

KANEKA

**FINANCIAL
SECTION
2023**

Year Ended March 31, 2023

FINANCIAL REVIEW

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES

SALES

The Kaneka Group's business performance for the consolidated fiscal year from April 1, 2022 to March 31, 2023 (FY2023) was marked consolidated net sales of ¥755,821 million (up 9.3% year on year).

OPERATING EXPENSES AND OPERATING INCOME

During FY2023, the cost of sales increased by 12.5% to ¥556,895 million. The cost of sales ratio increased from 71.6% to 73.7%. SG&A expenses increased by 7.0% to ¥163,838 million, and the ratio of SG&A expenses to sales fell from 22.1% to 21.7%. Operating income during FY2023 decreased by 19.5% to ¥35,087 million.

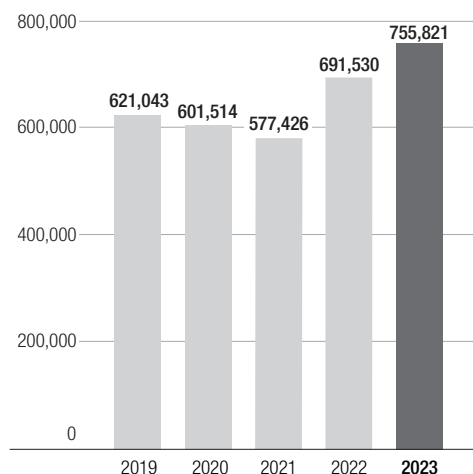
NET INCOME

For the year, the Group recorded net income attributable to the owners of the parent of ¥23,008 million, down 13.1% from the previous consolidated fiscal year.

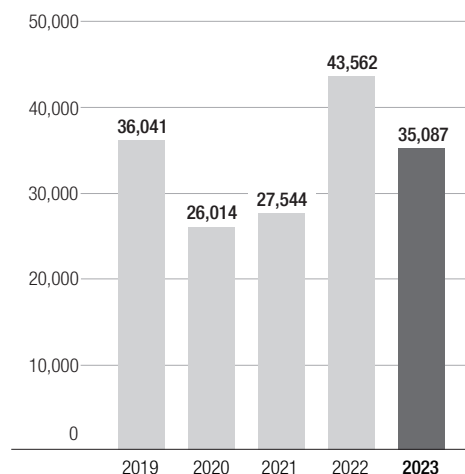
FINANCIAL CONDITION

As of March 31, 2023, total assets were ¥782,640 million, up ¥55,680 million from March 31, 2022, mainly due to an increase in notes and accounts receivable-trade and inventories resulting from higher sales, as well as an increase in tangible fixed assets resulting from expanded capital investment, and an increase in overseas group companies' assets denominated in yen resulting from the weakening of yen. The ratio of net income attributable to the owners of the parent to total assets (ROA) was 3.0%, down 0.8% from the previous consolidated fiscal year. Interest-bearing debt stood at ¥159,334 million, up ¥31,689 million from March 31, 2022. Net assets increased ¥24,218 million to ¥436,422 million, reflecting an increase in retained earnings and foreign currency translation adjustments. As a result, the equity ratio came to 53.3%. The D/E ratio (ratio of interest-bearing debt to equity capital) was 0.38.

Net sales
(Millions of yen)



Operating income
(Millions of yen)



CASH FLOWS

Cash and cash equivalents at March 31, 2023 were ¥40,699 million, ¥13 million less than at March 31, 2022.

Net cash provided by operating activities was ¥28,710 million, ¥5,396 million less than in the previous consolidated fiscal year. The main contributors to the increase were income before income taxes and non-controlling interests of ¥32,373 million and depreciation and amortization of ¥39,456 million, which was partially offset by purchase such as an increase in working capital due to an increase in sales.

Net cash used in investing activities amounted to ¥41,970 million, ¥2,374 million more than in the previous consolidated fiscal year. The principal use of cash was ¥39,628 million for the purchase of property, plant and equipment.

Net cash provided by financing activities amounted to ¥12,352 million, ¥13,457 million more than in the previous consolidated fiscal year. This was mainly reflected ¥29,156 million in proceeds from loans payable, which was partially offset by purchase of treasury stock of ¥8,051 million, and cash dividends paid of ¥7,599 million.

Financial Index Trends

	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2023
Shareholders' equity ratio	51.1%	50.7%	53.5%	53.3%	53.3%
Shareholders' equity ratio based on market value	41.0%	25.9%	44.5%	31.8%	28.6%
Interest-bearing debt coverage ratio	2.9	3.3	1.6	3.7	5.6
Interest coverage ratio	20.5	23.2	55.9	31.4	14.7

Shareholders' equity ratio: equity capital/total assets

Shareholders' equity ratio based on market value: total market value of stock/total assets

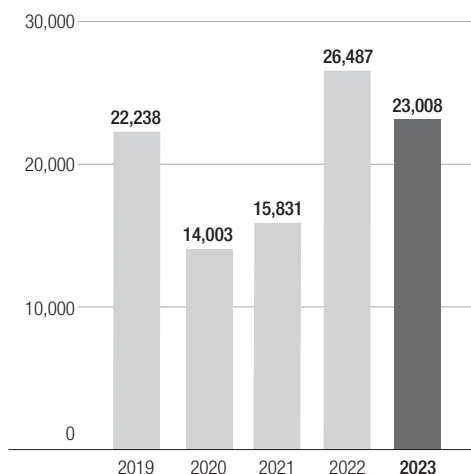
Interest-bearing debt coverage ratio: interest-bearing debt/operating cash flows

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 issued shares 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. Interest expenses paid is based on the amount in the Consolidated Statements of Cash Flows.

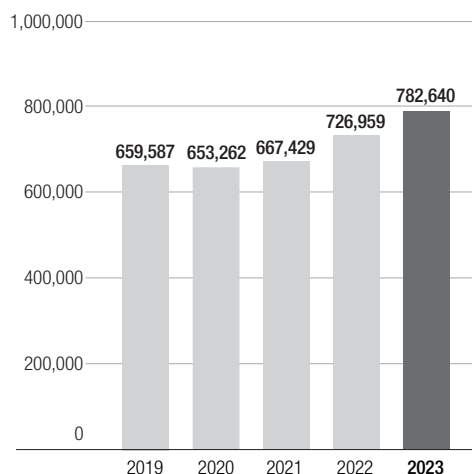
Net income attributable to the owners of the parent

(Millions of yen)



Total assets

(Millions of yen)



BUSINESS RISKS AND UNCERTAINTIES

(1) Basic Risk Management Policy

The Group has formulated a basic risk management policy to respond to potential risks in business operations, aiming for the goal of “Wellness First” to make the world healthy.

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, “Compliance Committee” oversees the development and implementation of the company-wide plans.

When a risk occurs or is likely to occur, “Compliance 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 consolidated 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’s business activities are conducted through a science and technology supply chain that connects across national borders on a global scale. The group has been giving top priority to protecting the health, lives and safety of employees as well as their family members all over the world during the COVID-19 crisis. At the same time, we have endeavored to maintain production and fulfill our responsibility for a stable supply of products in many business groups that are evaluated as essential businesses in each countries and regions around the world. However, if Re-expansion of infectious diseases occurring globally, 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 in technological 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 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 from 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. Despite these efforts, 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 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 a business interruption due to system failure and opportunity loss. We have the necessary insurance to cover these risks, but there is a risk that loss could 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 patents and other intellectual property rights to protect the result of its research and development, aiming to responsive provide solutions that can contribute to resolve social issues. We also respect other companies' intellectual property and work to avoid contention by conducting patent surveys at each stage of business development, such as with theme proposals, 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 the 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 the environmental impact at each stage of the product life cycle. In addition, the Group has announced that it supports the recommendations of the Task Force on Climate-related Financial Disclosures (referred to below as TCFD) in March 2021 and is endeavoring to realize carbon neutrality. However, environmental regulations are becoming stricter each year and in some cases they could restrict activities in the business supply chain and so forth 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 Risks associated with information security

For the Group, information systems play an important role in all aspects of our business activities. Unfortunately, there is an increasing risk of system failures, information leaks, loss, etc., due to cyber attacks, unauthorized access, disasters, etc. As a countermeasure, we will build a risk management system based on the "Information Management Basic Policy," incorporate the knowledge of external experts, strengthen the security system, educate information security employees, etc., to try to avoid and manage risks. However, unanticipated situations could have a negative impact on the Group's financial situation, business performance and status of cash flows.

⑩ 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 consolidated fiscal year end could cause the Group to recognize impairment loss pursuant to the adoption of the Accounting Standards for Financial Instruments.

With regard to noncurrent assets, a dramatic deterioration in 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 loss pursuant to the adoption of the Accounting Standard for Impairment of Fixed Assets.

With regard to inventories, since the Group will carry out make-to-stock production based on future demand forecasts, the saleability is uncertain and can be affected by future fluctuations in economic conditions.

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, 2023 and 2022

Assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Current assets:			
Cash and cash equivalents (Note 5)	¥ 40,699	¥ 40,712	\$ 304,793
Notes and accounts receivable – trade, and contract assets (Note 5)	170,154	164,128	1,274,276
Inventories (Note 8)	168,115	140,483	1,259,009
Short-term loans receivable from unconsolidated subsidiaries and affiliates	1,304	1,481	9,772
Other current assets	18,193	17,656	136,249
Allowance for doubtful accounts	(1,502)	(1,552)	(11,252)
Total current assets	396,964	362,910	2,972,849
Property, plant and equipment (Note 16):			
Land	33,079	32,855	247,729
Buildings and structures	240,711	228,539	1,802,680
Machinery, equipment and vehicles	665,388	640,545	4,983,062
Construction in progress	32,062	24,105	240,113
Leased assets	17,963	6,549	134,531
	989,205	932,596	7,408,117
Less accumulated depreciation	(696,590)	(661,321)	(5,216,732)
Property, plant and equipment, net	292,615	271,275	2,191,385
Intangible assets:	16,189	14,977	121,243
Investments and other assets:			
Investment securities (Notes 5, 6 and 16):			
Unconsolidated subsidiaries and affiliates	3,641	3,635	27,273
Other	53,913	55,107	403,753
Long-term loans receivable	597	660	4,473
Deferred tax assets (Note 14)	4,450	7,504	33,329
Other	14,550	11,190	108,970
Allowance for doubtful accounts	(283)	(300)	(2,123)
Total investments and other assets	76,870	77,796	575,676
	¥ 782,640	¥ 726,959	\$ 5,861,155

See notes to consolidated financial statements.

