FINANCIAL SECTION 2020

Year Ended March 31, 2020

KANEKA CORPORATION

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

The Kaneka Group's business performance for the fiscal year from April 1, 2019 to March 31, 2020 (FY 2020) was marked by lower earning on lower sales of ¥601,514 million (down 3.1% year on year).

OPERATING EXPENSES AND OPERATING INCOME

During FY2020, the cost of sales decreased by 3.1% to ¥432,374 million. The cost of sales ratio was 71.9%, same as FY2019. SG&A expenses increased 3.2% to ¥143,124 million, and the ratio of SG&A expenses to sales increased from 22.3% to 23.8%. Operating income during FY2020 decreased 27.8% to ¥26,014 million.

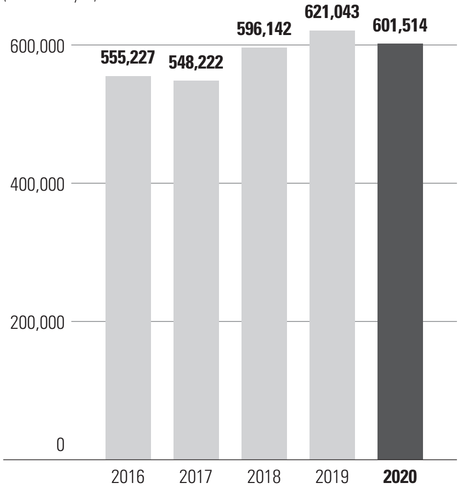
NET INCOME

For the year, the Group recorded net income attributable to owners of parent of ¥14,003 million, down 37.0% from the previous fiscal year.

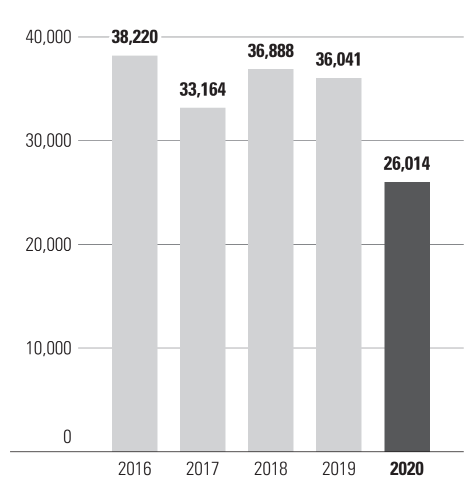
FINANCIAL CONDITION

As of March 31, 2020, total assets were ¥653,262 million, down ¥6,325 million from March 31, 2019, due mainly to decreases in accounts receivable and investment securities. The ratio of net income attributable to owners of parent to total assets (ROA) was 2.1%, down 1.3% from the previous fiscal year. Interest-bearing debt stood at ¥130,843 million, up ¥10,324 million from March 31, 2019. Net assets decreased ¥6,631 million to ¥354,094 million, reflecting a decrease in valuation difference on available-for-sale securities, and foreign currency translation adjustments. As a result, the equity ratio came to 50.7%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.39.

Net sales
(Millions of yen)



Operating income
(Millions of yen)



CASH FLOWS

Cash and cash equivalents at March 31, 2020 were ¥37,606 million, ¥2,364 million less than at March 31, 2019.

Net cash provided by operating activities was ¥39,983 million, ¥1,130 million less than in the previous fiscal year. The main contributors to the decrease were income before income taxes and non-controlling interests of ¥19,797 million, and depreciation and amortization of ¥34,340 million, which were partially offset by notes and accounts payable-trade of ¥11,120, and income taxes paid of ¥6,531 million.

Net cash used in investing activities amounted to ¥41,807 million, ¥5,421 million less than in the previous fiscal year. The principal use of cash was ¥42,977 million for the purchase of property, plant and equipment.

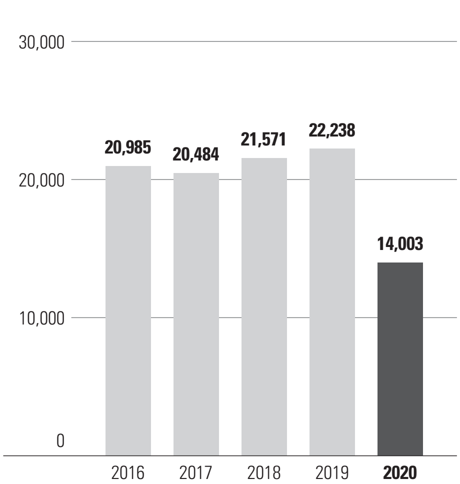
Financing activities used net cash of ¥479 million, ¥475 million less than in the previous fiscal year. This mainly reflected cash dividends paid of ¥6,848 million and payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation of ¥4,574 million, and proceeds from loans payable of ¥11,117 million.

Financial Index Trends

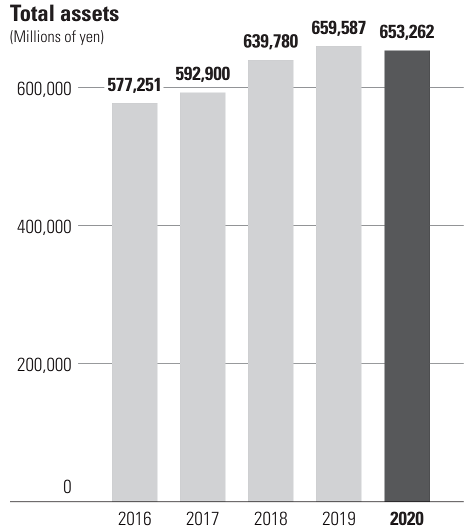
	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Shareholders' equity ratio	50.6%	51.5%	50.9%	51.1%	50.7%
Shareholders' equity ratio based on market value	55.4%	46.1%	53.9%	41.0%	25.9%
Interest-bearing debt coverage ratio	1.9	2.3	2.3	2.9	3.3
Interest coverage ratio	50.9	34.2	29.6	20.5	23.2

Shareholders' equity ratio: equity capital/total assets
Shareholders' equity ratio based on market value: total market value of stock/total assets
Interest-bearing debt coverage ratio: interest-bearing debt/cash flows
Interest coverage ratio: operating cash flows/interest expenses paid
Notes:
1. All items were calculated according to financial figures on a consolidated basis.
2. The calculation of the total market value of stock was based on the total number of shares outstanding, excluding treasury stock.
3. "Operating cash flows" refers to cash flows from operations.
4. The scope of interest-bearing debt is all liabilities in the Consolidated Balance Sheets for which interest is payable.
5. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.

Net income attributable to owners of parent
(Millions of yen)



Total assets
(Millions of yen)



BUSINESS RISKS AND UNCERTAINTIES

(1) Basic Risk Management 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 ESG 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.

(2) Business-Related Risks

The following are examples of items that could have a material impact on the Group's financial situation, business performance, and status of cash flows among the items related to the status of operations and financial information listed in the annual securities report.

The items described here are deemed by the Group to be risks as of the end of the fiscal year under review; however, they do not cover all of the risks related to the Group.

① Risks related to the novel coronavirus (COVID-19) pandemic

The Group makes aggressive use of telework and other initiatives to rigorously prevent infections, giving first priority to the safety and health of employees, while also taking steps to achieve a full-scale reopening of its corporate activities. We have also taken the acceleration of social change driven by COVID-19 as an opportunity for transformation, and we are designing a new approach to work (New Style Work Culture). However, the Group's business activities are conducted through a science and technology supply chain that connects across national borders on a global scale. If the impact of the pandemic were to become prolonged, a stoppage in this supply chain could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

② Risks related to the Group's ability to maintain operational advantages and trends in the Japanese and overseas economic environment

The Group licenses or merges advanced technologies from outside with its internally developed technologies to develop and commercialize high-value-added products in a wide range of fields, continuously opening new markets to ensure the competitive advantage of its business while working to strengthen its management foundation by advancing business structure reforms. However, the occurrence of sudden changes in the economic environment, rapid advances of technology innovation, or the occurrence of natural disasters or pandemics could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

③ Risks associated with the globalization of our business (fluctuations in foreign exchange rates and overseas business development)

The Group has always maintained a global vision, and promoted the development of its business ahead of other companies. Currently, it has adopted "glocal" (locally originated business development) as a central concept, and is accelerating the development of technologies and materials tailored to local characteristics around the world. Business activities overseas are subject to risks such as unforeseeable changes including those in laws, regulations, and taxation systems, the application of taxes under transfer pricing systems, sudden fluctuations in exchange rates, and social and political unrest driven by terrorism, conflict, and so forth. To prevent these risks form materializing, or to mitigate their impacts, we have strengthened the governance of Group companies, established a system of experts, strengthened exchange-rate resilience, purchased damage insurance, and taken measures for employee safety. However, the materialization of these risks could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

④ Risks of price fluctuations of raw materials and fuel

The Group has built and implemented a system for procurement of raw materials and fuels at the most favorable terms by combining global purchasing with purchasing through medium- to long-term contracts and the spot markets. Since most of these items are international market commodities, unanticipated market fluctuations could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

⑤ Risks associated with product liability, industrial accidents and large scale disasters

The Group has built and implemented strong quality and distribution systems for the products that it supplies to customers, and it has purchased liability insurance to cover the entire Group in the unlikely event of an accident. Moreover, the Group prioritizes safety in all areas and follows laws and regulations in its business activities. However, there is a risk that an unexpected accident or large scale natural disaster, such as an earthquake, could damage our main production facilities and cause losses that exceed the scope of property insurance coverage. The occurrence of such a situation could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

⑥ Risks associated with the protection of intellectual property rights

The Group makes certain to obtain rights for its research and development results in the form of patents and other intellectual property, aiming to quickly provide solutions that can contribute to resolve social issues. On the other hand, we respect other companies' intellectual property and work to avoid contention by making certain to conduct patent surveys at each stage of business development, such as theme proposal, commercialization, and specification changes, thereby ensuring that we have secured patent clearance. However, due to globalization, advances in information technology, and other factors, there is a risk that technological expertise developed by the Group could be subject to leaks, unauthorized use, or legal contention regarding usage licenses and so forth. The occurrence of such a situation could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

⑦ Impact of environment related regulations

In accordance with the ESG Charter, the Group aims to realize the sustainable development of an abundant society by working to protect the earth's environment, preserving resources, and reducing environmental impacts at each stage of the entire product life cycle. However, environmental regulations are becoming stricter each year and in some cases they could restrict activities in the business supply chain and so forth, which could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

⑧ Risks associated with legal action

The Group emphasizes compliance in management, and works to ensure compliance with laws, regulations and social norms. However, in the process of conducting business in Japan and overseas, there is a risk that the Group could be subject to unforeseeable lawsuits, administrative measures, and so forth. The occurrence of a serious lawsuit or other such event could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

⑨ Other risks

The Group holds shares of its business partners and financial institutions with the goal of building, maintaining, and strengthening medium- to long-term business relationships. A significant fall in the market value, etc. of these shares at the fiscal year end could cause the Group to recognize impairment losses due to the adoption of the Accounting Standards for Financial Instruments.

With regard to noncurrent assets, a dramatic deterioration of the business environment or a decline in the fair value of idle land held by the Group and so forth could oblige the Group to recognize impairment losses due to the adoption of the Accounting Standard for Impairment of Fixed Assets.

With regard to retirement benefit obligations, a marked decrease in the underlying discount rate assumed for actuarial calculations or a sharp deterioration in the operation of pension assets could cause a significant shortfall in funds.

With regard to deferred tax assets, recoverability is calculated based on forecasts for future taxable income and so forth against future temporary deductible differences. However, a difference between actual taxable income and the forecast could necessitate a reversal of deferred tax assets.

The occurrence of any of the above situations could have a negative impact on the Group's financial situation, business performance, and status of cash flows.

