

Quarterly Financial Results for the 1st Quarter, Ended June 30, 2021 (Japanese GAAP, Consolidated)

August 11, 2021

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listings: Tokyo, Nagoya

Code Number: 4118

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

Representative: Minoru Tanaka Title: President, Representative Director

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Scheduled date for submitting financial statements: August 12, 2021 Scheduled date of dividend distribution: —

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

1. Consolidated Business Performance for the 1st Quarter, Ended June 30, 2021

(from April 1, 2021 to June 30, 2021)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2021 – Jun. 2021	164,106	29.6	11,848	483.9	10,765	–	7,757	–
Apr. 2020 – Jun. 2020	126,644	(14.9)	2,029	(71.0)	823	(85.0)	437	(87.5)

Note: Comprehensive income: ¥8,466 million (145.5%) for the three months ended June 30, 2021
¥3,448 million (158.0%) for the three months ended June 30, 2020

	Net income per share	Fully diluted net income per share
Apr. 2021 – Jun. 2021	¥ 118.91	¥ 118.62
Apr. 2020 – Jun. 2020	6.70	6.69

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

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
As of June 30, 2021	¥ million 674,594	¥ million 386,162	53.6%
As of March 31, 2021	667,429	381,040	53.5

(Reference) Shareholders' equity: ¥361,846 million as of June 30, 2021
¥357,098 million as of March 31, 2021

2. Dividends

	Annual dividends				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
Apr. 2020 – Mar. 2021	¥ —	¥ 50.00	¥ —	¥ 50.00	¥ 100.00
Apr. 2021 – Mar. 2022	—				
Apr. 2021 – Mar. 2022 (Forecasts)		50.00	—	50.00	100.00

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

3. Forecast for Consolidated Business Performance for the Year Ending March 31, 2022

(from April 1, 2021 to March 31, 2022)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	620,000	7.4	37,000	34.3	32,500	47.3	22,000	39.0	337.25

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

4. Other

- (1) Changes in principal subsidiaries during the term: No
- (2) Application of simplified methods of accounting and specific accounting methods: No
- (3) Changes in accounting principles, changes in estimates, or restatements
 - 1. Changes owing to revisions in accounting standards: Yes
 - 2. Changes other than 1. above: No
 - 3. Changes in accounting estimates: No
 - 4. Restatements: No

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

(4) Number of shares outstanding (common stock)

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

June 30, 2021	68,000,000 shares	March 31, 2021	68,000,000 shares
June 30, 2021	2,760,404 shares	March 31, 2021	2,762,766 shares
June 30, 2021	65,238,881 shares	June 30, 2020	65,225,922 shares

(These financial statements are exempt from audit procedures)

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

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

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1. Quarterly Consolidated Business Performance

(1) Consolidate Business Performance

➤ The Status of Global Economy

In the first quarter (April 1, 2021 to June 30, 2021, hereinafter referred to as "1Q"), the global economy remained on a recovery track overall, underpinned by increased COVID-19 vaccination, mainly in developed countries, and various countries' fiscal and monetary policies. However, recovery momentum is fragile in some industries in developing regions. Also, global supply chain disruptions as epitomized by the semiconductor shortage, and difficulty in Asia securing freight space for exports are hindering recovery. As the COVID-19 pandemic is seeing renewed outbreaks of variants in countries around the world, the global economic outlook is becoming increasingly uncertain.

➤ Kaneka Group's Business Performance

In this business environment, the Kaneka Group's business performance for 1Q was as follows. Consolidated net sales amounted to ¥164,106 million (up 29.6% year on year) and operating income was ¥11,848 million (up 483.9% year on year). Ordinary income was ¥10,765 million (up 1,207.6% year on year). Net income attributable to owners of parent was ¥7,757 million (up 1,674.9% year on year).

Both leading-edge businesses and foundation businesses are maintaining strong momentum, mainly in overseas markets.

Net sales hit a record quarterly high, and operating income was even higher than in 3Q and 4Q of the previous fiscal year. Sales and income rose in all business segments compared with 1Q of the previous fiscal year when the global economy was faced with serious stagnation due to the COVID-19 crisis.