Liabilities and net assets	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Current liabilities:			
Short-term loans payable (Notes 5 and 16)	¥ 108,070	¥ 84,014	\$ 809,337
Current portion of long-term loans payable (Notes 5 and 16)	8,420	5,978	63,059
Lease liabilities	1,037	641	7,769
Notes and accounts payable:			
Trade	88,663	92,068	663,999
Construction	7,610	6,353	56,996
Other	18,785	20,770	140,682
Income taxes payable	5,055	3,466	37,863
Accrued expenses	14,828	15,467	111,046
Other current liabilities	5,770	5,740	43,211
Total current liabilities	258,242	234,502	1,933,966
Non-current liabilities:			
Bonds payable (Notes 5 and 16)	10,000	10,000	74,889
Long-term loans payable (Notes 5 and 16)	33,706	28,627	252,429
Lease liabilities	14,709	3,569	110,159
Net defined benefit liability (Note 17)	20,829	31,559	155,990
Provision for directors' retirement benefits	318	295	2,381
Deferred tax liabilities (Note 14)	1,705	2,018	12,771
Provision for product warranties	2,057	2,331	15,406
Other non-current liabilities	4,648	1,850	34,809
Total non-current liabilities	87,974	80,253	658,838
Contingent liabilities (Note 18)			
Net assets (Note 19):			
Shareholders' equity:			
Capital stock			
Authorized — 150,000,000 shares			
Issued — 68,000,000 shares	33,046	33,046	247,485
Capital surplus	32,245	31,392	241,485
Retained earnings	323,213	309,507	2,420,532
Less treasury stock, at cost — 3,106,293 shares in 2023 2,761,323 shares in 2022	(11,407)	(11,528)	(85,428)
Total shareholders' equity	377,098	362,417	2,824,075
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	22,204	21,331	166,288
Deferred gains or losses on hedges	(3)	(4)	(28)
Foreign currency translation adjustments	11,543	4,381	86,449
Remeasurements of defined benefit plans	6,529	(975)	48,897
Total accumulated other comprehensive income	40,273	24,732	301,607
Subscription rights to shares (Note 20)	622	619	4,661
Non-controlling interests	18,427	24,435	138,004
Total net assets	436,422	412,204	3,268,349
	¥ 782,640	¥ 726,959	\$ 5,861,155

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Net sales (Note 15)	¥ 755,821	¥ 691,530	¥ 577,426	\$ 5,660,313
Cost of sales	556,895	494,880	410,486	4,170,564
Gross profit	198,926	196,649	166,940	1,489,748
Selling, general and administrative expenses	163,838	153,086	139,395	1,226,979
Operating income	35,087	43,562	27,544	262,768
Other income (expenses):				
Interest and dividend income	1,917	1,648	1,445	14,360
Interest expenses	(1,965)	(1,064)	(1,259)	(14,719)
Gain on sales of investment securities	1,410	19	796	10,562
Depreciation of inactive non-current assets	(1,147)	(628)	(596)	(8,594)
Income from compensation for damage (Note 9)	—	—	1,624	—
Loss on disposal of property, plant and equipment	(1,839)	(1,638)	(2,402)	(13,774)
Loss on valuation of investment securities	(1,448)	—	—	(10,846)
Foreign exchange gains (losses), net	1,888	1,159	250	14,144
Equity in earnings of affiliates, net	137	132	109	1,027
Litigation expenses	—	—	(289)	—
Restructuring charges (Notes 10 and 11)	—	(2,692)	—	—
Impairment losses (Note 11)	—	(1,059)	(897)	—
Product warranty expenses (Note 12)	—	(2,331)	—	—
Loss on disaster (Note 13)	—	—	(1,099)	—
Other, net	(1,666)	(703)	(3,025)	(12,483)
Income before income taxes and non-controlling interests	32,373	36,405	22,201	242,446
Income taxes (Note 14)				
Current	9,010	10,075	6,372	67,480
Deferred	(711)	(1,398)	(1,354)	(5,330)
Net income	24,074	27,728	17,184	180,296
Net income attributable to non-controlling interests	1,066	1,240	1,353	7,989
Net income attributable to owners of parent	¥ 23,008	¥ 26,487	¥ 15,831	\$ 172,307

	Yen			U.S. dollars (Note 1)
Net income per share—basic (Note 2)	¥ 349.59	¥ 406.01	¥ 242.68	\$ 2.61
Net income per share—diluted (Note 2)	348.66	404.95	242.13	2.61
Cash dividends applicable to the year (Note 19)	110.00	110.00	100.00	0.82

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Net income	¥ 24,074	¥ 27,728	¥ 17,184	\$ 180,296
Other comprehensive income:				
Valuation difference on available-for-sale securities	882	455	6,746	6,611
Deferred gains or losses on hedges	0	5	93	6
Foreign currency translation adjustments	7,594	8,495	3,924	56,877
Remeasurements of defined benefit plans	7,509	1,179	5,825	56,237
Share of other comprehensive income of associates accounted for using equity method	1	(7)	10	9
Total other comprehensive income (Note 3)	15,989	10,128	16,600	119,742
Comprehensive income	¥ 40,064	¥ 37,856	¥ 33,784	\$ 300,039
Comprehensive income attributable to:				
Comprehensive income attributable to owners of parent	¥ 38,549	¥ 36,280	¥ 31,978	\$ 288,693
Comprehensive income attributable to non-controlling interests	1,515	1,575	1,806	11,345

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Shareholders' equity				
Capital stock				
Balance at beginning of year	¥ 33,046	¥ 33,046	¥ 33,046	\$ 247,485
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	247,485
Capital surplus				
Balance at beginning of year	31,392	31,103	30,962	235,096
Changes of items during the period				
Increase by share exchange	789	—	—	5,913
Change in treasury shares of parent arising from transactions with non-controlling interests	63	289	141	475
Total changes of items during the period	853	289	141	6,388
Balance at the end of current period	32,245	31,392	31,103	241,485
Retained earnings				
Balance at beginning of year	309,507	289,544	280,265	2,317,884
Changes of items during the period				
Dividends from surplus—¥110.00 per share	(7,599)	(6,523)	(6,523)	(56,911)
Change of scope of consolidation	—	—	(21)	—
Net income attributable to owners of parent	23,008	26,487	15,831	172,307
Disposal of treasury stock	(5)	(1)	(7)	(39)
Increase by share exchange	(1,696)	—	—	(12,707)
Total changes of items during the period	13,706	19,963	9,278	102,648
Balance at the end of current period	323,213	309,507	289,544	2,420,532
Treasury stock				
Balance at beginning of year	(11,528)	(11,535)	(11,583)	(86,339)
Changes of items during the period				
Purchase of treasury stock	(8,051)	(4)	(3)	(60,296)
Disposal of treasury stock	30	10	52	228
Increase by share exchange	8,142	—	—	60,978
Total changes of items during the period	121	6	48	911
Balance at the end of current period	(11,407)	(11,528)	(11,535)	(85,428)
Accumulated other comprehensive income				
Valuation difference on available-for-sale securities				
Balance at beginning of year	21,331	20,863	14,246	159,749
Changes of items during the period				
Net changes of items other than shareholders' equity	873	468	6,616	6,538
Total changes of items during the period	873	468	6,616	6,538
Balance at the end of current period	22,204	21,331	20,863	166,288
Deferred gains or losses on hedges				
Balance at beginning of year	(4)	(9)	(103)	(35)
Changes of items during the period				
Net changes of items other than shareholders' equity	0	5	93	6
Total changes of items during the period	0	5	93	6
Balance at the end of current period	(3)	(4)	(9)	(28)

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Foreign currency translation adjustments				
Balance at beginning of year	¥ 4,381	¥ (3,753)	¥ (7,395)	\$ 32,812
Changes of items during the period				
Net changes of items other than shareholders' equity	7,162	8,135	3,641	53,637
Total changes of items during the period	7,162	8,135	3,641	53,637
Balance at the end of current period	11,543	4,381	(3,753)	86,449
Remeasurements of defined benefit plans				
Balance at beginning of year	(975)	(2,160)	(7,956)	(7,304)
Changes of items during the period				
Net changes of items other than shareholders' equity	7,504	1,184	5,796	56,202
Total changes of items during the period	7,504	1,184	5,796	56,202
Balance at the end of current period	6,529	(975)	(2,160)	48,897
Subscription rights to shares				
Balance at beginning of year	619	516	482	4,635
Changes of items during the period				
Net changes of items other than shareholders' equity	3	102	34	26
Total changes of items during the period	3	102	34	26
Balance at the end of current period	622	619	516	4,661
Non-controlling interests				
Balance at beginning of year	24,435	23,424	22,128	182,993
Changes of items during the period				
Net changes of items other than shareholders' equity	(6,007)	1,010	1,295	(44,988)
Total changes of items during the period	(6,007)	1,010	1,295	(44,988)
Balance at the end of current period	18,427	24,435	23,424	138,004
Total net assets				
Balance at beginning of year	412,204	381,040	354,094	3,086,977
Changes of items during the period				
Dividends from surplus—¥110.00 per share	(7,599)	(6,523)	(6,523)	(56,911)
Change of scope of consolidation	—	—	(21)	—
Net income attributable to owners of parent	23,008	26,487	15,831	172,307
Purchase of treasury stock	(8,051)	(4)	(3)	(60,296)
Disposal of treasury stock	25	9	44	188
Increase by share exchange	7,235	—	—	54,184
Change in treasury shares of parent arising from transactions with non-controlling interests	63	289	141	475
Net changes of items other than shareholders' equity	9,537	10,905	17,477	71,423
Total changes of items during the period	24,218	31,163	26,945	181,371
Balance at the end of current period	¥ 436,422	¥ 412,204	¥ 381,040	\$ 3,268,349

