

Financial Results for the Fiscal Year Ended March 31, 2023 (Japanese GAAP, Consolidated)

May 12, 2023

Name of Listed Company: **Kaneka Corporation**

Stock Exchange Listing: Tokyo

Code Number: 4118

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

Representative: Minoru Tanaka Title: President, Representative Director

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Scheduled date for Ordinary General Meeting of Shareholders: June 29, 2023

Scheduled date of dividend distribution: June 12, 2023

Scheduled date for submitting annual securities report: June 29, 2023

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

1. Consolidated Business Performance for the Fiscal Year Ended March 2023 (from April 1, 2022 to March 31, 2023)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2022 – Mar. 2023	755,821	9.3	35,087	(19.5)	32,411	(20.6)	23,008	(13.1)
Apr. 2021 – Mar. 2022	691,530	19.8	43,562	58.2	40,816	85.0	26,487	67.3

Note: Comprehensive income: ¥40,064 million (5.8%) in the fiscal year ended March 31, 2023

¥37,856 million (12.1%) in the fiscal year ended March 31, 2022

	Net income per share	Fully diluted net income per share	Return on equity	Ordinary income – total assets ratio	Operating income – sales ratio
	¥	¥	%	%	%
Apr. 2022 – Mar. 2023	349.59	348.66	5.7	4.3	4.6
Apr. 2021 – Mar. 2022	406.01	404.95	7.1	5.9	6.3

Reference: Equity in earnings (losses) of affiliates: ¥137 million in the fiscal year ended March 31, 2023

¥132 million in the fiscal year ended March 31, 2022

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥ million	¥ million	%	¥
As of March 31, 2023	782,640	436,422	53.3	6,431.63
As of March 31, 2022	726,959	412,204	53.3	5,934.36

Reference: Shareholders' equity: ¥417,372 million as of March 31, 2023

¥387,150 million as of March 31, 2022

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents as of the fiscal year-end
	¥ million	¥ million	¥ million	¥ million
Apr. 2022 – Mar. 2023	28,710	(41,970)	12,352	40,699
Apr. 2021 – Mar. 2022	34,106	(39,595)	(1,105)	40,712

2. Dividends

	Annual dividends					Total cash dividends (Annual)	Payout ratio (Consolidated)	Net asset payout ratio (Consolidated)
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual			
	¥	¥	¥	¥	¥	¥ million	%	%
Apr. 2021 – Mar. 2022	—	50.00	—	60.00	110.00	7,176	27.1	1.9
Apr. 2022 – Mar. 2023	—	55.00	—	55.00	110.00	7,254	31.5	1.8
Apr. 2023 – Mar. 2024 (Forecasts)	—	55.00	—	55.00	110.00		26.4	

3. Forecast for Consolidated Business Performance for the Fiscal Year Ending March 31, 2024

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	800,000	5.8	42,000	19.7	38,500	18.8	27,000	17.3	416.06

※ Notes

(1) Changes in principal subsidiaries during the fiscal year: None

(2) Changes in accounting principles, changes in estimates, or restatements

1. Changes owing to revisions in accounting standards: Yes

2. Changes other than 1. above: None

3. Changes in accounting estimates: None

4. Restatements: None

Note: For changes owing to revisions in accounting standards, please refer to the section entitled “(5) Notes to the Consolidated Financial Statements (Changes in Accounting Principles)” under “3. Consolidated Financial Statements and Main Notes” on page 16.

(3) Number of shares outstanding (common stock)

1. Number of shares issued at the fiscal year-end (including treasury stock):

2. Number of shares of treasury stock at the fiscal year-end:

3. Average number of shares during the period (calculated cumulatively from the beginning of the fiscal year) :

March 31, 2023	68,000,000 shares	March 31, 2022	68,000,000 shares
March 31, 2023	3,106,293 shares	March 31, 2022	2,761,323 shares
March 31, 2023	65,815,697 shares	March 31, 2022	65,239,079 shares

Reference: Overview of Non-Consolidated Business Performance

1. For the Fiscal Year Ended March 2023 (from April 1, 2022 to March 31, 2023)

(1) Non-consolidated business performance (% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
Apr. 2022 – Mar. 2023	369,172	10.3	12,893	(8.0)	21,765	(32.8)	20,536	(27.6)
Apr. 2021 – Mar. 2022	334,675	19.6	14,017	-	32,386	567.6	28,347	265.5

	Net income per share	Fully diluted net income per share
	¥	¥
Apr. 2022 – Mar. 2023	312.03	311.20
Apr. 2021 – Mar. 2022	434.52	433.51

Note: The year-on-year change in operating income in the fiscal year ended March 31, 2022 is presented as “-,” since it exceeds 1,000%.

(2) Non-consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	Net assets per share
	¥ million		¥ million		%	¥
As of March 31, 2023	545,286		285,398		52.2	4,388.34
As of March 31, 2022	490,722		273,283		55.6	4,180.47

Reference: Shareholders' equity: ¥284,775 million as of March 31, 2023
¥272,728 million as of March 31, 2022

※These financial statements are exempt from audit procedures.