Business performance for the first quarter(April 1, 2021 to June 30, 2021)

(Millions of yen)

	FY2021 1Q(Apr.-Jun.)	Difference (year on year)	Rate of progress
Net sales	164,106	37,462 29.6%	26.5%
Operating income	11,848	9,819 483.9%	32.0%
Ordinary income	10,765	9,942 1,207.6%	33.1%
Net income attributable to owners of parent	7,757	7,320 1,674.9%	35.3%

Net sales and operating income by segments for the first quarter (April 1, 2021 to June 30, 2021)

(Millions of yen)

	Net sales		Operating income	
	FY2021 1Q(Apr.-Jun.)	Difference (year on year)	FY2021 1Q(Apr.-Jun.)	Difference (year on year)
Material SU	69,967	21,073 43.1%	9,311	6,455 226.1%
Quality of Life SU	40,856	11,117 37.4%	4,586	3,350 270.9%
Health Care SU	13,220	1,521 13.0%	2,310	11 0.5%
Nutrition SU	39,753	3,814 10.6%	1,429	602 72.9%
Others	308	(65) (17.5%)	177	(71) (28.6%)
Adjustment	-	-	(5,967)	(530)
Total	164,106	37,462 29.6%	11,848	9,819 483.9%

Operating performance by business segment was as follows:

① **Material Solutions Unit**

- In Vinyls and Chlor-Alkali, demand remained brisk in the PVC market in Asia, and sales of emulsion PVC for disposable hygiene gloves were strong.
- In Modifiers, demand is steadily rising for non-PVC applications (automobiles, PCs and home electronics) in Asia, and for construction material and DIY applications in Europe and the U.S.
- In Modified silicone polymers, demand is growing at a solid clip in Europe and the U.S. Also, sales are growing faster for construction and industrial applications in China and Asia.
- Kaneka Biodegradable Polymer Green Planet™ is being adopted by even more companies, including beverage manufacturers and convenience store operators, and we are focusing on joint development with brand holders around the world.

② **Quality of Life Solutions Unit**

- In Foam & Residential Techs, domestic demand is recovering for expandable polystyrene resin and extruded polystyrene foam boards, but there was an impact from surging raw material costs. Recovery in demand is slow for polyolefin foam for automobiles.
- In PV & Energy management, sales of high-efficiency photovoltaic module products are rising steadily. The Group will focus on expanding installation of photovoltaic module products for consumer use with an eye to carbon neutrality, while accelerating development of next-generation photovoltaic module products.
- In E & I Technology, sales are brisk for PIXEO products for smartphones, polyimide products such as varnish for OLED displays, and resin for acrylic films used in large-screen TVs seeing growing demand in the new normal.
- In Performance Fibers, demand has picked up for hair accessories for the African market and sales are strong.

③ **Health Care Solutions Unit**

- In Medical, the new blood purification system for treatment of arteriosclerosis obliterans (ASO) has been well received by the market and is delivering solid growth in sales volumes amid an ongoing decline in the treatment frequency of patients due to the COVID-19 crisis. Sales of catheters such as coils for embolization of brain aneurysms rose steadily, mainly to overseas markets.
- In Pharma, sales of active pharmaceutical ingredients for low-molecular pharmaceuticals grew steadily. In biopharmaceuticals, orders are coming in for new products to be manufactured at the newly added production lines at Kaneka Eurogentec S.A. Sales of reagents are also growing, and contract manufacturing of COVID-19 vaccine intermediates is expected to come into full swing in the future.

④ **Nutrition Solutions Unit**

- In Supplemental Nutrition, sales of the active form of coenzyme Q10 are brisk, reflecting heightened awareness of the importance of increasing immunity among European and U.S. consumers. For lactic acid bacteria products, strengthening of the production framework in the U.S. is leading to sales promotion.
- In Foods & Agris, there was an impact from surging prices for raw oil and fat materials amid modest recovery in domestic demand for bread. The Group is concentrating on increasing sales of high-value-added products. Betsukai Wellness Farm Co., Ltd. started operating, and will accelerate initiatives to contribute to a sustainable society and enhance its lineup of authentic dairy products.