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

KANEKA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years Ended March 31, 2023, 2022 and 2021

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Cash Flows from Operating Activities				
Income before income taxes and non-controlling interests	¥ 32,373	¥ 36,405	¥ 22,201	\$ 242,446
Depreciation and amortization	39,456	37,953	36,262	295,488
Restructuring charges	—	2,692	—	—
Impairment losses	—	1,059	897	—
Product warranty expense	—	2,331	—	—
Insurance claim income	—	(1,671)	—	—
Income from compensation for damage	—	—	(1,624)	—
Increase (decrease) in net defined benefit liability	(139)	879	2,034	(1,043)
Increase (decrease) in allowance for doubtful accounts	(110)	162	59	(828)
Interest and dividend income	(1,917)	(1,648)	(1,445)	(14,360)
Interest expenses	1,965	1,064	1,259	14,719
Equity in earnings of affiliates, net	(137)	(132)	(109)	(1,027)
Loss (gain) on disposal of property, plant and equipment	630	498	765	4,719
Loss (gain) on sale of investment securities	(1,410)	—	—	(10,562)
Loss (gain) on valuation of investment securities	1,448	—	—	10,846
Gain on sales of investment securities	—	(19)	(796)	—
Decrease (increase) in notes and accounts receivable-trade	(3,474)	(25,608)	(246)	(26,019)
Decrease (increase) in inventories	(24,875)	(27,541)	8,838	(186,293)
Increase (decrease) in notes and accounts payable-trade	(4,785)	14,628	1,392	(35,841)
Others	(4,620)	3,328	6,221	(34,604)
Subtotal	34,402	44,381	75,710	257,636
Interest and dividend income received	1,942	1,717	1,533	14,545
Interest expenses paid	(1,955)	(1,085)	(1,325)	(14,645)
Proceeds from insurance income	1,177	512	—	8,817
Proceeds from compensation for damage	—	—	1,624	—
Income taxes paid	(6,856)	(11,419)	(3,502)	(51,345)
Net cash provided by operating activities	28,710	34,106	74,040	215,008
Cash Flows from Investing Activities				
Purchase of property, plant and equipment	(39,628)	(37,329)	(39,431)	(296,778)
Proceeds from sales of property, plant and equipment	87	—	—	653
Purchase of intangible assets	(2,363)	(2,601)	(2,965)	(17,700)
Purchase of investment securities	(909)	(77)	(74)	(6,811)
Proceeds from sales and distributions of investment securities	2,509	877	57	18,793
Proceeds from redemption of investment securities	—	—	104	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(336)	—	—
Payments of loans receivable	(99)	(398)	(874)	(741)
Collection of loans receivable	336	632	1,145	2,521
Others	(1,902)	(362)	(1,191)	(14,248)
Net cash used in investing activities	(41,970)	(39,595)	(43,229)	(314,311)
Cash Flows from Financing Activities				
Net increase (decrease) in short-term loans payable	21,814	6,606	(3,515)	163,366
Proceeds from long-term loans payable	13,541	9,119	776	101,409
Repayments of long-term loans payable	(6,198)	(9,390)	(11,712)	(46,421)
Repayments of lease obligations	(863)	(618)	(501)	(6,467)
Purchase of treasury stock	(8,051)	(4)	(3)	(60,296)
Proceeds from sales of treasury stock	0	0	0	3
Cash dividends paid	(7,599)	(6,523)	(6,523)	(56,911)
Proceeds from share issuance to non-controlling shareholders	0	0	—	0
Cash dividends paid to non-controlling interests	(284)	(231)	(260)	(2,127)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(6)	(63)	(162)	(51)
Net cash used in financing activities	12,352	(1,105)	(21,903)	92,505
Effect of exchange rate change on cash and cash equivalents	894	946	(198)	6,696
Net increase (decrease) in cash and cash equivalents	(13)	(5,647)	8,708	(100)
Cash and cash equivalents at beginning of period	40,712	46,360	37,606	304,894
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	—	45	—
Cash and cash equivalents at end of period	¥ 40,699	¥ 40,712	¥ 46,360	\$ 304,793

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 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, 2023 which was ¥133.53 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. Therefore, total or subtotal amounts don’t necessarily correspond with the aggregate of the account balances.

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 89 consolidated subsidiaries (90 in FY2022 and 89 in FY2021) and 3 affiliates accounted for by the equity method (3 in FY2022 and FY2021). For the year ended March 31, 2023, the accounts of 17 consolidated subsidiaries were included based on a fiscal year that ended on December 31. When significant transactions occur at those subsidiaries between the end of their fiscal year 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 based on 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 accounts 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. Investments in securities other than equity securities without market prices are stated at fair value. Unrealized gains and 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. Investments in equity securities without market prices 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 valued at cost as determined principally by the average cost method. The balance sheet amount is calculated at the lower of either the acquisition cost or the net selling price at the end of the fiscal year.

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.

Intangible assets

Intangible assets 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.

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.

Provision for product warranties

Provision for product warranties is estimated and recorded for the cost of replacement and repair that may be incurred after the sale of products.

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, 2023, 2022 and 2021 were ¥32,669 million (\$244,658 thousand), ¥30,894 million and ¥27,820 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.

Revenue recognition

The business operations in the Group are mainly selling merchandise and finished goods to customers under the four domains known as "Solutions Units" (Hereinafter "SU"), which are "Material SU," "Quality of Life SU," "Health Care SU" and "Nutrition SU."

In principle, the Group recognizes revenue when control of merchandise and finished goods is transferred to the customer as the performance obligations are satisfied. However, the Company and its domestic subsidiaries recognize domestic sales at the point of shipment in cases in which control of such goods or services is transferred to the customer within a reasonable period.

In addition, transaction price is measured at the amount of consideration received less any volume discounts, etc., as variable consideration according to the contracts with some customers.

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.

Application of group tax sharing system

The Company and certain domestic consolidated subsidiaries apply a group tax sharing system.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2023 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

(Significant accounting estimates)

Impairment of fixed assets

(1) Carrying amounts of fixed assets in the consolidated financial statement in the current consolidated fiscal year

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Property, plant and equipment	¥ 292,615	¥ 271,275	\$ 2,191,385
Intangible assets	16,189	14,977	121,243

(2) Significant accounting estimates for identified items

For fixed assets, an impairment indicator is determined for assets or asset groups that make business management and investment decisions based on a Solution Vehicle. If any indicator of impairment is identified for such assets or asset groups, the Group assesses whether an impairment loss should be recognized by using the future cash flow method based on the medium-term management plan, which was formulated by comprehensively considering economic trends, changes in the business environment and other factors.

The business activities of the Group have been operated in four business segments known as "Solutions Units," which consist of "Material Solutions Unit," "Quality of Life Solutions Unit," "Health Care Solutions Unit" and "Nutrition Solutions Unit." Each unit's business is centered on solving issues by means of creating new value through the break-thorough technology, and the Group is developing a wide variety of businesses globally while networking the supply chain around the world.

The supply chain may be affected by unexpected events such as pandemics, natural disasters, wars and terrorism, economic crises, shortages of raw materials and sudden price fluctuations. This may affect the assumptions of the medium-term management plan regarding the estimates of future cash flows.

(Changes in accounting policies)

Overseas subsidiaries adopting U.S. GAAP have adopted ASU2016-02 "Leases" (February 25, 2016) from the beginning of the current consolidated fiscal year.

As a result, lessees principally recognize all leases as assets and liabilities on the balance sheet.

The application of this accounting standards is following the transitional treatment, the way that the cumulative effect from this application is recognized as of the beginning date of application is adopted.

The impact on the consolidated financial statements of income for the current consolidated fiscal year is immaterial.

(Accounting standards and guidance not yet adopted)

Following accounting standards and guidance are those issued but not yet adopted.

- Accounting Standard for Current Income Taxes (ASBJ Statement No.27, October 28, 2022, ASBJ)
- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No.25, October 28, 2022, ASBJ)
- Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No.28, October 28, 2022, ASBJ)

(1) Overview

Transfer of JICPA's practical guidelines on tax effect accounting to ASBJ was completed with the issuance of standards and guidance including ASBJ Statement No.28, Partial Amendments to Accounting Standard for Tax Effect Accounting (hereinafter collectively referred to as "ASBJ Statement No.28, etc.") in February 2018. During their deliberations, it had been determined that the following two issues would be further discussed subsequent to the issuance of ASBJ Statement No. 28, etc. The above standards and guidance were issued as a result of the discussions on the two issues below:

- Categories in which income tax expense should be recorded (taxes on other comprehensive income)
- Tax effects associated with sales of shares of subsidiaries, etc. (i.e., shares of subsidiaries or affiliates) when the group taxation regime is applied

(2) Effective date

The standards and guidance will be effective from the beginning of the fiscal year ending March 31, 2025.

(3) Effects of application of the standards and guidance

The effects of application of Accounting Standard for Current Income Taxes, etc. on the consolidated financial statements are currently under evaluation.