CONSOLIDATED BALANCE SHEETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	**2020**	2019	**2020**
Current assets:			
Cash and cash equivalents (Note 5)	**¥ 37,606**	¥ 39,970	**$ 345,550**
Notes and accounts receivable - trade (Note 5)	**134,110**	147,993	**1,232,294**
Inventories (Note 8)	**117,259**	112,434	**1,077,452**
Short-term loans receivable from unconsolidated subsidiaries and affiliates	**1,819**	1,722	**16,715**
Other current assets	**17,366**	13,363	**159,570**
Allowance for doubtful accounts (Note 5)	**(1,303)**	(1,237)	**(11,973)**
Total current assets	**306,858**	314,245	**2,819,611**
Property, plant and equipment (Note 12):			
Land	**31,304**	31,354	**287,645**
Buildings and structures	**207,065**	199,621	**1,902,648**
Machinery, equipment and vehicles	**593,774**	577,115	**5,455,983**
Construction in progress	**27,038**	26,338	**248,444**
Other	**4,750**	3,697	**43,654**
	863,933	838,127	**7,938,375**
Less accumulated depreciation	**(600,876)**	(586,205)	**(5,521,241)**
Property, plant and equipment, net	**263,056**	251,922	**2,417,134**
Intangible assets (Note 12):	**13,180**	13,424	**121,115**
Investments and other assets:			
Investment securities (Notes 5, 6 and 12):			
Unconsolidated subsidiaries and affiliates	**3,422**	4,114	**31,447**
Other	**45,258**	57,640	**415,865**
Long-term loans receivable (Note 5)	**1,005**	1,100	**9,242**
Deferred tax assets (Note 11)	**10,035**	6,864	**92,215**
Other	**10,684**	10,536	**98,180**
Allowance for doubtful accounts (Note 5)	**(241)**	(260)	**(2,220)**
Total investments and other assets	**70,166**	79,994	**644,732**
	¥ 653,262	¥ 659,587	**$ 6,002,593**

See notes to consolidated financial statements.

Liabilities and net assets	Millions of yen 2020	2019	Thousands of U.S. dollars (Note 1) 2020
Current liabilities:			
Short-term loans payable (Notes 5 and 12)	**¥ 76,760**	¥ 63,981	**$ 705,324**
Current portion of long-term loans payable (Notes 5 and 12)	**12,074**	3,687	**110,948**
Current portion of bonds payable (Notes 5 and 12)	—	10,000	—
Notes and accounts payable (Note 5):			
Trade	**73,509**	84,797	**675,448**
Construction	**12,222**	11,545	**112,307**
Other	**16,824**	18,681	**154,590**
Income taxes payable	**2,408**	2,864	**22,127**
Accrued expenses	**13,489**	13,763	**123,951**
Other current liabilities	**4,310**	4,592	**39,609**
Total current liabilities	**211,599**	213,912	**1,944,309**
Noncurrent liabilities:			
Bonds payable (Notes 5 and 12)	**10,000**	—	**91,886**
Long-term loans payable (Notes 5 and 12)	**33,293**	45,122	**305,922**
Net defined benefit liability (Note 13)	**38,308**	34,985	**352,006**
Provision for directors' retirement benefits	**317**	266	**2,920**
Deferred tax liabilities (Note 11)	**1,576**	2,137	**14,485**
Other noncurrent liabilities	**4,071**	2,437	**37,412**
Total noncurrent liabilities	**87,568**	84,948	**804,634**
Contingent liabilities (Note 14)			
Net assets (Note 15):			
Shareholders' equity:			
Capital stock			
Authorized—150,000,000 shares			
Issued —68,000,000 shares	**33,046**	33,046	**303,655**
Capital surplus	**30,962**	32,784	**284,500**
Retained earnings	**280,265**	272,944	**2,575,260**
Less treasury stock, at cost—2,774,049 shares in 2020			
2,778,423 shares in 2019	**(11,583)**	(11,601)	**(106,434)**
Total shareholders' equity	**332,691**	327,173	**3,056,981**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**14,246**	19,642	**130,909**
Deferred gains or losses on hedges	**(103)**	(110)	**(947)**
Foreign currency translation adjustments	**(7,395)**	(4,008)	**(67,953)**
Remeasurements of defined benefit plans	**(7,956)**	(5,705)	**(73,109)**
Total accumulated other comprehensive income	**(1,208)**	9,818	**(11,100)**
Subscription rights to shares (Note 16)	**482**	431	**4,435**
Non-controlling interests	**22,128**	23,302	**203,334**
Total net assets	**354,094**	360,726	**3,253,650**
	¥ 653,262	¥ 659,587	**$ 6,002,593**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Net sales	**¥ 601,514**	¥ 621,043	¥ 596,142	**$ 5,527,098**
Cost of sales	**432,374**	446,254	426,959	**3,972,938**
Gross profit	**169,139**	174,789	169,183	**1,554,160**
Selling, general and administrative expenses	**143,124**	138,747	132,294	**1,315,119**
Operating income	**26,014**	36,041	36,888	**239,041**
Other income (expenses):				
Interest and dividend income	**1,684**	1,920	1,602	**15,475**
Interest expenses	**(1,714)**	(2,014)	(1,692)	**(15,749)**
Gain on sales of investment securities	**627**	1,515	—	**5,767**
Gain on sales of property, plant and equipment	**315**	427	—	**2,901**
Loss on disposal of property, plant and equipment	**(1,916)**	(2,521)	(1,745)	**(17,610)**
Foreign exchange gains (losses), net	**(968)**	(333)	454	**(8,903)**
Equity in earnings of affiliates, net	**150**	29	146	**1,384**
Gain on negative goodwill (Note 17)	—	—	954	—
Litigation expenses	**(996)**	(1,683)	(1,087)	**(9,157)**
Restructuring charges (Notes 9 and 10)	—	(1,851)	(1,781)	—
Gain on step acquisitions (Note 17)	—	443	1,429	—
Environmental expenses	—	—	(566)	—
Provision of allowance for doubtful accounts	—	—	(637)	—
Settlement received	—	1,051	—	—
Gain on contribution of securities to retirement benefit trust	**378**	1,608	—	**3,474**
Other, net	**(3,777)**	(2,725)	(2,879)	**(34,709)**
Income before income taxes and non-controlling interests	**19,797**	31,909	31,085	**181,915**
Income taxes (Note 11)				
Current	**4,809**	7,893	8,371	**44,193**
Deferred	**(490)**	40	(83)	**(4,511)**
Net income	**15,479**	23,975	22,796	**142,233**
Net income attributable to non-controlling interests	**1,475**	1,736	1,224	**13,560**
Net income attributable to owners of parent	**¥ 14,003**	¥ 22,238	¥ 21,571	**$ 128,672**

	Yen			U.S. dollars (Note 1)
Net income per share – basic (Note 2)	**¥ 214.70**	¥ 339.15	¥ 328.46	**$ 1.97**
Net income per share – diluted (Note 2)	**214.28**	338.59	328.05	**1.96**
Cash dividends applicable to the year (Note 15)	**100.00**	64.00	18.00	**0.91**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Net income	**¥ 15,479**	¥ 23,975	¥ 22,796	**$ 142,233**
Other comprehensive income:				
Valuation difference on available-for-sale securities	**(5,437)**	(5,164)	2,440	**(49,966)**
Deferred gains or losses on hedges	**7**	(1)	(47)	**66**
Foreign currency translation adjustments	**(3,668)**	(1,178)	2,116	**(33,708)**
Remeasurements of defined benefit plans	**(2,280)**	1,800	2,153	**(20,950)**
Share of other comprehensive income of associates accounted for using equity method	**(0)**	(5)	2	**(3)**
Total other comprehensive income (Note 3)	**(11,379)**	(4,549)	6,665	**(104,561)**
Comprehensive income	**¥ 4,099**	¥ 19,425	¥ 29,462	**$ 37,671**
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	**¥ 2,976**	¥ 17,996	¥ 27,958	**$ 27,351**
Comprehensive income attributable to non-controlling interests	**1,123**	1,429	1,503	**10,319**

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Shareholders' equity				
Capital stock				
Balance at beginning of year	**¥ 33,046**	¥ 33,046	¥ 33,046	**$ 303,655**
Changes of items during the period				
Total changes of items during the period	—	—	—	—
Balance at the end of current period	**33,046**	33,046	33,046	**303,655**
Capital surplus				
Balance at beginning of year	**32,784**	32,799	32,813	**301,241**
Changes of items during the period				
Change in treasury shares of parent arising from transactions with non-controlling interests	**(1,821)**	(14)	(14)	**(16,741)**
Total changes of items during the period	**(1,821)**	(14)	(14)	**(16,741)**
Balance at the end of current period	**30,962**	32,784	32,799	**284,500**
Retained earnings				
Balance at beginning of year	**272,944**	264,963	248,523	**2,507,988**
Changes of items during the period				
Dividends from surplus - ¥100.00 per share	**(6,848)**	(5,906)	(5,933)	**(62,928)**
Change of scope of consolidation	**167**	—	823	**1,539**
Net income attributable to owners of parent	**14,003**	22,238	21,571	**128,672**
Disposal of treasury stock	**(1)**	(0)	(21)	**(11)**
Cancellation of treasury stock	—	(8,351)	—	—
Total changes of items during the period	**7,321**	7,980	16,440	**67,272**
Balance at the end of current period	**280,265**	272,944	264,963	**2,575,260**
Treasury stock				
Balance at beginning of year	**(11,601)**	(18,683)	(16,753)	**(106,606)**
Changes of items during the period				
Purchase of treasury stock	**(4)**	(1,767)	(2,618)	**(40)**
Disposal of treasury stock	**23**	498	687	**212**
Cancellation of treasury stock	—	8,351	—	—
Total changes of items during the period	**18**	7,081	(1,930)	**171**
Balance at the end of current period	**(11,583)**	(11,601)	(18,683)	**(106,434)**
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	**19,642**	24,730	22,338	**180,490**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(5,395)**	(5,087)	2,392	**(49,581)**
Total changes of items during the period	**(5,395)**	(5,087)	2,392	**(49,581)**
Balance at the end of current period	**14,246**	19,642	24,730	**130,909**
Deferred gains or losses on hedges				
Balance at beginning of year	**(110)**	(108)	(61)	**(1,014)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**7**	(1)	(47)	**66**
Total changes of items during the period	**7**	(1)	(47)	**66**
Balance at the end of current period	**(103)**	(110)	(108)	**(947)**