(2) Consolidated Financial Position

Total assets were ¥674,594 million as of June 30, 2021, up ¥7,164 million compared with March 31, 2021, mainly due to an increase in inventory assets. Liabilities totaled ¥288,432 million, up ¥2,043 million, primarily reflecting an increase in notes and accounts payable-trade. Net assets were ¥386,162 million, up ¥5,121 million, owing chiefly to an increase in retained earnings.

(3) Consolidated Business Forecasts

In 1Q, business performance was on track for both foundation businesses and leading-edge businesses such as Health Care Solutions Unit, Supplemental Nutrition, and E & I Technology.

For 2Q onward, the situation is very fluid as it is unclear when the COVID-19 pandemic will end and what countermeasures various countries will take, including with regard to economic policies. The landscape is likely to remain highly unpredictable going forward, heightened geopolitical risk spurred by U.S.-China conflict, with global supply chain disruptions, and so forth.

With the business climate growing more opaque, the Kaneka Group will continue to focus on transforming its business portfolio and steadily strengthening its earnings base.

Considering the above, the Group has not revised its forecasts for consolidated business performance announced on May 13, 2021.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY2020 Term ended March 31, 2021	FY2021 1st Quarter Term ended June 30, 2021
Assets		
Current assets		
Cash and deposits	47,716	45,136
Notes and accounts receivable-trade	135,618	—
Notes and accounts receivable-trade, and contract assets	—	138,068
Short-term investment securities	205	210
Merchandise and finished goods	54,161	57,540
Work in process	9,198	9,533
Raw materials and supplies	46,325	48,073
Other	17,221	19,970
Allowance for doubtful accounts	(1,423)	(1,421)
Total current assets	309,024	317,111
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	91,295	91,354
Machinery, equipment and vehicles, net	112,593	111,999
Other, net	65,274	65,623
Total property, plant and equipment	269,164	268,977
Intangible assets		
Goodwill	2,948	2,830
Other	10,881	11,533
Total intangible assets	13,829	14,364
Investments and other assets		
Investment securities	57,917	56,294
Other	17,723	18,072
Allowance for doubtful accounts	(229)	(225)
Total investments and other assets	75,411	74,141
Total noncurrent assets	358,405	357,482
Total assets	667,429	674,594

(Millions of yen)

	FY2020 Term ended March 31, 2021	FY2021 1st Quarter Term ended June 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable-trade	75,757	79,204
Short-term loans payable	84,181	80,157
Income taxes payable	4,376	2,219
Provision	111	8
Other	47,875	52,599
Total current liabilities	212,303	214,189
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	25,161	24,876
Provision	314	266
Net defined benefit liability	32,073	31,912
Other	6,536	7,187
Total noncurrent liabilities	74,085	74,242
Total liabilities	286,389	288,432
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	31,103	31,112
Retained earnings	289,544	294,039
Treasury stock	(11,535)	(11,525)
Total shareholders' equity	342,159	346,673
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20,863	19,913
Deferred gains or losses on hedges	(9)	(11)
Foreign currency translation adjustment	(3,753)	(2,772)
Remeasurements of defined benefit plans	(2,160)	(1,956)
Total accumulated other comprehensive income	14,939	15,172
Subscription rights to shares	516	492
Noncontrolling interests	23,424	23,822
Total net assets	381,040	386,162
Total liabilities and net assets	667,429	674,594

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

(Millions of yen)

	FY2020 1st Quarter From April 1, 2020 to June 30, 2020	FY2021 1st Quarter From April 1, 2021 to June 30, 2021
Net sales	126,644	164,106
Cost of sales	91,694	115,882
Gross profit	34,950	48,224
Selling, general and administrative expenses	32,920	36,375
Operating income	2,029	11,848
Non-operating income		
Dividends income	700	703
Equity in earnings of affiliates	16	36
Other	166	215
Total non-operating income	882	954
Non-operating expenses		
Interest expenses	347	274
Loss on retirement of noncurrent assets	419	298
Foreign exchange losses	249	124
Other	1,073	1,340
Total non-operating expenses	2,089	2,038
Ordinary income	823	10,765
Extraordinary losses		
Litigation expenses	95	—
Total extraordinary losses	95	—
Income before income taxes	727	10,765
Income taxes-current	1,054	2,636
Income taxes-deferred	(952)	(15)
Total income taxes	102	2,621
Net income	625	8,144
Net income attributable to non-controlling interests	188	386
Net income attributable to owners of parent	437	7,757