3. COMPREHENSIVE INCOME

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Valuation difference on available-for-sale securities				
Increase (decrease) during the year	¥ 2,258	¥ 468	¥ 10,285	\$ 16,910
Reclassification adjustments	(1,099)	(19)	(788)	(8,233)
Subtotal, before tax	1,158	449	9,496	8,676
Tax expense	(275)	6	(2,750)	(2,065)
Subtotal, net of tax	882	455	6,746	6,611
Deferred gains or losses on hedges				
Increase (decrease) during the year	(4)	(6)	(395)	(37)
Reclassification adjustments	6	11	514	46
Subtotal, before tax	1	5	119	8
Tax expense	(0)	(0)	(25)	(2)
Subtotal, net of tax	0	5	93	6
Foreign currency translation adjustment				
Increase (decrease) during the year	7,594	8,495	3,924	56,877
Reclassification adjustments	—	—	—	—
Subtotal, before tax	7,594	8,495	3,924	56,877
Tax expense	—	—	—	—
Subtotal, net of tax	7,594	8,495	3,924	56,877
Remeasurements of defined benefit plans				
Increase (decrease) during the year	10,244	470	6,364	76,716
Reclassification adjustments	569	1,190	2,031	4,267
Subtotal, before tax	10,813	1,660	8,396	80,984
Tax expense	(3,304)	(480)	(2,570)	(24,746)
Subtotal, net of tax	7,509	1,179	5,825	56,237
Share of other comprehensive income of associates accounted for using equity method				
Increase (decrease) during the year	1	(7)	10	9
Reclassification adjustments	—	—	—	—
Subtotal, net of tax	1	(7)	10	9
Total other comprehensive income	¥ 15,989	¥ 10,128	¥ 16,600	\$ 119,742

4. STATEMENTS OF CASH FLOWS

Significant non-cash transactions

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Increase in capital surplus due to share exchange	¥ 789	¥ —	¥ —	\$ 5,913
Decrease in retained earnings due to share exchange	1,696	—	—	12,707
Decrease in treasury stock due to share exchange	8,142	—	—	60,978

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, 2023.

(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, 2023 (the consolidated accounts settlement date of the year ended March 31, 2023), their fair values and any differences between the balance sheet amounts and the fair values.

	Consolidated balance sheet amount	Fair value	Difference
Marketable and investment securities			
Available-for-sale securities	¥ 50,862	¥ 50,862	¥ —
Total assets	50,862	50,862	—
Bonds payable	10,000	10,640	640
Long-term loans payable	42,127	41,732	(395)
Total liabilities	52,127	52,372	245
Derivative transactions ^{(*)4}			
— Hedge accounting not applied	(17)	(17)	—
— Hedge accounting applied	(133)	(133)	—

^{(*)1} "Cash and cash equivalents," "Notes and accounts receivable – trade," "Notes and accounts payable – trade," "Short-term loans payable" and "Accounts payable – other" are omitted as the fair values approximate their book values because they are cash or settled in a short period of time.

^{(*)2} Equity securities without market prices are not included in "Marketable and investment securities." The carrying amount of those financial instruments are as follows:

Type	Consolidated balance sheet amount
Unlisted equity securities	¥ 6,787

^{(*)3} Long-term loans payable include current portion of long-term loans payable.

^{(*)4} Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

The table below shows the amounts of financial instruments recorded in the consolidated balance sheets as of March 31, 2022 (the consolidated accounts settlement date for the year ended March 31, 2022), their fair values and any differences between the balance sheet amounts and the fair values.

	Consolidated balance sheet amount	Fair value	Difference
Marketable and investment securities			
Available-for-sale securities	¥ 50,993	¥ 50,993	¥ —
Total assets	50,993	50,993	—
Bonds payable	10,000	10,821	821
Long-term loans payable	34,606	34,448	(157)
Total liabilities	44,606	45,270	663
Derivative transactions ^{(*)4}			
— Hedge accounting not applied	(99)	(99)	—
— Hedge accounting applied	(92)	(92)	—

^{(*)1} "Cash and cash equivalents," "Notes and accounts receivable – trade," "Notes and accounts payable – trade," "Short-term loans payable" and "Accounts payable – other" are omitted as the fair values approximate their book values because they are cash or settled in a short period of time.

^{(*)2} Financial instruments whose fair values are deemed extremely difficult to assess:

Type	Consolidated balance sheet amount
Unlisted equity securities	¥ 7,966

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

^{(*)3} Long-term loans payable include current portion of long-term loans payable.

^{(*)4} Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

The table below shows the amounts as of March 31, 2023 calculated into U.S. dollars.

	Consolidated balance sheet amount	Fair value	Difference
Marketable and investment securities			
Available-for-sale securities	\$ 380,907	\$ 380,907	\$ —
Total assets	380,907	380,907	—
Bonds payable	74,889	79,685	4,796
Long-term loans payable	315,488	312,529	(2,959)
Total liabilities	390,378	392,215	1,837
Derivative transactions ^{(*)4}			
— Hedge accounting not applied	(133)	(133)	—
— Hedge accounting applied	(1,001)	(1,001)	—

^{(*)1} "Cash and cash equivalents," "Notes and accounts receivable – trade," "Notes and accounts payable – trade," "Short-term loans payable" and "Accounts payable – other" are omitted as the fair values approximate their book values because they are cash or settled in a short period of time.

^{(*)2} Equity securities without market prices are not included in "Marketable and investment securities." The carrying amount of those financial instruments are as follows:

Type	Consolidated balance sheet amount
Unlisted equity securities	\$ 50,829

^{(*)3} Long-term loans payable include current portion of long-term loans payable.

^{(*)4} Assets and liabilities arising from derivative transactions are stated as a net amount. The figures in parenthesis indicate net liabilities.

Note 1.

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

	2023			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 40,699	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	168,860	—	—	—
Total	¥209,559	¥ —	¥ —	¥ —

	2022			
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	¥ 40,712	¥ —	¥ —	¥ —
Notes and accounts receivable – trade	162,798	—	—	—
Marketable and investment securities				
Available-for-sale securities with maturities (corporate bonds)	122	—	—	—
Total	¥203,633	¥ —	¥ —	¥ —

Thousands of U.S. dollars (Note 1)				
2023				
	Within one year	Over one year to five years	Over five years to ten years	Over ten years
Cash and cash equivalents	\$ 304,793	\$ —	\$ —	\$ —
Notes and accounts receivable – trade	1,264,587	—	—	—
Total	\$1,569,381	\$ —	\$ —	\$ —

Note 2.

Maturity schedules after the consolidated balance sheet date for bonds and long-term debt refer to Note 16, “Short-term loans payable and long-term debt.”

3. Fair value information of financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair values, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: fair values measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: fair values measured by using observable inputs other than Level 1.

Level 3 fair value: fair values measured by using unobservable inputs.

When multiple inputs of different categories are used in measuring fair value, the Company and its subsidiaries classified fair values into a category to which the lowest priority is assigned.

(1) Financial instruments measured at fair values in the consolidated balance sheets

Millions of yen				
Type	Fair value			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥ 50,862	¥ —	¥ —	¥ 50,862
Derivative transactions				
Currency related contracts	—	(151)	—	(151)

Millions of yen				
Type	Fair value			
	2022			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥ 50,993	¥ —	¥ —	¥ 50,993
Derivative transactions				
Currency related contracts	—	(192)	—	(192)

Thousands of U.S. dollars (Note 1)				
Type	Fair value			
	2023			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	\$380,907	\$ —	\$ —	\$380,907
Derivative transactions				
Currency related contracts	—	(1,135)	—	(1,135)

(2) Financial instruments other than those measured at fair values in the consolidated balance sheets

Millions of yen				
Type	Fair value			
	2023			
	Level 1	Level 2	Level 3	Total
Bonds payable	¥ —	¥ 10,640	¥ —	¥ 10,640
Long-term loans payable	—	41,732	—	41,732

Millions of yen				
Type	Fair value			
	2022			
	Level 1	Level 2	Level 3	Total
Bonds payable	¥ —	¥ 10,821	¥ —	¥ 10,821
Long-term loans payable	—	34,448	—	34,448

Thousands of U.S. dollars (Note 1)				
Type	Fair value			
	2023			
	Level 1	Level 2	Level 3	Total
Bonds payable	\$ —	\$ 79,685	\$ —	\$ 79,685
Long-term loans payable	—	312,529	—	312,529

Note. Valuation techniques and inputs used in measuring fair values

Assets

Investment securities

Listed equity securities are measured by using quoted prices. Fair values of listed equity securities are classified as Level 1, because they are exchanged in active markets.

Liabilities

Bonds payable

Fair values of bonds payable issued by the Company are measured based on the market price. Bonds payable are classified as Level 2, because their fair values are the market price, but they are not traded in active markets.

Long-term loans payable

Long-term loans payable are classified as Level 2, because their fair values of long-term loans payable are measured at the present value calculated by discounting the total amount of principal and interest at an interest rate for similar new borrowings.

Derivative transactions

Currency related contracts are classified as Level 2, because their fair values are measured by using the discounted cash flow method with observable inputs, such as interests and foreign exchange rates.