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Foreign currency translation adjustments				
Balance at beginning of year	**(4,008)**	(3,035)	(5,105)	**(36,828)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(3,387)**	(972)	2,069	**(31,124)**
Total changes of items during the period	**(3,387)**	(972)	2,069	**(31,124)**
Balance at the end of current period	**(7,395)**	(4,008)	(3,035)	**(67,953)**
Remeasurements of defined benefit plans				
Balance at beginning of year	**(5,705)**	(7,526)	(9,653)	**(52,427)**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(2,250)**	1,820	2,126	**(20,682)**
Total changes of items during the period	**(2,250)**	1,820	2,126	**(20,682)**
Balance at the end of current period	**(7,956)**	(5,705)	(7,526)	**(73,109)**
Subscription rights to shares				
Balance at beginning of year	**431**	300	271	**3,968**
Changes of items during the period				
Net changes of items other than shareholders' equity	**50**	131	29	**466**
Total changes of items during the period	**50**	131	29	**466**
Balance at the end of current period	**482**	431	300	**4,435**
Non-controlling interests				
Balance at beginning of year	**23,302**	20,112	16,130	**214,120**
Changes of items during the period				
Net changes of items other than shareholders' equity	**(1,173)**	3,190	3,981	**(10,786)**
Total changes of items during the period	**(1,173)**	3,190	3,981	**(10,786)**
Balance at the end of current period	**22,128**	23,302	20,112	**203,334**
Total net assets				
Balance at beginning of year	**360,726**	346,599	321,551	**3,314,589**
Changes of items during the period				
Dividends from surplus- ¥100.00 per share	**(6,848)**	(5,906)	(5,933)	**(62,928)**
Change of scope of consolidation	**167**	—	823	**1,539**
Net income attributable to owners of parent	**14,003**	22,238	21,571	**128,672**
Purchase of treasury stock	**(4)**	(1,767)	(2,618)	**(40)**
Disposal of treasury stock	**21**	498	666	**200**
Cancellation of treasury stock	—	—	—	—
Change in treasury shares of parent arising from transactions with non-controlling interests	**(1,821)**	(14)	(14)	**(16,741)**
Net changes of items other than shareholders' equity	**(12,149)**	(920)	10,552	**(111,641)**
Total changes of items during the period	**(6,631)**	14,127	25,047	**(60,938)**
Balance at the end of current period	**¥ 354,094**	¥ 360,726	¥ 346,599	**$ 3,253,650**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2020, 2019 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Cash flows from operating activities				
Income before income taxes and non-controlling interests	**¥ 19,797**	¥ 31,909	¥ 31,085	**$ 181,915**
Depreciation and amortization	**34,340**	32,150	30,323	**315,542**
Gain on step acquisitions	—	(443)	(1,429)	—
Gain on negative goodwill	—	—	(954)	—
Restructuring charges	—	1,851	1,781	—
Settlement received	—	(1,051)	—	—
Gain on contribution of securities to retirement benefit trust	**(378)**	(1,608)	—	**(3,474)**
Increase (decrease) in net defined benefit liability	**896**	2,244	3,026	**8,237**
Increase (decrease) in allowance for doubtful accounts	**67**	(11)	638	**616**
Interest and dividend income	**(1,684)**	(1,920)	(1,602)	**(15,475)**
Interest expenses	**1,714**	2,014	1,692	**15,749**
Loss (gain) on disposal of property, plant and equipment	**53**	445	531	**496**
Gain on sales of investment securities	**(627)**	(1,515)	—	**(5,767)**
Equity in earnings of affiliates, net	**(150)**	(29)	(146)	**(1,384)**
Decrease (increase) in notes and accounts receivable-trade	**13,197**	(5,329)	(12,053)	**121,267**
Decrease (increase) in inventories	**(5,572)**	(9,868)	(6,176)	**(51,206)**
Increase (decrease) in notes and accounts payable-trade	**(11,120)**	(141)	8,568	**(102,179)**
Others	**(4,083)**	139	1,704	**(37,521)**
Subtotal	**46,450**	48,833	56,988	**426,814**
Interest and dividend income received	**1,787**	1,997	1,752	**16,421**
Interest expenses paid	**(1,721)**	(2,009)	(1,681)	**(15,822)**
Settlement package received	—	1,051	—	—
Income taxes paid	**(6,531)**	(8,760)	(7,309)	**(60,019)**
Net cash provided by operating activities	**39,983**	41,113	49,750	**367,393**
Cash flows from investing activities				
Purchase of property, plant and equipment	**(42,977)**	(43,987)	(34,113)	**(394,906)**
Proceeds from sales of property, plant and equipment	**725**	1,705	61	**6,666**
Purchase of intangible assets	**(3,297)**	(1,809)	(1,405)	**(30,302)**
Purchase of investment securities	**(175)**	(1,607)	(1,384)	**(1,609)**
Proceeds from sales and distributions of investment securities	**867**	1,635	156	**7,973**
Proceeds from redemption of investment securities	**4,000**	—	—	**36,754**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	—	(1,463)	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	**37**	227	780	**341**
Purchase of stocks of subsidiaries and affiliates	—	(1,878)	—	—
Payments for transfer of business	—	—	(331)	—
Payments of loans receivable	**(1,238)**	(1,220)	(933)	**(11,383)**
Collection of loans receivable	**872**	1,162	895	**8,015**
Others	**(620)**	(1,454)	(1,057)	**(5,704)**
Net cash used in investing activities	**(41,807)**	(47,229)	(38,796)	**(384,154)**
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	**14,121**	13,648	6,702	**129,756**
Proceeds from long-term loans payable	**1,362**	3,810	5,628	**12,519**
Repayment of long-term loans payable	**(4,366)**	(10,880)	(9,169)	**(40,124)**
Proceeds from issuance of bonds	**10,000**	—	—	**91,886**
Redemption of bonds	**(10,000)**	—	—	**(91,891)**
Proceeds from sales and leasebacks	—	—	232	—
Repayments of lease obligations	**(244)**	(127)	(266)	**(2,245)**
Proceeds from share issuance to non-controlling shareholders	**390**	245	—	**3,584**
Cash dividends paid	**(6,848)**	(5,906)	(5,933)	**(62,928)**
Cash dividends paid to non-controlling interests	**(314)**	(351)	(358)	**(2,890)**
Purchase of treasury stock	**(4)**	(1,767)	(2,618)	**(40)**
Proceeds from sales of treasury stock	**0**	395	475	**4**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	**(4,574)**	(21)	(82)	**(42,034)**
Net cash used in financing activities	**(479)**	(954)	(5,390)	**(4,403)**
Effect of exchange rate change on cash and cash equivalents	**(201)**	(373)	231	**(1,855)**
Net increase (decrease) in cash and cash equivalents	**(2,505)**	(7,443)	5,795	**(23,020)**
Cash and cash equivalents at beginning of period	**39,970**	47,413	41,018	**367,273**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**141**	—	600	**1,297**
Cash and cash equivalents at end of period	**¥ 37,606**	¥ 39,970	¥ 47,413	**$ 345,550**

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Kaneka Corporation (the "Company") and its consolidated domestic subsidiaries maintain their official accounting records in Japanese yen and in accordance with the provisions set forth in the Financial Instruments and Exchange Law in Japan and its related accounting regulations and accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English with some expanded descriptions and the inclusion of consolidated statements of changes in net assets from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law in Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The accounts of consolidated overseas subsidiaries were prepared for consolidation purposes in accordance with either International Financial Reporting Standards or U.S. Generally Accepted Accounting Principles, with adjustments for the specified items as applicable in compliance with ASBJ Practical Solution No. 18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements."

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, 2020 which was ¥108.83 to U.S.$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

The disclosed amounts have been rounded down under one million yen.

2. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies over which the Company has power of control through majority voting rights or existence of certain other conditions evidencing control (together, the "Companies"). Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method, except for insignificant investments which are recorded at cost.

The Company has 88 consolidated subsidiaries (83 in FY2019 and 84 in FY2018) and 3 affiliates accounted for by the equity method (3 in FY2019 and 4 in FY2018). For the year ended March 31, 2020, the accounts of 20 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between their fiscal year end and that of the Company, the transactions are included in consolidation. Intercompany transactions and accounts have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, it is based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount is individually estimated.

Securities

The Companies hold equity securities issued by subsidiaries and affiliated companies and available-for-sale securities. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair value are stated at moving average cost.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated loss from impairment. Cumulative amounts of recognized impairment loss are deducted from acquisition costs. Depreciation is computed over the estimated useful life of the asset mainly by the straight-line method. Repairs, maintenance and minor renewals are charged to expenses as incurred. Property, plant and equipment capitalized under finance lease arrangements are depreciated over the estimated useful life as measured by the lease term of the respective asset by the straight-line method. The residual value is zero or the guaranteed residual value.

Goodwill

Goodwill, except for minor goodwill, is amortized by the straight-line method within 20 years. Minor goodwill is expensed as incurred.

Liability (asset) for retirement benefits

The Company has an unfunded lump-sum benefit plan generally covering all employees. Under the terms of the plan, eligible employees are entitled upon mandatory retirement at age 60 or earlier voluntary termination to a lump-sum severance payment based on compensation at the time of severance and years of service.

In addition to the unfunded lump-sum plan, the Company participates in a noncontributory funded pension plan, which covers substantially all employees. Consolidated domestic subsidiaries have similar lump-sum benefit plans and pension plans. Certain overseas consolidated subsidiaries have defined contribution plans.

The Companies provide employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets. The estimated benefit is attributed to each period based on the plan's benefit formula. Prior service costs are recognized as expense using the straight-line method over mainly 5 years, a term within the average of the estimated remaining service years of the current employees. Actuarial gains and losses are recognized using the straight-line method over mainly 10 years, a term also within the average of the estimated remaining service years of employees, commencing with the following period.

Provision for directors' retirement benefits

Directors and statutory auditors terminating their service with certain consolidated domestic subsidiaries are entitled to receive retirement benefits based on compensation and years of service, subject to the approval of shareholders. Certain consolidated domestic subsidiaries accrue the liability for their plans in amounts sufficient to provide for benefits arising from services performed through the balance sheet date.

Research and development expenses

Expenses related to research and development activities are charged to income as incurred. Research and development expenses for the years ended March 31, 2020, 2019 and 2018 were ¥29,389 million ($270,052 thousand), ¥28,963 million and ¥28,039 million, respectively.

Income taxes

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting are recognized as deferred income taxes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Net income per share

The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period. The Company implemented a 5 to 1 consolidation of shares of common stock with October 1, 2018 as the effective date. Net income per share is calculated based on the assumption that the consolidation had been implemented at the beginning of FY2018.

Application of consolidated taxation system

The Company and certain domestic consolidated subsidiaries apply a consolidated taxation system.

Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system.

Having regard to paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No.39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2020 presentation.

In addition, prior year amounts have been rounded down under one million yen according to the current consolidated fiscal year.

These changes had no impact on previously reported results of operations or shareholders' equity.

Additional information

(Transfer of Company shares to the employees through an employee stock ownership trust)

The Company has introduced a plan to transfer Company shares to the employees' share holding association through a trust in order to provide the Company group's employees to promote the benefit and welfare of the employees of the Company and to provide incentives to increase the enterprise value of the Company. The transaction was completed in FY2019.

(1) Outline of the transactions

The Board of Directors approved a resolution on October 9, 2015 to introduce the "Employee Stock Ownership Plan (ESOP) Trust" (the "Plan") to provide employees an incentive toward achieving medium- to long-term growth in corporate value. The Plan was an incentive plan in which all employees of the Company who were members of the "Kaneka Share Holding Association"

("Share Holding Association") could participate. According to the plan, the Company created a trust with employee members of the Share Holding Association who met certain requirements as beneficiaries. During a predetermined period, the trust acquired a number of the Company's shares that the Association was then expected to acquire over the next five years.

Afterwards, the trust sold the shares to the Share Holding Association in accordance with the plan. The remaining funds were to be distributed according to each employee's contribution ratio when there were trust earnings resulting from an upward swing in the stock price when the trust ended. There was no additional risk of loss to the employees when a loss was incurred as a result of a decrease in the stock price as the Company would pay back the loan based on a guarantee clause in the loan agreement.

The trust completed its purpose and terminated in FY2019.

(2) Stocks remaining in the trust

The book value (excluding incidental expenses) of stock remaining in the trust is included as "treasury stock" in net assets in the consolidated balance sheets. As of March 31, 2019, since the trust has ended, there will be no remaining shares of Company stock.

(3) Book value of loans recorded using the gross price method

There is no book value of borrowings recorded as the trust had ended as of March 31, 2019.

(The global COVID-19 pandemic)

The global COVID-19 pandemic has had an impact on the global economy. The Group's business fields cover a wide range of areas both in Japan and overseas. It is difficult to estimate the environmental factors, such as recovery in demand, normalization of crude oil prices, and exchange rate trends, that are needed to determine business forecasts in each business field.

In this situation, the Group has made accounting estimates such as impairment of noncurrent assets based on the assumption that the pandemic impacts will continue for a certain period of time in the next fiscal year (the fiscal year ending March 31, 2021).

(Changes in accounting policies)

Subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 Lease (hereinafter referred to as "IFRS16") from the current fiscal year. In accordance with IFRS16, lessees are required to recognize almost all leases as assets or liabilities in the balance sheet. Having followed the transitional treatment regarding the application of IFRS 16, the cumulative effects of the changes in the accounting policies are recognized from the current consolidated fiscal year.

As a result, in the consolidated balance sheet of the current consolidated fiscal year, "Property, plant and equipment" increased by ¥2,466 million ($22,668 thousand). In addition, "Other current liabilities" and "Other non-current liabilities" increased by ¥382 million ($3,511 thousand) and ¥2,191 million ($20,132 thousand), respectively.