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2020 1st Quarter From April 1, 2020 to June 30, 2020	FY2021 1st Quarter From April 1, 2021 to June 30, 2021
Net income	625	8,144
Other comprehensive income		
Valuation difference on available-for-sale securities	2,331	(968)
Deferred gains or losses on hedges	(4)	(2)
Foreign currency translation adjustment	140	1,092
Remeasurements of defined benefit plans, net of tax	352	204
Share of other comprehensive income of associates accounted for using equity method	3	(4)
Total other comprehensive income	2,823	322
Comprehensive income	3,448	8,466
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,117	7,990
Comprehensive income attributable to noncontrolling interests	331	475

(3) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

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

Not applicable

(Changes in Accounting Principles)

(Application of Accounting Standard for Revenue Recognition, etc.)

Kaneka has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) (hereinafter referred to as "Revenue Recognition Accounting Standards"), etc. from the beginning of the fiscal year ending March 31, 2022, and recognizes revenue as the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to the customer. The Company has applied the alternative treatment stipulated in Paragraph 98 of the "Implementation Guidance on Accounting Standard for Revenue Recognition," and recognizes revenue from domestic sales of goods or products upon their shipment when there is a normal period of time from shipment until control of merchandise or products is transferred to the customer.

In applying the Revenue Recognition Accounting Standards, etc., Kaneka follows the transitional treatment set forth in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standards. The cumulative effect of retroactively applying the new accounting policy to periods prior to the beginning of the fiscal year ending March 31, 2022, has been added to or subtracted from retained earnings at the beginning of the fiscal year ending March 31, 2022, and the new accounting policy has been applied from the beginning balance of the fiscal year ending March 31, 2022. The cumulative effect on consolidated income for the first quarter of the fiscal year ending March 31, 2022 is inconsequential, and there is no impact on the balance of retained earnings at the beginning of the fiscal year ending March 31, 2022.

As a result of applying the Revenue Recognition Accounting Standards, etc., notes and accounts receivable-trade, which was presented under current assets in the consolidated balance sheets of the previous fiscal year, has been included in notes and accounts receivable-trade, and contract assets from the first quarter of the fiscal year ending March 31, 2022. Kaneka has not reclassified the previous fiscal year using the new presentation method in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Kaneka has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019) (hereinafter, "Fair Value Measurement Accounting Standards"), etc. from the beginning of the fiscal year ending March 31, 2022. In accordance with the transitional treatment stipulated in Paragraph 19 of the Fair Value Measurement Accounting Standards and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company will apply the new accounting policies set forth in the Fair Value Measurement Accounting Standards, etc. at a future date. This does not affect the quarterly consolidated financial statements.

(Segment Information)

I Term from April 1, 2020 to June 30, 2020

1) Sales and Income by Segment

(Millions of yen)

	Segment information					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	48,894	29,738	11,698	35,938	126,270	373	126,644	-	126,644
Intersegment	213	6	-	7	227	271	499	(499)	-
Total	49,108	29,745	11,698	35,946	126,498	645	127,144	(499)	126,644
Segment profit	2,855	1,236	2,298	827	7,217	248	7,466	(5,436)	2,029

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

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

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

(Millions of yen)

Income	Amount
Segment total	7,217
Segment profit of Others	248
Elimination of intersegment transactions	5
Companywide expenses (Note)	(5,440)
Other adjustments	(1)
Operating income in the quarterly consolidated statements of income	2,029

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

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

1) Sales and Income by Segment

(Millions of yen)

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

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

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

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

(Millions of yen)

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

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