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, 2023:

Securities with book value exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2023			2023		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 16,153	¥ 48,699	¥ 32,546	\$ 120,970	\$ 364,711	\$ 243,740
Bonds	—	—	—	—	—	—
	¥ 16,153	¥ 48,699	¥ 32,546	\$ 120,970	\$ 364,711	\$ 243,740

Securities with book value not exceeding acquisition cost:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2023			2023		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Equity securities	¥ 2,883	¥ 2,162	¥ (721)	\$ 21,596	\$ 16,196	\$ (5,400)
Bonds	—	—	—	—	—	—
	¥ 2,883	¥ 2,162	¥ (721)	\$ 21,596	\$ 16,196	\$ (5,400)

The following table summarizes sales of available-for-sale securities as of March 31, 2023:

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2023			2023		
	Sales	Gain on sales	Loss on sales	Sales	Gain on sales	Loss on sales
Equity securities	¥ 2,405	¥ 1,410	¥ 14	\$ 18,015	\$ 10,562	\$ 108
Bonds	—	—	—	—	—	—
	¥ 2,405	¥ 1,410	¥ 14	\$ 18,015	\$ 10,562	\$ 108

The following tables summarize acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2022:

Securities with book value exceeding acquisition cost:

	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 16,129	¥ 47,510	¥ 31,381
Bonds	—	—	—
	¥ 16,129	¥ 47,510	¥ 31,381

Securities with book value not exceeding acquisition cost:

	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 4,260	¥ 3,482	¥ (778)
Bonds	—	—	—
	¥ 4,260	¥ 3,482	¥ (778)

The following table summarizes sales of available-for-sale securities as of March 31, 2022:

	Millions of yen		
	2022		
	Sales	Gain on sales	Loss on sales
Equity securities	¥ 36	¥ 19	¥ —
Bonds	—	—	—
	¥ 36	¥ 19	¥ —

7. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedge accounting was not applied as of March 31, 2023 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	¥ 4,778	¥ 5	\$ 35,786	\$ 38
Euro	173	(1)	1,301	(12)
British pound	115	(0)	864	(4)
Buy contract				
U.S. dollar	1,757	(5)	13,161	(42)
Japanese Yen	559	(14)	4,190	(111)
Singapore dollar	100	(0)	750	(1)

Derivative transactions to which hedge accounting was applied as of March 31, 2023 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 Japanese Yen and receive Malaysia Ringgit	¥ 925	¥ (133)	\$ 6,928	\$ (1,001)

Derivative transactions to which hedge accounting was not applied as of March 31, 2022 were as follows:

	Millions of yen	
	Contract amount	Fair value
Foreign exchange forward contracts		
Sell contracts		
U.S. dollar	¥ 3,659	¥ (93)
Euro	55	(1)
Japanese Yen	628	0
British pound	99	2
Buy contract		
U.S. dollar	1,443	48
Japanese Yen	685	(56)

Derivative transactions to which hedge accounting was applied as of March 31, 2022 were as follows:

	Millions of yen	
	Contract amount	Fair value
Currency swap contracts		
Pay Japanese Yen and receive Malaysia Ringgit	¥ 925	¥ (92)

8. INVENTORIES

Inventories at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Merchandise and finished goods	¥ 89,223	¥ 69,183	\$ 668,191
Work-in-process	13,317	12,171	99,731
Raw materials and supplies	65,574	59,128	491,086
	¥ 168,115	¥ 140,483	\$ 1,259,009

9. INCOME FROM COMPENSATION FOR DAMAGE

The Companies recognized income from compensation for damage related to patent proceedings in other income for the year ended March 31, 2021.

10. RESTRUCTURING CHARGES

In 2022, the Group radically reinvented the production processes for Graphite sheets. The new processes are expected to increase further strengthen our competitiveness in the future.

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

The main component of these losses was inventory valuation loss of ¥346 million.

With regard to machinery and equipment for which there was no prospect of the future use due to the business restructuring, the book value was reduced to the recoverable value, and the reduction of ¥2,346 million was included in Restructuring charges as other expenses.

11. IMPAIRMENT LOSSES

The Companies recognized impairment loss in other expenses for the year ended March 31, 2021.

Location	Use	Type
Kaneka North America LLC (Texas, U.S.A.)	Business assets (Manufacturing equipment for electronic materials, etc.)	Machinery, equipment and vehicles, etc.

The Companies group their assets mainly by the Solutions Vehicles of the Company. In this case, the asset was for a business in which Kaneka North America LLC mainly engaged, so it was grouped by a consolidated subsidiary. In the previous consolidated fiscal year, as a result of reviewing the business plan with consideration for COVID-19, the recoverable value of manufacturing equipment for electronic materials in Kaneka North America LLC was less than the book value. Therefore, the book value was reduced to the recoverable value, and the reduced amount, ¥897 million, was recorded in other expenses. The major component was machinery, equipment and vehicles, ¥690 million, and the construction in progress ¥150 million. The recoverable value is measured by the net selling price and evaluated by the estimated sales price.

The Companies recognized impairment loss in other expenses for the year ended March 31, 2022.

Location	Use	Type
Mooka, Tochigi, Japan	Business assets (Manufacturing equipment for electronic materials, etc.)	Machinery, equipment and vehicles, etc.
Kaneka Apical Malaysia Sdn. Bhd. (Pahang, Malaysia)	Business assets (Manufacturing equipment for electronic materials, etc.)	Machinery, equipment and vehicles, etc.
Kaneka Eperan (Suzhou) Co. Ltd. (Jiangsu Province, China)	Business assets (Manufacturing equipment for expandable polystyrene resin products, etc.)	Machinery, equipment and vehicles, etc.
Shinka-Shokuhin Co. Ltd. (Kazuno, Akita), Japan	Business assets (Manufacturing equipment for food products, etc.)	Machinery, equipment and vehicles, etc.

The Companies group their assets mainly by the Solutions Vehicles of the Company and market similarity, and the businesses of consolidated subsidiaries were grouped by the relevant subsidiary unit. Idle assets were grouped by individual assets. In the current consolidated fiscal year, the book value of machinery and equipment for electronic materials in Kaneka Corporation, Tochigi Kaneka Corporation, and Kaneka Apical Malaysia Sdn. Bhd. the use of which was no longer expected due to business structural reform, was reduced to the recoverable value, and a reduction of ¥2,346 million was included in Restructuring charges as other expenses. The major component was machinery and equipment, ¥2,125 million.

The recoverable value of machinery and equipment for expandable polystyrene resin products in Kaneka Eperan (Suzhou) Co. Ltd was less than the book value because of lower profitability. Therefore, the book value was reduced to the recoverable value, and the reduced amount, ¥557 million, was recorded in other expenses. The major component was machinery, equipment and vehicles, ¥482 million.

The recoverable value of machinery and equipment for food products in Shinka-Shokuhin Co. Ltd. was less than the book value because of expectation about lower profitability due to soaring prices of the main raw materials. Therefore, the book value was reduced to the recoverable value, and the reduced amount, ¥501 million, was recorded in other expenses. The major component was machinery, equipment and vehicles, ¥323 million. The recoverable value was measured by the net selling price and evaluated by the estimated sales price.

12. PRODUCT WARRANTY EXPENSES

The Companies recognized product warranty expenses for the cost of replacement and repair related to the discoloration in appearance after the sales of solar cell products in other expenses for the year ended March 31, 2022.

13. LOSS ON DISASTER

The Companies recognized loss on disaster due to the great cold wave in the U.S.A. in February 2021 in other expenses for the year ended March 31, 2021.

14. 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, 2023, 2022 and 2021.

1. The significant differences between the statutory and effective tax rate for the years ended March 31, 2023, 2022 and 2021 were as follows:

	2023	2022	2021
Statutory tax rate	30.58%	30.58%	30.58%
Permanently non-deductible expense	0.54%	0.29%	0.34%
Permanently non-taxable income	(9.45)%	(17.06)%	(9.85)%
Elimination of dividends on consolidation	9.21%	18.40%	10.41%
Tax credits primarily for research and development expenses	(16.24)%	(6.52)%	(7.59)%
Change in valuation allowance	10.57%	0.69%	0.23%
Tax rate differences of foreign subsidiaries	(0.41)%	(1.79)%	(3.48)%
Amortization of goodwill	0.51%	0.41%	0.82%
Other	0.30%	(1.18)%	1.14%
Effective tax rate	25.63%	23.83%	22.60%

2. Significant components of deferred tax assets and liabilities as of March 31, 2023 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Deferred tax assets:			
Net defined benefit liability	¥ 6,244	¥ 9,537	\$ 46,767
Tax loss carryforwards	3,379	2,919	25,308
Loss on valuation of investment securities	141	221	1,063
Excess bonuses accrued	1,935	1,960	14,495
Impairment loss on non-current assets	2,545	2,732	19,065
Unrealized gain	1,922	1,686	14,400
Tax credit carryforwards	8,560	5,004	64,105
Other	6,298	5,944	47,171
Subtotal	31,029	30,006	232,378
Valuation allowance	(12,900)	(9,440)	(96,614)
Total deferred tax assets	18,128	20,566	135,763
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(9,241)	(8,968)	(69,208)
Depreciation of foreign subsidiaries	(3,862)	(3,734)	(28,922)
Other	(2,280)	(2,378)	(17,075)
Total deferred tax liabilities	(15,383)	(15,081)	(115,205)
Net deferred tax assets (liabilities)	¥ 2,745	¥ 5,485	\$ 20,557

3. Accounting for corporation tax and local corporation tax and tax effect accounting

The Company and certain domestic consolidated subsidiaries have adopted the group tax sharing system from the fiscal year ended March 31, 2023. In addition, corporation tax and local corporation tax, as well as their tax effects, are accounted for and disclosed under Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (PITF No.42, August 12, 2021).

15. REVENUE RECOGNITION

1. Information regarding disaggregated revenue from contracts with customers

Information regarding disaggregated revenue from contracts with customers is explained in Note 22, "Segment information." Revenues from other sources are not material.

2. Information that is the basis for understanding revenue from contracts with customers

Information that is the basis for understanding revenue from contracts with customers is explained in "Revenue recognition" in Note 2.

3. Information based on the relationship between the satisfaction of performance obligations under contracts with customers and cash flow arising from the contracts, as well as the amount and timing of revenue expected to be recognized after the next consolidated fiscal year from the contracts with customers that existed at the end of this consolidated fiscal year.

(1) Balance of contract assets and contract liabilities

Information regarding the balance of contract assets and contract liabilities of the Group in the current consolidated fiscal year is omitted because there was no significant balance and fluctuation. In addition, in this consolidated fiscal year, the amount of recognized revenue from the satisfaction of performance obligations in the prior was not significant.

(2) Transaction price allocated to the remaining performance obligations

Information regarding transaction price allocated to remaining performance obligations of the Group is omitted because the Group have no significant contracts in which the expected initial term was more than one year.

In addition, there was no significant variable consideration which was not included in the transaction price among the consideration arising from contracts with customers.