The effects on the consolidated statement of income for the current consolidated fiscal year were inconsequential.

(Standards and guidance not yet adopted)

1 Accounting standard for revenue recognition

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step1: Identify contract(s) with customers.
Step2: Identify the performance obligations in the contract.
Step3: Determine the transaction price.
Step4: Allocate the transaction price to the performance obligation in the contract.
Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the standards

The Company and its domestic consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

2 Accounting Standard for Fair Value Measurement

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

In order to enhance comparability with internationally recognized accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards") were developed and guidance on methods measuring fair value was issued. Fair Value Accounting Standards are applicable to the fair value measurement of the following items:

- Financial instruments in "Accounting Standard for Financial Instruments"; and
- Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories."

Also, the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been revised. Along with this revision, notes on fair value information of financial instruments by level of inputs have been set.

(2) Effective date

Fair Value Accounting Standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of application of the standards

The Company and its consolidated subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)

(1) Overview

The purpose of this is to show the overview of the principles in the adopted accounting treatment and process if the regulation of the relevant accounting standard is not apparent.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

4. Accounting Standard for Disclosure of Accounting Estimates

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The purpose of this overview is to disclose to the users of the financial statement the information about the contents of risky items in the amounts of the accounting estimates recognized in the financial statement for the fiscal year that significantly impact the financial statement for the next fiscal year.

(2) Effective date

Effective from the end of the fiscal year ending March 31, 2021.

3. COMPREHENSIVE INCOME

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Valuation difference on available-for-sale securities				
Increase (Decrease) during the year	**¥ (6,826)**	¥ (4,299)	¥ 3,539	**$ (62,727)**
Reclassification adjustments	**(883)**	(2,911)	(14)	**(8,113)**
Subtotal, before tax	**(7,709)**	(7,210)	3,525	**(70,841)**
Tax expense	**2,271**	2,046	(1,084)	**20,874**
Subtotal, net of tax	**(5,437)**	(5,164)	2,440	**(49,966)**
Deferred gains or losses on hedges				
Increase (Decrease) during the year	**477**	223	(1,061)	**4,392**
Reclassification adjustments	**(466)**	(226)	998	**(4,283)**
Subtotal, before tax	**11**	(2)	(62)	**108**
Tax expense	**(4)**	0	14	**(41)**
Subtotal, net of tax	**7**	(1)	(47)	**66**
Foreign currency translation adjustment				
Increase (Decrease) during the year	**(3,668)**	(1,153)	2,116	**(33,708)**
Reclassification adjustments	**—**	(25)	—	**—**
Subtotal, before tax	**(3,668)**	(1,178)	2,116	**(33,708)**
Tax expense	**—**	—	—	**—**
Subtotal, net of tax	**(3,668)**	(1,178)	2,116	**(33,708)**
Remeasurements of defined benefit plans				
Increase (Decrease) during the year	**(4,443)**	651	482	**(40,834)**
Reclassification adjustments	**1,149**	1,941	2,643	**10,562**
Subtotal, before tax	**(3,294)**	2,592	3,126	**(30,271)**
Tax expense	**1,014**	(792)	(972)	**9,321**
Subtotal, net of tax	**(2,280)**	1,800	2,153	**(20,950)**
Share of other comprehensive income of associates accounted for using equity method				
Increase (Decrease) during the year	**(0)**	(76)	2	**(3)**
Reclassification adjustments	**—**	71	—	**—**
Subtotal, net of tax	**(0)**	(5)	2	**(3)**
Total other comprehensive income	**¥ (11,379)**	¥ (4,549)	¥ 6,665	**$ (104,561)**

4. STATEMENTS OF CASH FLOWS

	Millions of yen			Thousands of U.S. dollars (Note 1)
Important non-cash transactions	**2020**	2019	2018	**2020**
Cancellation of treasury stock	**¥ —**	¥ 8,351	¥ —	**$ —**

5. FINANCIAL INSTRUMENTS

1. Matters regarding financial instruments

(1) Policy for handling financial instruments

The Companies procure funds necessary for the manufacturing and sales business primarily through borrowings from financial institutions or by issuing corporate bonds based upon the plan and budget for capital investments. In principle, temporary surplus funds are centralized by the Cash Management System (CMS) and invested in highly safe financial assets. Derivative transactions are used to hedge against risks described below, but never for speculative purposes.

(2) Description of financial instruments and inherent risks

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies generated from global business operations are exposed to foreign exchange fluctuation risk. Marketable securities and investment securities, primarily shares of companies with which the Companies maintain business relations, are exposed to the risk of market price fluctuations.

Notes and accounts payable, which are operating payables, are basically settled in the short-term with a deadline set within a year. Operating payables include payables denominated in foreign currencies for importing materials and are exposed to foreign exchange fluctuation risk. However, they remain within the range of the balance of operating receivables denominated in the same foreign currencies. Short-term borrowings are primarily for procuring operating capital and long-term debt, and bonds are issued to obtain necessary funds mainly for capital expenditures. A portion of the short-term debt and the long-term debt is exposed to interest rate fluctuation risk, but the effect is limited.

Derivative transactions such as foreign exchange forward contracts, currency swaps and interest rate swaps are used to hedge against the foreign currency fluctuation risk and interest rate fluctuation risk associated with operating receivables and payables denominated in foreign currencies, investment assets, loans receivable, etc. Since all derivative transactions correspond to assets and liabilities on the balance sheets, foreign exchange fluctuation risk is hedged and the fluctuation risk of market interest rates is rendered insignificant.

(3) Risk management system related to financial instruments

(a) Credit risk management (risk pertaining to breach of contract on the part of business partners)

The Company aims to mitigate credit risk by quickly identifying any concerns about the collection of operating receivables resulting from the deterioration of a business partner's financial position or other factors. Also, each business division periodically reviews the status of our main business partners and regularly monitors deadlines, balances and credit status for each partner. The consolidated subsidiaries also manage operating receivables in accordance with the practices of the Company.

As for debt securities, the credit risk is insignificant since the Company only handles those with high ratings or issued by companies with existing business relations with the Company and whose creditability is verifiable. Furthermore, the Company periodically verifies the financial position of issuers to mitigate risk. Since the counterparties to the derivative transactions are highly creditworthy financial institutions, the Company considers the risk of their breach of contract as almost nil.

The maximum credit risk exposure of financial assets is represented by their carrying amounts on the balance sheet as of March 31, 2020.

(b) Market risk management (foreign exchange and interest rate fluctuation risk)

The Company and some consolidated subsidiaries identify foreign exchange fluctuation risk associated with operating receivables or operating payables denominated in foreign currencies by currency and by month. Such risk is hedged by using foreign exchange forward contracts, principally up to the amounts to be settled after netting operating payables or operating receivables denominated in foreign currencies. Note that the Company defines the monthly execution limit and the operating standard based upon its Procedures for Foreign Exchange Management and enters into foreign exchange forward contracts within the scope provided by the procedures. Also, the Companies utilize interest rate swaps mainly to hedge against the fluctuation risk of market interest rates.

For marketable securities and investment securities, the Company periodically identifies fair values and the financial positions of the issuers (business partner companies). For securities other than held-to-maturity bonds, the Company continuously revises the holding status taking into consideration the business relationship with the business partner companies.

The Financial Department of the Company executes derivative transactions based upon its Transaction Regulations for Derivative Financial Products, which defines the basic policy, the scope of operations, the personnel responsible for execution, the basis for decision making and the management system. Consolidated subsidiaries enter into derivative transactions based upon resolutions passed by their respective bodies upon the Company's approval. The Company ensures an effective internal checking system by segregating the execution function from the monitoring and managing function. Also, the Director of the Company's Financial Department performs evaluations for hedge effectiveness of all derivative transactions entered into by the Companies and reports the results together with a description of the underlying assets and liabilities to the President and the CFO on a monthly basis.

(c) Liquidity risk management relating to fund procurement (risk of non-execution of payments by deadlines)

The Company manages liquidity risk by timely preparing and updating cash flow plans by the Financial Department and by maintaining a liquidity facility, which is the sum of liquidity on hand and commitment lines, in the approximate amount of one month's consolidated net sales. In addition, the Companies mitigate liquidity risk in principle by centralizing the Companies' funds using CMS. Accordingly, the Companies consider that no significant liquidity risk exists.

(4) Supplementary explanation for matters regarding fair value of financial instruments

The fair value of financial instruments is based on market price. If a market price is not available, another valuation method is used. Such methods include variable factors and assumptions, and the results of a valuation may differ depending on which factors and assumptions are used.

The contract amounts related to the derivative transactions shown in "Derivative Transactions" do not indicate the market risks associated with the derivative transactions themselves.

2. Matters regarding the fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2020 (the consolidated accounts settlement date of the year ending March 31, 2020), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	**¥ 37,606**	**¥ 37,606**	**¥ —**
(2) Notes and accounts receivable - trade	**134,110**	**134,110**	**—**
(3) Marketable and investment securities			
Available-for-sale securities	**41,014**	**41,014**	**—**
(4) Long-term loans receivable	**1,005**		
Allowance for doubtful accounts (*1)	**(0)**		
	1,005	**1,009**	**3**
Total assets	**213,737**	**213,741**	**3**
(1) Notes and accounts payable - trade	**73,509**	**73,509**	**—**
(2) Short-term loans payable	**88,835**	**88,835**	**—**
(3) Current portion of bonds payable	**—**	**—**	**—**
(4) Accounts payable - other	**28,755**	**28,755**	**—**
(5) Bonds payable	**10,000**	**11,187**	**1,187**
(6) Long-term loans payable	**33,293**	**33,309**	**16**
Total liabilities	**234,392**	**235,596**	**1,203**
Derivative transactions (*2)			
– Hedge accounting not applied	**62**	**62**	**—**
– Hedge accounting applied	**360**	**360**	**—**

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2019 (the consolidated accounts settlement date for the year ending March 31, 2019), their fair values and any differences between the balance sheet amounts and the fair values. Financial instruments whose fair values were deemed extremely difficult to assess were not included (see Note 2).

Millions of yen

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	¥ 39,970	¥ 39,970	¥ —
(2) Notes and accounts receivable - trade	147,993	147,993	—
(3) Marketable and investment securities			
Available-for-sale securities	49,232	49,232	—
(4) Long-term loans receivable	1,100		
Allowance for doubtful accounts (*1)	(0)		
	1,100	1,108	8
Total assets	238,296	238,304	8
(1) Notes and accounts payable - trade	84,797	84,797	—
(2) Short-term loans payable	67,668	67,668	—
(3) Current portion of bonds payable	10,000	10,080	80
(4) Accounts payable - other	29,533	29,533	—
(5) Bonds payable	—	—	—
(6) Long-term loans payable	45,122	45,090	(32)
Total liabilities	237,122	237,170	48
Derivative transactions (*2)			
– Hedge accounting not applied	(12)	(12)	—
– Hedge accounting applied	(96)	(96)	—

The table below shows the amounts as of March 31, 2020 calculated into U.S. dollars.

Thousands of U.S. dollars (Note 1)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and cash equivalents	**$ 345,550**	**$ 345,550**	**$ —**
(2) Notes and accounts receivable - trade	**1,232,294**	**1,232,294**	**—**
(3) Marketable and investment securities			
Available-for-sale securities	**376,868**	**376,868**	**—**
(4) Long-term loans receivable	**9,242**		
Allowance for doubtful accounts (*1)	**(0)**		
	9,242	**9,278**	**35**
Total assets	**1,963,956**	**1,963,992**	**35**
(1) Notes and accounts payable - trade	**675,448**	**675,448**	**—**
(2) Short-term loans payable	**816,273**	**816,273**	**—**
(3) Current portion of bonds payable	**—**	**—**	**—**
(4) Accounts payable - other	**264,220**	**264,220**	**—**
(5) Bonds payable	**91,886**	**102,795**	**10,909**
(6) Long-term loans payable	**305,922**	**306,070**	**148**
Total liabilities	**2,153,751**	**2,164,808**	**11,057**
Derivative transactions (*2)			
– Hedge accounting not applied	**570**	**570**	**—**
– Hedge accounting applied	**3,313**	**3,313**	**—**

(*1) The amount of allowance for doubtful accounts, which is recorded for each long-term loan receivable, is excluded.

