)
Foreign currency translation adjustment	11,543	18,128
Remeasurements of defined benefit plans	6,529	6,259
Total accumulated other comprehensive income	40,273	53,617
Subscription rights to shares	622	648
Non-controlling interests	18,427	19,684
Total net assets	436,422	455,509
Total liabilities and net assets	782,640	850,620

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income

(Millions of yen)

	FY2022 3rd Quarter From April 1, 2022 to December 31, 2022	FY2023 3rd Quarter From April 1, 2023 to December 31, 2023
Net sales	567,143	564,728
Cost of sales	416,165	416,302
Gross profit	150,977	148,426
Selling, general and administrative expenses	123,355	126,814
Operating income	27,621	21,611
Non-operating income		
Dividends income	1,607	1,694
Foreign exchange gains	1,993	930
Equity in earnings of affiliates	123	136
Other	742	897
Total non-operating income	4,466	3,659
Non-operating expenses		
Interest expenses	1,339	2,476
Loss on retirement of noncurrent assets	1,142	1,191
Other	3,004	2,250
Total non-operating expenses	5,487	5,918
Ordinary income	26,601	19,351
Extraordinary income		
Gain on sales of investment securities	-	2,443
Gain on sale of businesses	-	520
Total extraordinary income	-	2,964
Income before income taxes	26,601	22,316
Income taxes-current	6,223	6,335
Income taxes-deferred	761	1,373
Total income taxes	6,985	7,708
Net income	19,616	14,607
Net income attributable to non-controlling interests	726	1,168
Net income attributable to owners of parent	18,890	13,438

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2022 3rd Quarter From April 1, 2022 to December 31, 2022	FY2023 3rd Quarter From April 1, 2023 to December 31, 2023
Net income	19,616	14,607
Other comprehensive income		
Valuation difference on available-for-sale securities	732	7,027
Deferred gains or losses on hedges	7	2
Foreign currency translation adjustment	6,971	7,069
Remeasurements of defined benefit plans, net of tax	465	(270)
Share of other comprehensive income of associates accounted for using equity method	1	0
Total other comprehensive income	8,178	13,829
Comprehensive income	27,794	28,437
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	26,646	26,782
Comprehensive income attributable to non-controlling interests	1,148	1,654

(3) Notes to the Consolidated Financial Statements

(Going Concern Assumption)

Not applicable

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

Not applicable

(Segment Information)

I Term from April 1, 2022 to December 31, 2022

1) Sales and Income by Segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Total	Adjustment	Amounts on consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	250,707	131,008	52,651	131,988	566,355	787	567,143	—	567,143
Intersegment	246	25	—	40	312	844	1,156	(1,156)	—
Total	250,953	131,033	52,651	132,028	566,667	1,632	568,300	(1,156)	567,143
Segment profit	22,470	13,056	11,981	4,393	51,902	395	52,298	(24,676)	27,621

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

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

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

(Millions of yen)

Income	Amount
Segment total	51,902
Segment profit of Others	395
Elimination of intersegment transactions	1
Corporate expenses (Note)	(24,751)
Other adjustments	73
Operating income in the quarterly consolidated statements of income	27,621

Note: Corporate expenses primarily are expenses for basic R&D that are not allocable to any reportable segments.

II Term from April 1, 2023 to December 31, 2023

1) Sales and Income by Segment

(Millions of yen)

	Reportable Segment					Others (Note 1)	Total	Adjustment	Amounts on consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	237,919	131,397	53,403	141,082	563,802	925	564,728	–	564,728
Intersegment	176	30	–	30	237	855	1,093	(1,093)	–
Total	238,095	131,427	53,403	141,113	564,040	1,781	565,821	(1,093)	564,728
Segment profit	19,119	11,754	8,344	8,395	47,614	541	48,156	(26,545)	21,611

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

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

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

(Millions of yen)

Income	Amount
Segment total	47,614
Segment profit of Others	541
Elimination of intersegment transactions	1
Corporate expenses (Note)	(26,644)
Other adjustments	97
Operating income in the quarterly consolidated statements of income	21,611

Note: Corporate expenses primarily are expenses for basic R&D that are not allocable to any reportable segments.