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

Short-term loans payable are generally unsecured notes for three months with average interest rates of 1.74% and 0.59% at March 31, 2023 and 2022, respectively. Such borrowings are generally renewable at maturity.

Long-term loans payable and bonds payable at March 31, 2023 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Secured:			
Loans principally from banks and insurance companies at interest rates from 0.00% to 2.53% in 2023 and 2022, maturing serially through 2024	¥ 185	¥ 372	\$ 1,385
Unsecured:			
Loans from banks and insurance companies at interest rates from 0.00% to 9.53% in 2023 and 2022, maturing serially through 2037	41,942	34,233	314,103
Bonds at interest rate of 0.11%, due September 12, 2024	5,000	5,000	37,444
Bonds at interest rate of 0.24%, due September 12, 2029	5,000	5,000	37,444
	52,127	44,606	390,378
Less amounts due within one year	(8,420)	(5,978)	(63,059)
	¥ 43,706	¥ 38,627	\$ 327,319

At March 31, 2023 and 2022, assets pledged as collateral for secured long-term loans payable, short-term loans payable and notes and accounts payable – trade totaling ¥354 million (\$2,652 thousand) and ¥766 million were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Property, plant and equipment, net	¥ 4,557	¥ 5,003	\$ 34,134
Investment securities	1,887	1,443	14,134
	¥ 6,445	¥ 6,446	\$ 48,269

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

Years ending March 31,	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
2024	¥ 8,420		\$ 63,059
2025		10,125	75,827
2026		6,742	50,495
2027		2,734	20,478
2028		7,075	52,991
2029 and thereafter		17,028	127,525
	¥ 52,127		\$ 390,378

Years ending March 31,	Millions of yen	
	2023	2022
2023	¥ 5,978	
2024		8,462
2025		11,222
2026		5,752
2027		2,801
2028 and thereafter		10,388
	¥ 44,606	

17. 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)
	2023	2022	2023
Balance at beginning of year	¥ 122,996	¥ 122,653	\$ 921,114
Service cost	4,183	4,383	31,328
Interest cost	927	908	6,947
Actuarial loss (gain)	(13,453)	(771)	(100,751)
Benefits paid	(4,668)	(4,658)	(34,962)
Other	168	480	1,262
Balance at the end of year	¥ 110,154	¥ 122,996	\$ 824,938

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Balance at beginning of year	¥ 95,318	¥ 94,295	\$ 713,834
Expected return on plan asset	2,272	2,238	17,020
Actuarial gain (loss)	(3,209)	(300)	(24,034)
Contributions paid by the employer	1,793	1,817	13,433
Benefits paid	(2,775)	(2,732)	(20,784)
Balance at the end of year	¥ 93,400	¥ 95,318	\$ 699,470

(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)
	2023	2022	2023
Balance at beginning of year	¥ 3,881	¥ 3,715	\$ 29,071
Retirement benefit cost	492	456	3,685
Benefits paid	(299)	(292)	(2,242)
Other	1	2	8
Balance at the end of year	¥ 4,075	¥ 3,881	\$ 30,522

(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)
	2023	2022	2023
Funded retirement benefit obligation	¥ 106,070	¥ 118,969	\$ 794,357
Plan asset	(93,403)	(95,320)	(699,493)
	12,667	23,648	94,864
Unfunded retirement benefit obligations	8,162	7,911	61,126
Total net liability (asset) for retirement benefits	20,829	31,559	155,990
Liability for retirement benefits	20,829	31,559	155,990
Total net liability (asset) for retirement benefits	¥ 20,829	¥ 31,559	\$ 155,990

(5) Retirement benefit costs

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Service cost	¥ 4,183	¥ 4,383	¥ 4,232	\$ 31,328
Interest cost	927	908	889	6,947
Expected return on plan assets	(2,272)	(2,238)	(2,044)	(17,020)
Net actuarial loss amortization	569	1,190	2,031	4,267
Retirement benefit expenses calculated by simplified method	492	456	491	3,685
	¥ 3,899	¥ 4,700	¥ 5,600	\$ 29,206

(6) Remeasurements for retirement benefits

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
Actuarial gains and losses	¥ 10,813	¥ 1,660	¥ 8,396	\$ 80,984

(7) Accumulated remeasurements for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Actuarial gains and losses that are yet to be recognized	¥ (9,320)	¥ 1,493	\$ (69,802)

(8) Plan assets

1. Plan assets comprise:

	2023	2022
Bonds	50%	45%
Equity securities	27%	29%
General account	13%	13%
Other	9%	13%
	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

	2023	2022	2021
Discount rate	Mainly 1.42%	Mainly 0.72%	Mainly 0.72%
Long-term expected rate of return	Mainly 2.50%	Mainly 2.50%	Mainly 2.50%

Defined contribution plans

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2023	2022	2021	2023
The amount of contributions to the defined contribution plan	¥ 621	¥ 547	¥ 487	\$ 4,655

18. CONTINGENT LIABILITIES

At March 31, 2023 and 2022, contingent liabilities were as follows:

	Millions of yen		Thousands of
	2023	2022	U.S. dollars (Note 1)
Notes discounted	¥ 5	¥ —	\$ 37
Notes endorsed	33	39	253
Guarantees	140	151	1,052
	¥ 179	¥ 191	\$ 1,343

19. 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 12, 2023, the Board of Directors authorized cash dividends to shareholders of record at March 31, 2023 on the shares of stock then outstanding at the rate of ¥55.0 (\$0.41) per share or a total of ¥3,569 million (\$26,729 thousand).

The appropriations had not been accrued in the consolidated financial statements as of March 31, 2023.

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, 2023, comprise interim dividends of ¥55.0 (\$0.41) and year-end dividends of ¥55.0 (\$0.41).

20. 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 12, 2022	Stock options granted on August 12, 2021	Stock options granted on August 13, 2020	Stock options granted on August 9, 2019
Category and number of people granted stock options	Company directors, 8 Executive officers, 27	Company directors, 8 Executive officers, 26	Company directors, 8 Executive officers, 25	Company directors, 10 Executive officers, 22
Number of stock options granted by category of stock	30,000 shares of common stock	29,200 shares of common stock	29,000 shares of common stock	26,200 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision
Exercise period	From August 13, 2022 through August 12, 2047 (*)	From August 13, 2021 through August 12, 2046 (*)	From August 14, 2020 through August 13, 2045 (*)	From August 10, 2019 through August 9, 2044 (*)

	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
Category and number of people granted stock options	Company directors, 9 Executive officers, 20	Company directors, 9 Executive officers, 16	Company directors, 10	Company directors, 10
Number of stock options granted by category of 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
Vesting conditions	No provision	No provision	No provision	No provision
Exercise period	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 (*)

	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011
Category and number of people granted stock options	Company directors, 10	Company directors, 10	Company directors, 12	Company directors, 12
Number of stock options granted by category of stock	15,000 shares of common stock	13,000 shares of common stock	15,000 shares of common stock	15,000 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision
Exercise period	From August 12, 2014 through August 11, 2039 (*)	From August 10, 2013 through August 9, 2038 (*)	From August 10, 2012 through August 9, 2037 (*)	From August 11, 2011 through August 10, 2036 (*)

	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, 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	11,400 shares of common stock
Vesting conditions	No provision	No provision	No provision	No provision
Exercise period	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 12, 2022	Stock options granted on August 12, 2021	Stock options granted on August 13, 2020	Stock options granted on August 9, 2019
Unvested stock options				
Beginning of term	—	—	—	—
Granted	30,000	—	—	—
Expired or forfeited	—	—	—	—
Vested	30,000	—	—	—
Unvested balance	—	—	—	—
Vested stock options				
Beginning of term	—	29,200	28,400	23,200
Vested	30,000	—	—	—
Exercised	—	1,800	1,800	1,600
Expired or forfeited	—	—	—	—
Unexercised balance	30,000	27,400	26,600	21,600
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	3,550	3,550	3,550
Fair value per stock at the date granted (yen)	3,060	3,997	2,138	2,957
Exercise price (USD)	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	—	—	26.59	26.59
Fair value per stock at the date granted (USD)	22.92	29.93	16.01	22.14

	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
Unvested stock options				
Beginning of term	—	—	—	—
Granted	—	—	—	—
Expired or forfeited	—	—	—	—
Vested	—	—	—	—
Unvested balance	—	—	—	—
Vested stock options				
Beginning of term	20,200	18,400	9,600	8,200
Vested	—	—	—	—
Exercised	1,200	800	—	—
Expired or forfeited	—	—	—	—
Unexercised balance	19,000	17,600	9,600	8,200
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	3,550	3,550	—	—
Fair value per stock at the date granted (yen)	4,900	3,880	3,605	4,735
Exercise price (USD)	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	26.59	26.59	—	—
Fair value per stock at the date granted (USD)	36.70	29.06	27.00	35.46

	Stock options granted on August 11, 2014	Stock options granted on August 9, 2013	Stock options granted on August 9, 2012	Stock options granted on August 10, 2011
Unvested stock options				
Beginning of term	—	—	—	—
Granted	—	—	—	—
Expired or forfeited	—	—	—	—
Vested	—	—	—	—
Unvested balance	—	—	—	—
Vested stock options				
Beginning of term	7,400	4,200	3,600	3,000
Vested	—	—	—	—
Exercised	—	—	—	—
Expired or forfeited	—	—	—	—
Unexercised balance	7,400	4,200	3,600	3,000
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—
Fair value per stock at the date granted (yen)	2,510	2,790	1,815	2,060
Exercise price (USD)	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)	18.80	20.89	13.59	15.43

	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	2,600	2,200	2,400	600
Vested	—	—	—	—
Exercised	—	—	—	—
Expired or forfeited	—	—	—	—
Unexercised balance	2,600	2,200	2,400	600
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	—	—	—	—
Fair value per stock at the date granted (yen)	2,280	3,110	3,000	4,415
Exercise price (USD)	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)	17.07	23.29	22.47	33.06

Expenses related to stock options were included in selling, general and administrative expenses and amounted to ¥91 million (\$687 thousand), ¥116 million and ¥62 million for the years ended March 31, 2023, 2022 and 2021, respectively.