(*2) Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

Note 1.
Matters regarding the determination of fair value for financial instruments, marketable securities and derivative transactions

Assets

(1) Cash and cash equivalents

The fair value of time deposits approximates book value because of their short-term nature. Thus, the book value is used as the fair value.

(2) Notes and accounts receivable - trade

The fair value of notes and accounts receivable - trade settled in a short period of time approximates book value. Therefore, the book value is used as the fair value. The fair value of long-term notes and accounts receivable - trade is based on the present value calculated by discounting receivable amounts classified by certain periods at a rate that takes into account the time to maturity and credit risk.

(3) Marketable and investment securities

The fair value of equity securities is measured by market prices on exchanges. The fair value of debt securities is based on market prices on exchanges or by prices obtained from financial institutions. Debt securities without available market prices are measured at present value by discounting future cash flows generated by the financial assets. Refer to "Securities" for matters regarding securities classified by the purpose for which they are held.

(4) Long-term loans receivable

The fair value of long-term loans receivable is measured at the present value of future cash flows classified by the length of term and by risk category, according to the Company's credit risk management, at a rate with credit spread added to appropriate indices such as JGB yields. The fair value of borrowings with special concern is measured at the amounts deemed collectable because of the existence of collateral and/or guarantees.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term loans payable and (4) Accounts payable - other

The fair value of notes and accounts payable - trade, short-term loans payable and accounts payable - other approximate book value because they are mostly settled in a short period of time. As a result, the book value is used as the fair value. When it cannot be determined whether or not the settlement is made in a short period of time, the fair value is measured at the present value of future cash flows classified by a certain period at a rate that takes into account the time to maturity and credit risk.

(3) Current portion of bonds payable and (5) Bonds payable

The fair value of bonds payable issued by the Company is measured based on the market price.

(6) Long-term loans payable

The fair value of long-term loans payable is measured at the present value calculated by discounting the total amount of principle and interest at an interest rate for similar new borrowings.

Derivative transactions

Refer to Note 7, "Derivative financial instruments and hedging transactions."

Note 2.
Financial instruments whose fair values are deemed extremely difficult to assess

Type	Consolidated balance sheet amount		
	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Unlisted equity securities	**¥ 7,857**	¥ 12,644	**$ 72,199**

The financial instruments shown above are not included in the tables in "(3) Marketable and investment securities" because their market prices were not available and their fair values were deemed extremely difficult to assess.

Note 3.
Redemption schedules after the consolidated balance sheet date for monetary receivables and securities with maturity dates

	Millions of yen			
	2020			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	**¥ 37,606**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable - trade	**134,110**	**—**	**—**	**—**
Marketable and investment securities				
Available-for-sale securities with maturities (corporate bonds)	**108**	**108**	**—**	**—**
Long-term loans receivable	**38**	**584**	**369**	**13**
Total	**¥ 171,864**	**¥ 693**	**¥ 369**	**¥ 13**

	Millions of yen			
	2019			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 39,970	¥ —	¥ —	¥ —
Notes and accounts receivable - trade	147,993	—	—	—
Marketable and investment securities				
Available-for-sale securities with maturities (corporate bonds)	—	222	—	—
Long-term loans receivable	36	589	458	15
Total	¥ 188,000	¥ 811	¥ 458	¥ 15

	Thousands of U.S. dollars (Note 1)			
	2020			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	**$ 345,550**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable - trade	**1,232,294**	**—**	**—**	**—**
Marketable and investment securities				
Available-for-sale securities with maturities (corporate bonds)	**1,000**	**1,000**	**—**	**—**
Long-term loans receivable	**355**	**5,370**	**3,391**	**125**
Total	**$ 1,579,200**	**$ 6,370**	**$ 3,391**	**$ 125**

Note 4.
Maturity schedules after the consolidated balance sheet date for bonds and long-term debt refer to Note 12, "Short-term loans payable and long-term debt."

6. SECURITIES

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2020:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
			2020			**2020**
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 15,096**	**¥ 36,403**	**¥ 21,307**	**$ 138,711**	**$ 334,498**	**$ 195,786**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 15,096	**¥ 36,403**	**¥ 21,307**	**$ 138,711**	**$ 334,498**	**$ 195,786**

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
			2020			**2020**
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	**¥ 5,192**	**¥ 4,611**	**¥ (581)**	**$ 47,710**	**$ 42,369**	**$ (5,340)**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 5,192	**¥ 4,611**	**¥ (581)**	**$ 47,710**	**$ 42,369**	**$ (5,340)**

The following table summarizes sales of available-for-sale securities as of March 31, 2020:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
			2020			**2020**
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	**¥ 784**	**¥ 627**	**¥ —**	**$ 7,204**	**$ 5,767**	**$ —**
Bonds	**—**	**—**	**—**	**—**	**—**	**—**
	¥ 784	**¥ 627**	**¥ —**	**$ 7,204**	**$ 5,767**	**$ —**

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2019:

Securities with book value exceeding acquisition cost:

	Millions of yen		
			2019
	Acquisition cost	Book value	Difference
Equity securities	¥ 17,289	¥ 46,158	¥ 28,868
Bonds	—	—	—
	¥ 17,289	¥ 46,158	¥ 28,868

Securities with book value not exceeding acquisition cost:

	Millions of yen		
			2019
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,545	¥ 3,074	¥ (471)
Bonds	—	—	—
	¥ 3,545	¥ 3,074	¥ (471)

The following table summarizes sales of available-for-sale securities as of March 31, 2019:

	Millions of yen		
			2019
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 1,697	¥ 1,515	¥ —
Bonds	—	—	—
	¥ 1,697	¥ 1,515	¥ —

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Foreign exchange forward contracts				
Sell contracts				
U.S. dollar	**¥ 5,255**	**¥ 52**	**$ 48,294**	**$ 479**
Euro	**46**	**(0)**	**427**	**(0)**
British pound	**28**	**1**	**262**	**15**
Thai baht	**1,091**	**(4)**	**10,033**	**(38)**
Currency swap contracts				
Pay Malaysia Ringgit and receive Singapore dollars	**641**	**12**	**5,891**	**115**

Derivative transactions to which hedge accounting was applied as of March 31, 2020 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Currency swap contracts				
Pay U.S. dollars and receive Malaysia Ringgit	**¥ 1,605**	**¥ (12)**	**$ 14,750**	**$ (113)**
Pay Japanese Yen and receive Malaysia Ringgit	**4,753**	**372**	**43,682**	**3,426**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	Contract amount	Fair value	Contract amount	Fair value
Interest rate swap				
Pay floating and receive fixed	**¥ 500**	**(*)**	**$ 4,594**	**(*)**

Derivative transactions to which hedge accounting was not applied as of March 31, 2019 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign exchange forward contracts		
Sell contract		
U.S. dollar	¥ 1,920	¥ (4)
British pound	231	(1)
Thai baht	690	(2)
Buy contract		
U.S. dollar	333	(0)
Currency swap contracts		
Pay Malaysia Ringgit and receive Singapore dollars	678	(2)

Derivative transactions to which hedge accounting was applied as of March 31, 2019 were as follows:

	Millions of yen	
	Contract amount	Fair value
Currency swap contracts		
Pay U.S. dollars and receive Malaysia Ringgit	¥ 2,352	¥ (115)
Pay Japanese Yen and receive Malaysia Ringgit	4,753	19

	Millions of yen	
	Contract amount	Fair value
Interest rate swap		
Pay floating and receive fixed	¥ 500	(*)

(*) Because interest rate swaps are processed with loans payable, the fair value is included in the fair value of the loans payable (Note 5).

8. INVENTORIES

Inventories at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Merchandise and finished goods	**¥ 66,057**	¥ 61,609	**$ 606,976**
Work-in-process	**8,727**	9,365	**80,195**
Raw materials and supplies	**42,474**	41,459	**390,280**
	¥ 117,259	¥ 112,434	**$ 1,077,452**

9. RESTRUCTURING CHARGES

In 2018, the demand for high thermal conductive graphite sheets expanded drastically with the arrival of IoT and AI in social media applications.

In addition, the structure of high thermal conductive graphite sheets had changed dramatically.

Therefore, the production process for sticker of high thermal conductive graphite sheets was reviewed in light of the rising quality requirements, and we decided to restructure and dispose of old production facilities and inventories.

As a result, the Companies posted a restructuring charges with loss on valuation of inventories accounting for ¥996 million.

After reviewing the future planning of River Seiko Corporation by new productions and reforming the business operation structure to strengthen profitability in the digestive system and electrophysiology fields, the book value of goodwill and other assets was written down to the recoverable value, and the Companies posted an impairment loss of ¥671 million.

In 2019, in order to develop and launch high-efficiency solar cells in the solar cell business where demand is expected to expand, the Group has radically reinvented the production processes based on technologies accumulated from the past.

Following these structural reforms, the following losses were recorded as restructuring costs for obsolete manufacturing facilities and inventories.

The main component of this was inventory valuation loss of ¥1,578 million.

With regard to machinery and equipment for which there was no prospect of future use due to the business restructuring, the book value has been reduced to the recoverable value, and the reduction of ¥272 million has been included in business restructuring expenses as extraordinary loss.

10. IMPAIRMENT LOSS

The Companies recognized impairment loss in other expenses for the year ended March 31, 2018.

Location	Use	Type
–	Other	Goodwill etc.

The Companies group their assets mainly according to Solution Vehicle. For businesses run mainly by subsidiaries, the Companies group assets according to subsidiary units.

After reviewing the future planning of River Seiko Corporation through restructuring, the book value of goodwill and other assets was written down to its recoverable value, and the Companies posted an impairment loss of ¥671 million. Of this amount, goodwill accounted for ¥634 million.

The recoverable value of the above asset groups were estimated by net sales values based mainly on inheritance tax values by roadside land prices.

The Companies recognized impairment loss in other expenses for the year ended March 31, 2019.

Location	Use	Type
Toyooka, Hyogo	Business assets	Machinery, equipment and vehicles, etc.

The Companies group their assets mainly by the Solutions Vehicles of the Company, and among these, the businesses of the consolidated subsidiaries are grouped by the relevant subsidiaries. Idle assets are grouped by individual assets in the current consolidated fiscal year, the book value of machinery and equipment the use of which is no longer expected due to business structural reform was reduced to the recoverable value, and a reduction of ¥272 million was included in business structural reform expenses as extraordinary loss. The major component was machinery and equipment ¥202 million in addition, the recoverable value was measured by the net selling price and evaluated by the memorandum price.

11. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 30.58% for the years ended March 31, 2020 and 2019, approximately 30.81% for the year ended March 31, 2018.