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

	Stock options granted on August 12, 2022	Stock options granted on August 12, 2021
Expected volatility	28.68%	32.45%
Expected holding period	6 years	6 years
Expected dividend	110 yen	100 yen
Risk free interest rate	0.013%	(0.112%)

(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 6, 2021	Stock options granted on July 7, 2020	Stock options granted on July 8, 2019	Stock options granted on July 9, 2018	Stock options granted on July 10, 2017
Category and number of people granted stock options	Company directors, 3	Company directors, 5	Company directors, 5	Company directors, 4	Company directors, 4
Number of stock options granted by category of stock	16,000 shares of common stock	25,000 shares of common stock	21,000 shares of common stock	13,000 shares of common stock	15,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.
Exercise period	From July 7, 2021 through July 6, 2041 (*)	From July 8, 2020 through July 7, 2040 (*)	From July 9, 2019 through July 8, 2039 (*)	From July 9, 2018 through July 8, 2038 (*)	From July 11, 2017 through July 10, 2037 (*)

	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	Stock options granted on July 12, 2012
Category and number of people granted stock options	Company directors, 5	Company directors, 4	Company directors, 6	Company directors, 7	Company directors, 8
Number of stock options granted by category of 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	58,000 shares of common stock
Vesting conditions	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.
Exercise period	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 (*)	From July 13, 2012 through July 12, 2032 (*)

	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, 7	Company directors, 7
Number of stock options granted by category of 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 a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.	After people granted stock option lose their position as a Company director.
Exercise period	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 6, 2021	Stock options granted on July 7, 2020	Stock options granted on July 8, 2019	Stock options granted on July 9, 2018	Stock options granted on July 10, 2017
Unvested stock options					
Beginning of term	16,000	17,000	15,000	5,000	5,000
Granted	—	—	—	—	—
Expired or forfeited	—	—	—	—	—
Vested	16,000	17,000	15,000	5,000	5,000
Unvested balance	—	—	—	—	—
Vested stock options					
Beginning of term	—	—	—	—	—
Vested	16,000	17,000	15,000	5,000	5,000
Exercised	16,000	17,000	15,000	5,000	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)	941	941	941	941	941
Fair value per stock at the date granted (yen)	777	640	794	938	664
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	7.05	7.05	7.05	7.05	7.05
Fair value per stock at the date granted (USD)	5.82	4.79	5.95	7.02	4.97

	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	Stock options granted on July 12, 2012
Unvested stock options					
Beginning of term	9,000	9,000	6,000	7,000	7,000
Granted	—	—	—	—	—
Expired or forfeited	—	—	—	—	—
Vested	9,000	9,000	6,000	7,000	7,000
Unvested balance	—	—	—	—	—
Vested stock options					
Beginning of term	—	—	—	—	—
Vested	9,000	9,000	6,000	7,000	7,000
Exercised	9,000	9,000	6,000	7,000	7,000
Expired or forfeited	—	—	—	—	—
Unexercised balance	—	—	—	—	—
Exercise price (yen)	1	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	941	941	941	941	941
Fair value per stock at the date granted (yen)	441	415	388	388	352
Exercise price (USD)	0.01	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	7.05	7.05	7.05	7.05	7.05
Fair value per stock at the date granted (USD)	3.30	3.11	2.91	2.91	2.64

	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	7,000	8,000	8,000	8,000
Granted	—	—	—	—
Expired or forfeited	—	—	—	—
Vested	7,000	8,000	8,000	8,000
Unvested balance	—	—	—	—
Vested stock options				
Beginning of term	—	—	—	—
Vested	7,000	8,000	8,000	8,000
Exercised	7,000	8,000	8,000	8,000
Expired or forfeited	—	—	—	—
Unexercised balance	—	—	—	—
Exercise price (yen)	1	1	1	1
Weighted average market value per stock at the dates exercised (yen)	941	941	941	941
Fair value per stock at the date granted (yen)	342	293	273	163
Exercise price (USD)	0.01	0.01	0.01	0.01
Weighted average market value per stock at the dates exercised (USD)	7.05	7.05	7.05	7.05
Fair value per stock at the date granted (USD)	2.56	2.19	2.04	1.22

Expenses related to stock options were included in selling, general and administrative expenses and amounted to ¥3 million (\$23 thousand), ¥13 million and ¥16 million for the years ended March 31, 2023, 2022 and 2021, respectively.

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

	Stock options granted on July 6, 2021
Expected volatility	45.23%
Expected holding period	4 years and 4 months
Expected dividend	10 yen
Risk free interest rate	(0.130%)

21. BUSINESS COMBINATION DUE TO ACQUISITION

Transaction under common control
(Share Exchange resulting in CEMEDINE becoming a wholly-owned subsidiary)

1. Summary of the business combination

(1) Name and business lines of the combined company

Name of the combined company
CEMEDINE Co., Ltd.
Business
Manufacture and sales of functional plastics

(2) Date of the business combination

August 1, 2022

(3) Legal form of the business combination

Share exchange through which the Company will become a wholly-owning parent company and CEMEDINE will become a wholly-owned subsidiary (the "Share Exchange")

(4) Name after the business combination

No change

(5) Purposes of the Share Exchange

The Company decided to conduct a share exchange with CEMEDINE because the Share Exchange can create closer coordination between the Company and CEMEDINE to speed up management decisions and utilize the assets, technologies, know-how, overseas networks and other management resources of both companies' groups, and both companies' group realize the management strategy planned from medium- and long-term perspectives of both companies' groups.

2. Summary of accounting treatment implemented

The Share Exchange has been treated as a transaction under common control, etc. in accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

3. Matters related to additional acquisition of shares of subsidiary

a) Acquisition cost of the acquired company and breakdown by type of consideration:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Consideration for the acquisition (Common stock of the Company)	¥ 6,445	\$ 48,270
Acquisition cost	6,445	48,270

b) Exchange ratio by type of shares and number of shares delivered:

	The Company (wholly-owning parent company resulting from the Share Exchange)	CEMEDINE (wholly-owned subsidiary resulting from the Share Exchange)
Allotment ratio in the Share Exchange	1	0.282
Number of shares delivered through the Share Exchange	Common stock of the Company: 1,950,265 shares	

(Note 1) Allotment ratio pertaining to the Share Exchange
For each share of the CEMEDINE stock, 0.282 shares of the Company's common stock were allotted and delivered. However, no shares were allotted in the Share Exchange for 8,218,700 shares of the CEMEDINE Shares held by the Company.

(Note 2) The Company's shares delivered through the Share Exchange
All shares delivered were allotted from the treasury shares held by the Company.

c) Calculation method of the Share Exchange ratio:

The Company and CEMEDINE determined the above ratio based on the results of calculations of the Share Exchange ratio that both companies received from their respective third-party valuation agents.

4. Matters related to changes in the Company's interest associated with transactions with non-controlling shareholders

a) Main reasons for changes in capital surplus

Additional acquisition of shares of subsidiary

b) Amount of capital surplus increased due to transactions with non-controlling shareholders

¥789 million (\$5,913 thousand)

22. 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 meet the needs 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 the 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	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.

As described in "Changes in accounting policies", the Company and its domestic subsidiaries changed accounting treatment for revenue recognition by adopting the Revenue Recognition Standards from the consolidated financial statements of the current consolidated fiscal year, and accordingly changed the measurement methods for profits or losses of operating segments in the same manner.

3. Segment Information by Business Category and Information of disaggregated revenue

	Millions of yen									
	Reporting Segment					Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
2023	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total					
Sales										
Customers	¥ 333,854	¥ 172,766	¥ 70,786	¥ 177,339	¥ 754,747	¥ 1,074	¥ 755,821	¥ —	¥ 755,821	
Intersegment	384	33	—	51	469	1,135	1,605	(1,605)	—	
Total	334,238	172,800	70,786	177,391	755,216	2,210	757,426	(1,605)	755,821	
Segment profit (loss)	27,449	16,131	15,682	7,585	66,849	554	67,404	(32,316)	35,087	
Segment assets	293,447	212,030	86,846	119,893	712,218	462	712,681	69,958	782,640	
Other Items										
Depreciation	13,818	11,661	3,963	5,093	34,536	19	34,556	4,624	39,180	
Amortization of goodwill	—	—	367	172	540	—	540	110	650	
Investment in equity method affiliates	69	2,584	—	—	2,654	—	2,654	—	2,654	
Increase in assets	10,642	9,885	5,229	3,718	29,476	101	29,577	14,770	44,348	

(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									
	Reporting Segment					Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
2022	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total					
Sales										
Customers	¥ 299,908	¥ 169,067	¥ 58,936	¥ 162,554	¥ 690,467	¥ 1,062	¥ 691,530	¥ —	¥ 691,530	
Intersegment	799	41	0	45	886	1,091	1,977	(1,977)	—	
Total	300,708	169,109	58,936	162,599	691,353	2,154	693,508	(1,977)	691,530	
Segment profit (loss)	36,385	16,942	12,662	5,084	71,075	501	71,577	(28,014)	43,562	
Segment assets	276,403	191,881	82,254	112,633	663,173	855	664,029	62,930	726,959	
Other Items										
Depreciation	12,698	12,367	3,816	4,899	33,781	19	33,801	3,888	37,690	
Amortization of goodwill	11	—	336	117	465	—	465	91	557	
Investment in equity method affiliates	57	2,469	—	—	2,527	—	2,527	—	2,527	
Increase in assets	9,395	11,198	4,570	4,290	29,454	41	29,496	8,486	37,982	

(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									
	Reporting Segment					Total	Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
2021	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total					
Sales										
Customers	¥ 230,509	¥ 140,976	¥ 52,422	¥ 152,368	¥ 576,276	¥ 1,149	¥ 577,426	¥ —	¥ 577,426	
Intersegment	747	28	—	30	807	1,096	1,903	(1,903)	—	
Total	231,257	141,005	52,422	152,398	577,083	2,246	579,330	(1,903)	577,426	
Segment profit (loss)	23,272	10,650	11,436	4,879	50,238	598	50,836	(23,291)	27,544	
Segment assets	237,673	178,725	72,093	110,120	598,614	806	599,420	68,008	667,429	
Other Items										
Depreciation	12,168	11,950	3,238	4,720	32,078	19	32,097	3,926	36,024	
Amortization of goodwill	33	—	313	111	458	—	458	86	544	
Investment in equity method affiliates	59	2,359	—	—	2,418	—	2,418	—	2,418	
Increase in assets	9,321	12,328	4,406	5,862	31,918	136	32,055	7,089	39,144	

(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)

2023	Reporting Segment					Others (Note 1)	Total	Adjustments	Consolidated (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	\$ 2,500,221	\$ 1,293,843	\$ 530,114	\$ 1,328,086	\$ 5,652,265	\$ 8,047	\$ 5,660,313	\$ —	\$ 5,660,313
Intersegment	2,878	250	—	388	3,518	8,503	12,021	(12,021)	—
Total	2,503,100	1,294,094	530,114	1,328,474	5,655,784	16,551	5,672,335	(12,021)	5,660,313
Segment profit (loss)	205,568	120,809	117,446	56,810	500,635	4,153	504,789	(242,020)	262,768
Segment assets	2,197,616	1,587,885	650,391	897,879	5,333,772	3,465	5,337,238	523,917	5,861,155
Other Items									
Depreciation	103,488	87,329	29,685	38,141	258,644	146	258,790	34,629	293,420
Amortization of goodwill	—	—	2,752	1,293	4,046	—	4,046	825	4,871
Investment in equity method affiliates	520	19,356	—	—	19,877	—	19,877	—	19,877
Increase in assets	79,702	74,033	39,161	27,846	220,744	761	221,506	110,618	332,124

(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)
	2023	2022	2021	2023
Income				
Segment total	¥ 66,849	¥ 71,075	¥ 50,238	\$ 500,635
Income classified under "others"	554	501	598	4,153
Elimination of intersegment transactions	1	7	7	10
Companywide expenses (Note)	(32,422)	(28,005)	(23,451)	(242,808)
Other adjustments	103	(17)	153	777
Operating income in the consolidated statements of income	¥ 35,087	¥ 43,562	¥ 27,544	\$ 262,768

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)
	2023	2022	2021	2023
Assets				
Segment total	¥ 712,218	¥ 663,173	¥ 598,614	\$ 5,333,772
Assets classified under "others"	462	855	806	3,465
Elimination of intersegment transactions	(11,171)	(15,401)	(14,402)	(83,660)
Companywide assets (Note)	81,162	78,627	82,002	607,820
Other adjustments	(32)	(295)	408	(243)
Total assets in the consolidated statements of income	¥ 782,640	¥ 726,959	¥ 667,429	\$ 5,861,155

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

	Millions of yen									Consolidated		
	Segment total			Others			Adjustments (Note)			2023	2022	2021
	2023	2022	2021	2023	2022	2021	2023	2022	2021	2023	2022	2021
Other Items												
Depreciation	¥ 34,536	¥ 33,781	¥ 32,078	¥ 19	¥ 19	¥ 19	¥ 4,624	¥ 3,888	¥ 3,926	¥ 39,180	¥ 37,690	¥ 36,024
Increase in assets	29,476	29,454	31,918	101	41	136	14,770	8,486	7,089	44,348	37,982	39,144

Note: "Adjustments" 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 (Note)	Consolidated
	2023	2023	2023	2023
Other Items				
Depreciation	\$ 258,644	\$ 146	\$ 34,629	\$ 293,420
Increase in assets	220,744	761	110,618	332,124

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

(Related Information)

Related information at March 31, 2023, 2022 and 2021 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

2023	Millions of yen											
	Japan		Asia		North America		Europe		Other areas		Total	
	¥	414,250	¥	152,059	¥	74,625	¥	77,903	¥	36,983	¥	755,821

2022	Millions of yen											
	Japan		Asia		North America		Europe		Other areas		Total	
	¥	379,317	¥	141,981	¥	62,655	¥	73,571	¥	34,003	¥	691,530

2021	Millions of yen											
	Japan		Asia		North America		Europe		Other areas		Total	
	¥	346,261	¥	113,084	¥	42,384	¥	52,880	¥	22,816	¥	577,426

2023	Thousands of U.S. dollars (Note 1)											
	Japan		Asia		North America		Europe		Other areas		Total	
	\$	3,102,302	\$	1,138,766	\$	558,863	\$	583,413	\$	276,967	\$	5,660,313

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

(2) Property, plant and equipment

2023	Millions of yen									
	Japan		Asia		North America		Europe and others		Total	
	¥	211,434	¥	37,278	¥	16,598	¥	27,303	¥	292,615

2022	Millions of yen									
	Japan		Asia		North America		Europe and others		Total	
	¥	192,849	¥	37,099	¥	16,297	¥	25,028	¥	271,275

2023	Thousands of U.S. dollars (Note 1)									
	Japan		Asia		North America		Europe and others		Total	
	\$	1,583,426	\$	279,175	\$	124,307	\$	204,475	\$	2,191,385

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, 2023, 2022 and 2021 consisted of the following.

The figures in FY2023 are omitted because it is not significant in terms of monetary amount.

2022	Segment Information					Total	Others	Adjustments	Consolidated
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit					
(Impairment loss)	¥ —	¥ 2,903	¥ —	¥ 501	¥ 3,405	¥ —	¥ —	¥ 3,405	

Millions of yen

2021	Segment Information					Total	Others	Adjustments	Consolidated
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit					
(Impairment loss)	¥ —	¥ 897	¥ —	¥ —	¥ 897	¥ —	¥ —	¥ 897	

Millions of yen

(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, 2023 and 2022 consisted of the following.

2023	Segment Information					Total	Others	Adjustments (Note)	Consolidated
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit					
(Goodwill)									
Amortization	¥ —	¥ —	¥ 367	¥ 172	¥ 540	¥ —	¥ 110	¥ 650	
Balance	—	—	853	857	1,710	—	491	2,201	

Millions of yen

2022	Segment Information					Total	Others	Adjustments (Note)	Consolidated
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit					
(Goodwill)									
Amortization	¥ 11	¥ —	¥ 336	¥ 117	¥ 465	¥ —	¥ 91	¥ 557	
Balance	—	—	1,151	858	2,009	—	549	2,559	

Millions of yen

2023	Segment Information					Total	Others	Adjustments (Note)	Consolidated
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit					
(Goodwill)									
Amortization	\$ —	\$ —	\$ 2,752	\$ 1,293	\$ 4,046	\$ —	\$ 825	\$ 4,871	
Balance	—	—	6,390	6,419	12,810	—	3,678	16,489	

Thousands of U.S. dollars (Note 1)

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



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, 2023 and 2022, 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, 2023 and notes, comprising a summary of significant accounting policies and 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, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the each of the three years in the period ended March 31, 2023 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Company's judgment on impairment of fixed assets

The key audit matter	How the matter was addressed in our audit
In the consolidated balance sheets of the Group, property, plant and equipment of ¥292,615 million and intangible assets of ¥16,189 million were recognized as of March 31, 2023, which represented 39% of total assets on a consolidated basis.	The primary procedures we performed to assess the appropriateness of the Company's judgment on impairment of fixed assets included the following: (1) Internal control testing

The Company operates various businesses globally and generally assesses whether an impairment indicator exists for assets or asset groups based on Solutions Vehicle, as described in Note 2, “Significant accounting policies, Significant accounting estimates, Impairment of fixed assets” If any impairment indicator is identified for such assets or asset groups, the Company assesses whether an impairment loss should be recognized by using the future cash flows based on the medium-term management plan. If the Company determines that an impairment loss is required to be recognized, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.

The assessment of whether an impairment indicator exists involves management judgement since it is identified based on certain cases where operating losses or net cash outflows arising from operating activities continue, or where a change in the scope or method of use of the assets or asset groups significantly lowers their recoverable amounts. The estimates of future cash flows used in the impairment testing are subject to uncertainty since they are based on the medium-term management plan approved by management, which contains key assumptions of future economic trends, changes in business environment and other factors.

We, therefore, determined that our assessment of the appropriateness of the Company’s judgment on impairment of fixed assets was of most significance in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the application of impairment accounting to fixed assets.

(2) Assessment of the appropriateness of the application of impairment accounting to fixed assets

In order to assess the appropriateness of the application of impairment accounting to fixed assets, we:

- inspected the Company’s internal rules related to the impairment of fixed assets and materials of application of impairment accounting to assess the asset grouping, as well as inquired of the appropriate manager and inspected relevant materials to consider the necessity of revising asset grouping;
- assessed the reliability of the profit and loss performance of the asset grouping unit, which was the basis for determining whether operating activities generate losses continuously, by comparing it with relevant data;
- assessed the consistency of the estimates of future cash flows related to assets or asset groups with impairment indicator with the medium-term management plan; and
- assessed the reasonableness of the feasibility of the medium-term management plan by inquiring of the appropriate manager and comparing the actual performance with the past management plans.

Other Information

The other information comprises the information included in the Financial Section of Integrated Report, but does not include the consolidated financial statements, the financial statements, and our auditor’s reports thereon. Management is responsible for the preparation and presentation of the other information. Corporate auditors and the board of corporate auditors are responsible for overseeing the directors’ performance of their duties with regard to the design, implementation and maintenance of the reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do

not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 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.

Koji Narumoto

Designated Engagement Partner

Certified Public Accountant

Masato Tateishi

Designated Engagement Partner

Certified Public Accountant

Junichi Morimoto

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Osaka Office, Japan

July 31, 2023

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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