The significant differences between the statutory and effective tax rate for the years ended March 31, 2020, 2019 and 2018 were as follows:

	2020	2019	2018
Statutory tax rate	**30.58%**	30.58%	30.81%
Permanently non-deductible expense	**1.07%**	0.62%	0.65%
Permanently non-taxable income	**(9.62%)**	(6.70%)	(6.26%)
Elimination of dividends on consolidation	**9.19%**	6.35%	6.00%
Tax credits primarily for research and development expenses	**(8.09%)**	(3.80%)	(7.85%)
Change in valuation allowance	**(1.25%)**	(3.18%)	4.19%
Tax rate differences of foreign subsidiaries	**(1.49%)**	0.88%	1.37%
Amortization of goodwill	**0.84%**	0.43%	0.52%
Impairment loss of goodwill	**–%**	–%	0.63%
Gain on negative goodwill	**–%**	–%	(0.95%)
Gain on step acquisitions	**–%**	(0.42%)	(1.42%)
Adjustment of deferred tax assets (liabilities) by the changes of tax rate	**–%**	–%	(2.22%)
Other	**0.58%**	0.10%	1.18%
Effective tax rate	**21.81%**	24.86%	26.66%

Significant components of deferred tax assets and liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
Deferred tax assets:	**2020**	2019	**2020**
Net defined benefit liability	**¥ 11,424**	¥ 10,371	**$ 104,976**
Tax loss carryforwards	**1,767**	1,223	**16,244**
Loss on valuation of investment securities	**826**	826	**7,594**
Excess bonuses accrued	**1,838**	1,922	**16,895**
Impairment loss on non-current assets	**1,549**	2,169	**14,239**
Unrealized gain	**698**	1,408	**6,416**
Tax credit carryforwards	**4,337**	3,668	**39,851**
Other	**3,359**	2,790	**30,871**
Subtotal	**25,802**	24,380	**237,090**
Valuation allowance	**(6,874)**	(7,122)	**(63,167)**
Total deferred tax assets	**18,928**	17,258	**173,923**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(6,213)**	(8,370)	**(57,089)**
Depreciation of foreign subsidiaries	**(2,537)**	(2,508)	**(23,317)**
Other	**(1,718)**	(1,652)	**(15,786)**
Total deferred tax liabilities	**(10,468)**	(12,531)	**(96,193)**
Net deferred tax assets (liabilities)	**¥ 8,459**	¥ 4,726	**$ 77,730**

12. SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

Short-term loans payable are generally unsecured notes for three months with average interest rates of 0.91% and 1.52% at March 31, 2020 and 2019, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.00% to 2.53% in 2020 and 2019, maturing serially through 2024	**¥ 763**	¥ 962	**$ 7,017**
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 8.60% in 2020 and 2019, maturing serially through 2033	**44,604**	47,847	**409,854**
Bonds at interest rate of 1.67%, due September 13, 2019	**—**	10,000	**—**
Bonds at interest rate of 0.11%, due September 12, 2024	**5,000**	—	**45,943**
Bonds at interest rate of 0.24%, due September 12, 2029	**5,000**	—	**45,943**
	55,368	58,809	**508,757**
Less amounts due within one year	**(12,074)**	(13,687)	**(110,948)**
	¥ 43,293	¥ 45,122	**$ 397,808**

At March 31, 2020 and 2019, assets pledged as collateral for secured long-term loans payable, short-term loans payable and trade payables totaling ¥1,029 million ($9,464 thousand) were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Property, plant and equipment, net	**¥ 4,916**	¥ 5,096	**$ 45,179**
Investment securities	**928**	1,354	**8,527**
	¥ 5,845	¥ 6,450	**$ 53,707**

The aggregate annual maturities of long-term loans payable and bonds payable were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Years ending March 31,	**2020**	**2020**
2021	**¥ 12,074**	**$ 110,948**
2022	**8,939**	**82,137**
2023	**5,549**	**50,992**
2024	**8,167**	**75,045**
2025	**9,919**	**91,151**
2026 and thereafter	**10,717**	**98,481**
	¥ 55,368	**$ 508,757**

	Millions of yen
Years ending March 31,	2019
2020	¥ 13,687
2021	13,049
2022	8,123
2023	4,928
2024	8,018
2025 and thereafter	11,002
	¥ 58,809

13. PROVISION FOR RETIREMENT BENEFITS

Defined benefit plans

(1) Movement in retirement benefit obligations, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Balance at beginning of year	**¥ 117,923**	¥ 117,567	**$ 1,083,561**
Service cost	**4,229**	4,250	**38,860**
Interest cost	**890**	898	**8,178**
Actuarial loss (gain)	**336**	(1,032)	**3,092**
Benefits paid	**(4,082)**	(3,777)	**(37,509)**
Other	**(50)**	19	**(465)**
Balance at the end of year	**¥ 119,246**	¥ 117,923	**$ 1,095,717**

(2) Movements in plan assets, except plan applying simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Balance at beginning of year	**¥ 86,328**	¥ 83,516	**$ 793,242**
Expected return on plan asset	**2,107**	2,087	**19,360**
Actuarial gain (loss)	**(4,107)**	(381)	**(37,741)**
Contributions paid by the employer	**1,858**	1,751	**17,074**
Benefits paid	**(2,624)**	(2,646)	**(24,113)**
Contribution of securities to retirement benefit trust	**868**	2,000	**7,983**
Balance at the end of year	**¥ 84,431**	¥ 86,328	**$ 775,806**

(3) Movement in liability for retirement benefits of defined benefit plan applying the simplified method

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Balance at beginning of year	**¥ 3,389**	¥ 3,274	**$ 31,148**
Retirement benefit cost	**467**	429	**4,298**
Benefits paid	**(361)**	(310)	**(3,319)**
Other	**(3)**	(2)	**(32)**
Balance at the end of year	**¥ 3,492**	¥ 3,389	**$ 32,095**

(4) Reconciliation from retirement benefit obligations and plan assets to liability and asset for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Funded retirement benefit obligation	**¥ 115,338**	¥ 114,018	**$ 1,059,804**
Plan asset	**(84,432)**	(86,330)	**(775,822)**
	30,905	27,687	**283,981**
Unfunded retirement benefit obligations	**7,403**	7,297	**68,024**
Total net liability (asset) for retirement benefits	**38,308**	34,985	**352,006**
Liability for retirement benefits	**38,308**	34,985	**352,006**
Asset for retirement benefits	—	—	—
Total net liability (asset) for retirement benefits	**¥ 38,308**	¥ 34,985	**$ 352,006**

(5) Retirement benefit costs

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Service cost	**¥ 4,229**	¥ 4,250	¥ 4,274	**$ 38,860**
Interest cost	**890**	898	880	**8,178**
Expected return on plan assets	**(2,107)**	(2,087)	(2,033)	**(19,360)**
Net actuarial loss amortization	**1,149**	1,941	2,643	**10,562**
Retirement benefit expenses calculated by simplified method	**467**	429	432	**4,298**
	¥ 4,629	¥ 5,431	¥ 6,197	**$ 42,539**

(6) Remeasurements for retirement benefits

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Actuarial gains and losses	**¥ (3,294)**	¥ 2,592	¥ 3,126	**$ (30,271)**

(7) Accumulated remeasurements for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Actuarial gains and losses that are yet to be recognized	**¥ 11,549**	¥ 8,255	**$ 106,125**

(8) Plan assets

1. Plan assets comprise:

	2020	2019
Bonds	**53%**	50%
Equity securities	**23%**	26%
General account	**15%**	14%
Other	**9%**	10%
	100%	100%

2. Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

(9) Actuarial assumptions

The principal actuarial assumptions

	2020	2019	2018
Discount rate	**Mainly 0.72%**	Mainly 0.72%	Mainly 0.72%
Long-term expected rate of return	**Mainly 2.50%**	Mainly 2.50%	2.50%

Defined contribution plans

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
The amount of contributions to the defined contribution plan	**¥ 490**	¥ 446	¥ 424	**$ 4,510**

14. CONTINGENT LIABILITIES

At March 31, 2020 and 2019, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	**2020**
Notes endorsed	**¥ 4**	¥ 11	**$ 40**
Notes discounted	**53**	15	**487**
Guarantees	**315**	318	**2,902**
Letters of awareness	**132**	180	**1,214**
	¥ 505	¥ 526	**$ 4,644**

15. NET ASSETS

Under the Japanese Corporate Law ("the Law"), the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of legal earnings reserve and additional paid-in capital must be set aside as legal earnings reserve or additional paid-in capital. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may not be distributed as dividends. By resolution of the shareholders' meeting, legal earnings reserve and additional paid-in capital may be transferred to other retained earnings and capital surplus, respectively, which are potentially available for dividends.

On May 14, 2020, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2020 on the shares of stock then outstanding at the rate of ¥50.0 ($0.45) per share or a total of ¥3,261 million ($29,966 thousand). The appropriations had not been accrued in the consolidated financial statements as of March 31, 2020.

Such appropriations are recognized in the period in which they are approved by the Board of Directors.

Cash dividends per share applicable to the fiscal year ended March 31, 2020, comprise interim dividends of ¥50.0 ($0.45) and year-end dividends of ¥50.0 ($0.45).

16. STOCK OPTIONS

(1) The Company

The Company has implemented a stock option plan by which subscription rights to shares were granted to directors of the Company.

The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. The figures after conducting the consolidation of shares are shown as following in the table below.

The following table summarizes the Company's stock option plan.

	Stock options granted on August 9, 2019	Stock options granted on August 9, 2018	Stock options granted on August 9, 2017	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013
Category and number of people granted stock options	Company directors, 10 Executive officers, 22	Company directors, 9 Executive officers, 20	Company directors, 9 Executive officers, 16	Company directors, 10	Company directors, 10	Company directors, 10	Company directors, 10
Number of stock options granted by category of stock	26,200 shares of common stock	24,400 shares of common stock	22,600 shares of common stock	14,800 shares of common stock	14,800 shares of common stock	15,000 shares of common stock	13,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 10, 2019 through August 9, 2044 (*)	From August 10, 2018 through August 9, 2043 (*)	From August 10, 2017 through August 9, 2042 (*)	From August 10, 2016 through August 9, 2041 (*)	From August 12, 2015 through August 11, 2040 (*)	From August 12, 2014 through August 11, 2039 (*)	From August 10, 2013 through August 9, 2038 (*)

	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Category and number of people granted stock options	Company directors, 12	Company directors, 12	Company directors, 13	Company directors, 12	Company directors, 13	Company directors, 13
Number of stock options granted by category of stock	15,000 shares of common stock	15,000 shares of common stock	15,000 shares of common stock	15,000 shares of common stock	15,000 shares of common stock	11,400 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision	No provision	No provision
Exercise period	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)	From August 11, 2010 through August 10, 2035 (*)	From August 12, 2009 through August 11, 2034 (*)	From August 12, 2008 through August 11, 2033 (*)	From September 11, 2007 through September 10, 2032 (*)

(*) If a holder of subscription rights to shares loses his/her position as a Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on August 9, 2019	Stock options granted on August 9, 2018	Stock options granted on August 9, 2017	Stock options granted on August 9, 2016	Stock options granted on August 11, 2015	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013
Unvested stock options							
Beginning of term	—	—	—	—	—	—	—
Granted	26,200	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—
Vested	26,200	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—	—
Vested stock options							
Beginning of term	—	24,400	22,600	11,600	10,200	9,400	5,200
Vested	26,200	—	—	—	—	—	—
Exercised	—	1,200	1,200	1,000	1,000	1,000	—
Expired or forfeited	—	—	—	—	—	—	—
Unexercised balance	26,200	23,200	21,400	10,600	9,200	8,400	5,200
Exercise price (yen)	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	4,155	4,155	4,155	4,155	4,155	—
Fair value per stock at the date granted (yen)	2,957	4,900	3,880	3,605	4,735	2,510	2,790
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	38.18	38.18	38.18	38.18	38.18	—
Fair value per stock at the date granted (USD)	27.17	45.02	35.65	33.13	43.51	23.06	25.64

	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011	Stock options granted on August 10, 2010	Stock options granted on August 11, 2009	Stock options granted on August 11, 2008	Stock options granted on September 10, 2007
Unvested stock options						
Beginning of term	—	—	—	—	—	—
Granted	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—
Vested	—	—	—	—	—	—
Unvested balance	—	—	—	—	—	—
Vested stock options						
Beginning of term	4,200	3,600	2,600	2,200	2,400	600
Vested	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—
Unexercised balance	4,200	3,600	2,600	2,200	2,400	600
Exercise price (yen)	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—	—	—
Fair value per stock at the date granted (yen)	1,815	2,060	2,280	3,110	3,000	4,415
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	—	—	—	—
Fair value per stock at the date granted (USD)	16.68	18.93	20.95	28.58	27.57	40.57

Expenses related to stock options were included in selling, general and administrative expenses and amounted to ¥77 million ($711 thousand), ¥119 million and ¥87 million for the years ended March 31, 2020, 2019 and 2018, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on August 9, 2019	Stock options granted on August 9, 2018
Expected volatility	27.16%	30.88%
Expected holding period	3 years	4 years
Expected dividend	100 yen	90 yen (*)
Risk free interest rate	(0.261%)	0.081%

(*) The Company conducted a consolidation of shares of common stock at the ratio of five shares to one share on October 1, 2018. The expected dividend is shown as though the share consolidation took place beginning of the fiscal year ended March, 2019.

(2) Cemedine Co., Ltd.

Cemedine Co., Ltd. has implemented a stock option plan by which subscription rights to shares were granted to directors of the company.

The following table summarizes the company's stock option plan.

	Stock options granted on July 8, 2019	Stock options granted on July 9, 2018	Stock options granted on July 10, 2017	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013
Category and number of people granted stock options	Company directors, 5	Company directors, 4	Company directors, 4	Company directors, 5	Company directors, 4	Company directors, 6	Company directors, 7
Number of stock options granted by category of stock	21,000 shares of common stock	13,000 shares of common stock	15,000 shares of common stock	32,000 shares of common stock	26,000 shares of common stock	38,000 shares of common stock	53,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.
Exercise period	From July 9, 2019 through July 8, 2039 (*)	From July 9, 2018 through July 8, 2038 (*)	From July 11, 2017 through July 10, 2037 (*)	From July 8, 2016 through July 7, 2036 (*)	From July 10, 2015 through July 9, 2035 (*)	From July 11, 2014 through July 10, 2034 (*)	From July 10, 2013 through July 9, 2033 (*)

	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Category and number of people granted stock options	Company directors, 8	Company directors, 8	Company directors, 8	Company directors, 7	Company directors, 7
Number of stock options granted by category of stock	58,000 shares of common stock	64,000 shares of common stock	67,000 shares of common stock	58,000 shares of common stock	58,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.	After people granted stock option lose their position as Company director.
Exercise period	From July 13, 2012 through July 12, 2032 (*)	From July 15, 2011 through July 14, 2031 (*)	From July 27, 2010 through July 26, 2030 (*)	From August 12, 2009 through August 11, 2029 (*)	From October 21, 2008 through October 20, 2028 (*)

(*) If a holder of subscription rights to shares loses his/her position as a Company director during the above stated exercise period, the holder may exercise those rights only within the 10-day period beginning the day after losing such position.

The following table summarizes the movements and prices of subscription rights to shares.

	Stock options granted on July 8, 2019	Stock options granted on July 9, 2018	Stock options granted on July 10, 2017	Stock options granted on July 7, 2016	Stock options granted on July 9, 2015	Stock options granted on July 10, 2014	Stock options granted on July 9, 2013
Unvested stock options							
Beginning of term	—	13,000	15,000	22,000	18,000	12,000	14,000
Granted	21,000	—	—	—	—	—	—
Expired or forfeited	—	—	—	—	—	—	—
Vested	—	4,000	4,000	9,000	9,000	6,000	7,000
Unvested balance	21,000	9,000	11,000	13,000	9,000	6,000	7,000
Vested stock options							
Beginning of term	—	—	—	—	—	—	—
Vested	—	4,000	4,000	9,000	9,000	6,000	7,000
Exercised	—	4,000	4,000	9,000	9,000	6,000	7,000
Expired or forfeited	—	—	—	—	—	—	—
Unexercised balance	—	—	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—	—	—	—
Fair value per stock at the date granted (yen)	885	938	664	441	415	388	388
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	—	—	—	—	—
Fair value per stock at the date granted (USD)	8.13	8.62	6.10	4.05	3.81	3.57	3.57

	Stock options granted on July 12, 2012	Stock options granted on July 14, 2011	Stock options granted on July 26, 2010	Stock options granted on August 11, 2009	Stock options granted on October 20, 2008
Unvested stock options					
Beginning of term	12,000	7,000	8,000	8,000	8,000
Granted	—	—	—	—	—
Expired or forfeited	—	—	—	—	—
Vested	5,000	—	—	—	—
Unvested balance	7,000	7,000	8,000	8,000	8,000
Vested stock options					
Beginning of term	—	—	—	—	—
Vested	5,000	—	—	—	—
Exercised	5,000	—	—	—	—
Expired or forfeited	—	—	—	—	—
Unexercised balance	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—	—
Fair value per stock at the date granted (yen)	352	342	293	273	163
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	—	—	—
Fair value per stock at the date granted (USD)	3.23	3.14	2.69	2.51	1.50

Expenses related to stock options were included in selling, general and administrative expenses and amounted to ¥15 million ($142 thousand), ¥11 million and ¥10 million for the years ended March 31, 2020, 2019 and 2018, respectively.

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions.

	Stock options granted on July 8, 2019	Stock options granted on July 10, 2018
Expected volatility	37.80%	40.72%
Expected holding period	6 years and 2 months	4 years and 11 months
Expected dividend	10 yen	10 yen
Risk free interest rate	(0.270)%	(0.120)%

17. BUSINESS COMBINATION DUE TO ACQUISITION

(Business Combination due to Acquisition)

1. Summary of Business Combination

(1) Name of acquired company and its business

Name of acquired company

Tobu Chemical Co., Ltd.

Business

Manufacture and sale of PVC special resin

(2) Reasons for executing business combination

Promotion of downstream deployment of business in Material Solutions Unit.

(3) Date of business combination

January 19, 2018

(4) Legal form of business combination

Share acquisition in exchange for cash

(5) Name of company after combination

There was no change in the company name.

(6) Share of voting rights acquired

Share of voting rights held immediately before the date of business combination

26.26%

Share of voting rights additionally acquired on the date of business combination

26.50%

Share of voting rights held after acquisition

52.76%

(7) Rational behind determining the company to be acquired

The Company acquired a majority of the voting rights and clearly has control over the decision making body of the acquiree.

2. Period of results of the acquired company included in the consolidated financial statements

The acquired company's financial results from January 1, 2018 to March 31, 2018 are included in the consolidated statement of income for the year ended March 31, 2018 as the acquisition date is regarded as January 1, 2018.

3. Additional acquisition of shares in acquired company

Acquisition cost and consideration paid

		Millions of yen
Consideration paid for the acquisition		
Fair value of common stock of Tobu Chemical held before the business combination	¥	915
Fair value of additional common stock acquired as of the business combination		923
Acquisition cost	¥	1,838

4. Main acquisition related costs

Advisory fees : ¥6 million

5. Difference between acquisition cost of the acquired company and the total acquisition cost of individual transactions until the business combination

Gain on step acquisitions : ¥1,429 million

6. Amount of gain on negative goodwill recognized and reason for recognition

(1) Amount of gain on negative goodwill recognized

¥954 million

(2) Reason for recognition

The acquisition cost was less than the net asset value at the date of business combination.

7. Value of assets and liabilities assumed as of business combination

		Millions of yen
Current assets	¥	5,709
Non-current assets		2,530
Total assets	¥	8,240
Current liabilities	¥	2,856
Non-current liabilities		90
Total liabilities	¥	2,946

8. Estimated effect on consolidated statement of operations assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2018 and methods for calculation

	Millions of yen
Net sales	¥ 4,441
Operating income	363
Income before income taxes and non-controlling interests	218
Net income attributable to owners of parent	8

	Yen
Net income per share	¥ 0.03

(Methods for calculating estimated amounts)
The difference between net sales and profit and loss accounts calculated assuming the business combination was concluded at the beginning of the fiscal year ended March 31, 2018 and the corresponding figures in the accompanying consolidated statement of operations were used.

The amounts shown above have not been audited.

(Additional acquisition of subsidiary's shares)
1. Summary of business combination

(1) Name of acquired company and its business
Name of acquired company
AB-Biotics, S.A.
Business
Development, manufacturing and sales of Probiotics

(2) Date of business combination
August 16, 2019 and November 7, 2019

(3) Legal form of business combination
Acquisition of shares from non-controlling interests

(4) Name of company after combination
There was no change in the company name.

(5) Other matters regarding summary
In the previous consolidated fiscal year, the company became a consolidated subsidiary according to the control standards, and also made a tender offer in July-August 2019 and October-November 2019.

Through the business combination, the Company expects to strengthen its management structure and expedite decision making.

2. Summary of accounting treatment applied

Pursuant to the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, issued on September 13, 2013), the business combination under common control was treated as a transaction with non-controlling interests.

3. Additional acquisition of shares in subsidiary

Acquisition cost and consideration paid
Consideration paid for acquisition: Cash and cash equivalents in the amount of ¥3,723 million ($34,212 thousand)

4. Changes in the portion held by the Company in connection with the transactions with non-controlling interests

(1) Main reasons for changes in capital surplus
Additional acquisition of subsidiary's shares

(2) Decreases in capital surplus due to transactions with non-controlling interests
¥2,282 million ($20,969 thousand)

18. SEGMENT INFORMATION

(Segment Information)

1. Overview of Reporting Segments

Kaneka's reporting segments aim to gather financial information from the Company's separate business units to facilitate decisions by the Board of Directors on the allocation of management resources and allow for the Board's regular review of business performance.

The Company has established the "Solutions Vehicle" as organizations for executing its growth strategies from a solutions perspective. There are ten Solutions Vehicles grouped into four solution domains called "Solutions Unit." Each Solutions Unit has established a global Group strategy for its products and services, bringing together subsidiaries in Japan and overseas to develop its business activities.

The Company, therefore has four reporting segments categorized by Solution Unit: the "Material Solutions Unit," "Quality of Life Solutions Unit," "Health Care Solutions Unit" and "Nutrition Solutions Unit."

The Material Solutions Unit contributes to environmental protection and comfortable living by providing solutions in the form of high-performance materials to support the development of social infrastructure and mobility (i.e. weight reduction and improved fuel economy), and cutting-edge materials such as biopolymers that assist directly with the realization of environmental societies. The Quality of Life Solutions Unit contributes to energy conservation and the creation of high quality lifestyles by providing solutions in the form of high performance materials and unique services that respond to the need for energy conservation and adoption of smart technologies in housing and daily infrastructure. The unit is also responding to innovation in information driven societies, such as the advance of the IoT and AI. The Health Care Solutions Unit contributes to a society with greater longevity and more sophisticated medical care by providing valuable solutions that combine devices and pharmaceuticals in fields such as medicine, health and nursing care. The unit is also developing a unique healthcare business based on advanced medical technologies such as biopharmaceuticals and regenerative and cellular medicine. The Nutrition Solutions Unit contributes to health and high-quality food by providing a wide range of solutions in the form of distinctive materials and supplements that meet needs in food diversification and health promotion. The unit also provides solutions that contribute to food production support in the fields of agriculture, livestock and fishery.

The Solutions Vehicles and main products that belong to each reporting segment are as follows:

Solutions Unit (Reporting Segments)	Solutions Vehicle	Main products
Material Solutions Unit	Vinyls and Chlor-Alkali	General PVC resins, Caustic soda, Specialty PVC resins
	Performance Polymers (MOD)	Modifiers, Epoxy masterbatch, Biodegradable polymers
	Performance Polymers(MS)	Modified silicone polymers
Quality of Life Solutions Unit	Foam & Residential Techs	Expandable polystyrene resins and products, Extruded polystyrene foam boards, Bead-method polyolefin foam, Solar circuit construction method (external insulation and double ventilation construction) products
	E & I Technology	Polyimide films, Optical materials, Graphite sheets
	PV & Energy management	Photovoltaic modules, Energy storage batteries for residences
	Performance Fibers	Acrylic synthetic fibers
Health Care Solutions Unit	Medical Devices	Medical devices
	Pharma & Supplemental Nutrition (Pharma)	Low-molecular pharmaceutical materials, API, Biopharmaceuticals
Nutrition Solutions Unit	Pharma & Supplemental Nutrition (Supplemental Nutrition)	Functional foodstuffs
	Foods & Agris	Margarine, Shortening, Bakery yeast, Spices, Antifreeze materials, Dairy products, Functional fertilizers and feeds

2. Basis of Calculation of Monetary Amounts for Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reporting Segment

Accounting treatment and procedures for reporting segments are the same as those shown in the "Notes to Consolidated Financial Statements." Intersegment transactions are based on prevailing market prices.

3. Segment Information by Business Category

Millions of yen

2020	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	**¥ 241,795**	**¥ 154,837**	**¥ 46,352**	**¥ 157,431**	**¥ 600,416**	**¥ 1,097**	**¥ 601,514**	**¥ —**	**¥ 601,514**
Intersegment	**1,015**	**24**	**—**	**33**	**1,073**	**1,088**	**2,162**	**(2,162)**	**—**
Total	**242,811**	**154,861**	**46,352**	**157,465**	**601,490**	**2,186**	**603,676**	**(2,162)**	**601,514**
Segment profit (loss)	**20,625**	**14,189**	**8,917**	**5,647**	**49,379**	**547**	**49,927**	**(23,912)**	**26,014**
Segment assets	**233,548**	**181,176**	**64,979**	**110,440**	**590,145**	**365**	**590,510**	**62,751**	**653,262**
Other Items									
Depreciation	**11,559**	**11,395**	**2,692**	**4,547**	**30,195**	**19**	**30,215**	**3,904**	**34,120**
Amortization of goodwill	**32**	**—**	**315**	**108**	**456**	**—**	**456**	**88**	**544**
Investment in equity method affiliates	**67**	**2,249**	**—**	**—**	**2,316**	**—**	**2,316**	**—**	**2,316**
Increase in assets	**13,099**	**13,518**	**4,313**	**6,052**	**36,983**	**162**	**37,146**	**10,663**	**47,809**

Notes 1: "Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

Millions of yen

2019	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	¥ 255,918	¥ 156,674	¥ 47,442	¥ 158,968	¥ 619,002	¥ 2,040	¥ 621,043	¥ —	¥ 621,043
Intersegment	1,203	18	—	28	1,250	1,089	2,340	(2,340)	—
Total	257,122	156,692	47,442	158,996	620,253	3,130	623,383	(2,340)	621,043
Segment profit (loss)	25,961	15,092	10,583	5,930	57,569	1,464	59,034	(22,992)	36,041
Segment assets	237,437	173,350	59,956	113,500	584,245	795	585,040	74,547	659,587
Other Items									
Depreciation	10,747	10,979	2,462	3,913	28,103	19	28,122	3,755	31,877
Amortization of goodwill	34	—	332	—	367	—	367	86	454
Investment in equity method affiliates	67	2,124	—	—	2,191	—	2,191	—	2,191
Increase in assets	13,470	20,500	3,927	9,251	47,149	387	47,537	6,056	53,594

Notes 1: "Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

Millions of yen

2018	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	¥ 238,880	¥ 149,360	¥ 45,856	¥ 160,930	¥ 595,028	¥ 1,114	¥ 596,142	¥ —	¥ 596,142
Intersegment	1,267	27	0	30	1,325	1,209	2,534	(2,534)	—
Total	240,148	149,387	45,856	160,960	596,353	2,324	598,677	(2,534)	596,142
Segment profit (loss)	27,109	13,730	9,849	6,531	57,221	520	57,741	(20,853)	36,888
Segment assets	230,547	158,341	57,841	108,722	555,452	819	556,272	83,508	639,780
Other Items									
Depreciation	10,157	10,458	2,376	3,751	26,743	17	26,760	3,360	30,121
Amortization of goodwill	35	—	448	—	483	—	483	46	529
Investment in equity method affiliates	70	2,085	—	1,436	3,591	—	3,591	—	3,591
Increase in assets	13,202	10,439	4,321	3,616	31,580	73	31,654	9,263	40,917

Notes 1: "Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

Thousands of U.S. dollars (Note 1)

2020	Reporting Segment: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
Sales									
Customers	**$ 2,221,776**	**$ 1,422,742**	**$ 425,912**	**$ 1,446,585**	**$ 5,517,016**	**$ 10,081**	**$ 5,527,098**	**$ —**	**$ 5,527,098**
Intersegment	**9,333**	**220**	**—**	**307**	**9,861**	**10,005**	**19,867**	**(19,867)**	**—**
Total	**2,231,110**	**1,422,962**	**425,912**	**1,446,893**	**5,526,878**	**20,087**	**5,546,965**	**(19,867)**	**5,527,098**
Segment profit (loss)	**189,524**	**130,380**	**81,937**	**51,888**	**453,731**	**5,032**	**458,763**	**(219,722)**	**239,041**
Segment assets	**2,145,998**	**1,664,768**	**597,071**	**1,014,800**	**5,422,638**	**3,353**	**5,425,991**	**576,601**	**6,002,593**
Other Items									
Depreciation	**106,218**	**104,710**	**24,741**	**41,788**	**277,458**	**182**	**277,641**	**35,877**	**313,518**
Amortization of goodwill	**301**	**—**	**2,896**	**996**	**4,193**	**—**	**4,193**	**812**	**5,005**
Investment in equity method affiliates	**621**	**20,666**	**—**	**—**	**21,288**	**—**	**21,288**	**—**	**21,288**
Increase in assets	**120,365**	**124,214**	**39,639**	**55,612**	**339,832**	**1,494**	**341,327**	**97,980**	**439,307**

Notes 1: "Others" is a business segment that is not included in the reporting segments and includes property and life insurance agency business.
Notes 2: Segment profit (loss) is reconciled with operating income in the consolidated financial statements.

4. Reconciliation Between Segment Total and Consolidated Statements of Income (Adjustments)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Income				
Segment total	**¥ 49,379**	¥ 57,569	¥ 57,221	**$ 453,731**
Income classified under "others"	**547**	1,464	520	**5,032**
Elimination of intersegment transactions	**(0)**	11	(7)	**(6)**
Companywide expenses (Note)	**(23,933)**	(23,091)	(20,909)	**(219,917)**
Other adjustments	**21**	87	63	**201**
Operating income in the consolidated statements of income	**¥ 26,014**	¥ 36,041	¥ 36,888	**$ 239,041**

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	**2020**
Assets				
Segment total	**¥ 590,145**	¥ 584,245	¥ 555,452	**$ 5,422,638**
Assets classified under "others"	**365**	795	819	**3,353**
Elimination of intersegment transactions	**(16,179)**	(14,184)	(13,500)	**(148,663)**
Companywide assets (Note)	**77,373**	88,168	96,442	**710,960**
Other adjustments	**1,556**	563	566	**14,304**
Total assets in the consolidated statements of income	**¥ 653,262**	¥ 659,587	¥ 639,780	**$ 6,002,593**

Note: Companywide assets are working capital, investment securities and land that are not allocable to any reporting segments.

	Millions of yen											
	Segment total			Others			Adjustments			Consolidated		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Other Items												
Depreciation	**¥ 30,195**	¥ 28,103	¥ 26,743	**¥ 19**	¥ 19	¥ 17	**¥ 3,904**	¥ 3,755	¥ 3,360	**¥ 34,120**	¥ 31,877	¥ 30,121
Increase in assets	**36,983**	47,149	31,580	**162**	387	73	**10,663**	6,056	9,263	**47,809**	53,594	40,917

Note: "Others" is primarily expenses for basic R&D that are not allocable to any reporting segments.

	Thousands of U.S. dollars (Note 1)			
	Segment total	Others	Adjustments	Consolidated
	2020	**2020**	**2020**	**2020**
Other Items				
Depreciation	**$ 277,458**	**$ 182**	**$ 35,877**	**$ 313,518**
Increase in assets	**339,832**	**1,494**	**97,980**	**439,307**

Note: "Others" is primarily expenses for basic R&D that are not allocable to any reporting segments.

(Related Information)

Related information at March 31, 2020, 2019 and 2018 consisted of the following.

1. Information by Product and Service

No information is reported because product and service classifications are the same as the reporting segment classifications.

2. Geographic Area

(1) Sales

2020 — Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 364,960	**¥ 109,344**	**¥ 47,306**	**¥ 53,426**	**¥ 26,475**	**¥ 601,514**

2019 — Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 371,315	¥ 115,661	¥ 48,841	¥ 59,264	¥ 25,961	¥ 621,043

2018 — Millions of yen

Japan	Asia	North America	Europe	Other areas	Total
¥ 359,739	¥ 109,961	¥ 44,724	¥ 58,813	¥ 22,902	¥ 596,142

2020 — Thousands of U.S. dollars (Note 1)

Japan	Asia	North America	Europe	Other areas	Total
$ 3,353,494	**$ 1,004,728**	**$ 434,681**	**$ 490,917**	**$ 243,275**	**$ 5,527,098**

Note: Sales are classified into countries or regions based on the geographic location of customers.

(2) Property, plant and equipment

2020 — Millions of yen

Japan	Malaysia	Asia-Other	North America	Europe and others	Total
¥ 187,723	**¥ 24,119**	**¥ 11,431**	**¥ 18,083**	**¥ 21,698**	**¥ 263,056**

2019 — Millions of yen

Japan	Malaysia	Asia-Other	North America	Europe and others	Total
¥ 176,884	¥ 27,713	¥ 8,967	¥ 18,952	¥ 19,404	¥ 251,922

2020 — Thousands of U.S. dollars (Note 1)

Japan	Malaysia	Asia-Other	North America	Europe and others	Total
$ 1,724,926	**$ 221,625**	**$ 105,040**	**$ 166,158**	**$ 199,383**	**$ 2,417,134**

3. Information on Major Customers

No information is reported because no sales to any external customer represented more than 10% of net sales on the consolidated statements of income.

(Information on Impairment Loss on Fixed Assets by Reporting Segment)

Information on impairment loss on fixed assets by reporting segment at March 31, 2020, 2019 and 2018 consisted of the following.

The figures in FY2020 are omitted because it is not significant in terms of monetary amount.

Millions of yen

2019	Segment Information: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ 273	¥ —	¥ —	¥ 273	¥ —	¥ —	¥ 273

Millions of yen

2018	Segment Information: Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Impairment loss)	¥ —	¥ 114	¥ 671	¥ —	¥ 785	¥ —	¥ —	¥ 785

(Information on Amortization of Goodwill and Unamortized Balances by Reporting Segment)

Information on amortization of goodwill and unamortized balances by reporting segment at March 31, 2020 and 2019 consisted of the following.

								Millions of yen
	Segment Information							
2020	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	**¥ 32**	**¥ —**	**¥ 315**	**¥ 108**	**¥ 456**	**¥ —**	**¥ 88**	**¥ 544**
Balance	**43**	**—**	**1,631**	**965**	**2,640**	**—**	**665**	**3,306**

								Millions of yen
	Segment Information							
2019	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	¥ 34	¥ —	¥ 332	¥ —	¥ 367	¥ —	¥ 86	¥ 454
Balance	78	—	2,015	1,117	3,212	—	769	3,981

								Thousands of U.S. dollars (Note 1)
	Segment Information							
2020	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total	Others	Adjustments	Consolidated
(Goodwill)								
Amortization	**$ 301**	**$ —**	**$ 2,896**	**$ 996**	**$ 4,193**	**$ —**	**$ 812**	**$ 5,005**
Balance	**397**	**—**	**14,992**	**8,870**	**24,260**	**—**	**6,117**	**30,378**

Note: "Adjustments" includes amortization expense mainly related to basic research and development activities that is not attributed to any specific reporting segment.

(Information on Gain on Negative Goodwill by Reporting Segment)

In the Material Solutions Unit, the Company recorded gain on negative goodwill of ¥954 million in conjunction with the acquisition of additional shares of an affiliate and its conversion into a consolidated subsidiary on March 31, 2018.

The figures in FY2020 are omitted because it is not significant in terms of monetary amount.

KPMG

Independent auditor's report

To the Board of Directors of Kaneka Corporation:

Opinion

We have audited the accompanying consolidated financial statements of Kaneka Corporation ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, the consolidated statements of income and statements of comprehensive income, statements of changes in net assets and statements of cash flows for each of the three years in the period ended March 31, 2020 and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the each of the three years in the period ended March 31, 2020 in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Masaaki Doi
Designated Engagement Partner
Certified Public Accountant

Tomoyuki Ono
Designated Engagement Partner
Certified Public Accountant

Masato Tateishi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
August 12, 2020

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

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