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

The business performance forecasts and certain other statements contained in this document are forward-looking statements, which are based on information currently available to the Company and certain assumptions determined to be reasonable by the Company. For a variety of reasons, actual performance may differ substantially from these forecasts. They do not constitute a guarantee that the Company will achieve these forecasts or other forward-looking statements. For cautionary items used in business performance forecasts, please refer to the section entitled “(4) Performance Forecasts for the Fiscal Year Ending March 31, 2024” under “1. Overview of Business Performance and Financial Position” on page 5.

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1. Overview of Business Performance and Financial Position

(1) Overview of Results for the Fiscal Year Ended March 31, 2023

➤ State of the Global Economy

- The whole economy is stagnant, with a growing sense of economic slowdown -

During the current fiscal year (April 1, 2022 to March 31, 2023), while the global economy was recovering from the COVID-19 pandemic, a sense of slowdown became increasingly apparent as situations such as the stalemate in Ukraine, the soaring of energy and resource prices, ongoing inflation, and tightening of monetary policy were intricately intertwined. Under such an increasingly uncertain business environment, we will sharpen our awareness of the times and further enhance our adaptability to confront the post-COVID-19 world.

➤ Kaneka Group's Business Performance

- Sales increased and profits decreased, but leading-edge businesses grown -

Under these circumstances, Kaneka Group's consolidated business performance for the fiscal year ended March 31, 2023 resulted in increased sales and decreased profits. Net sales amounted to ¥755,821 million (up 9.3% year-on-year) with operating income of ¥35,087 million (down 19.5% year-on-year), ordinary income of ¥32,411 million (down 20.6% year-on-year), and net income attributable to owners of the parent of ¥23,008 million (down 13.1% year-on-year)

Business performance for the fiscal year ended March 31, 2023 (April 1, 2022 to March 31, 2023)

(Millions of yen)

	FY2021	FY2022	Difference (year-on-year)
Net sales	691,530	755,821	64,291 9.3%
Operating income	43,562	35,087	(8,474) (19.5%)
Ordinary income	40,816	32,411	(8,404) (20.6%)
Net income attributable to owners of parent	26,487	23,008	(3,479) (13.1%)

Net sales and operating income by segment for the fiscal year ended March 31, 2023

(Millions of yen)

	Net sales										Difference (year-on-year)
	FY2021					FY2022					
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	
Material SU	69,967	70,922	76,347	82,670	299,908	88,919	83,975	77,812	83,147	333,854	33,945 11.3%
Quality of Life SU	40,856	41,878	43,403	42,928	169,067	45,000	42,194	43,812	41,758	172,766	3,699 2.2%
Health Care SU	13,220	13,397	15,402	16,915	58,936	16,623	17,369	18,658	18,134	70,786	11,849 20.1%
Nutrition SU	39,753	39,725	43,054	40,020	162,554	41,879	44,091	46,018	45,350	177,339	14,784 9.1%
Others	308	236	240	277	1,062	316	231	240	286	1,074	11 1.1%
Total	164,106	166,160	178,449	182,813	691,530	192,739	187,863	186,541	188,678	755,821	64,291 9.3%

	Operating income										Difference (year-on-year)
	FY2021					FY2022					
	1Q	2Q	3Q	4Q	Total	1Q	2Q	3Q	4Q	Total	
Material SU	9,311	8,652	8,303	10,117	36,385	10,756	7,947	3,767	4,978	27,449	(8,935) (24.6%)
Quality of Life SU	4,586	4,737	4,460	3,158	16,942	4,600	4,069	4,386	3,075	16,131	(811) (4.8%)
Health Care SU	2,310	2,941	3,168	4,242	12,662	3,856	3,653	4,471	3,701	15,682	3,019 23.8%
Nutrition SU	1,429	656	1,562	1,435	5,084	806	1,296	2,290	3,192	7,585	2,501 49.2%
Others	177	73	98	151	501	186	95	112	159	554	53 10.6%
Adjustment	(5,967)	(5,894)	(7,291)	(8,861)	(28,014)	(7,994)	(8,460)	(8,221)	(7,640)	(32,316)	(4,302) -
Total	11,848	11,167	10,301	10,244	43,562	12,212	8,601	6,808	7,465	35,087	(8,474) (19.5%)

※SU : Solutions Unit

➤Remarks on the Group-wide Business Performance

- Demand adjustment affected Material SU, but portfolio transformation progressing steadily –

①Prolonged Demand Adjustment in Material and Electronics Markets

Demand for material-based products continued to decline as the global economic slowdown spread from the second quarter (July 1 to September 30, 2022, “2Q”) . In addition, the supply-demand adjustment was prolonged in the supply chain for E & I Technology. This demand adjustment bottomed out in the third quarter (October 1 to December 31, 2022, “3Q”), but the recovery momentum was found to be weaker than expected in the fourth quarter (January 1 to March 31, 2023, “4Q”).

* In Material Solution Unit, PVC Asian market conditions stayed sluggish for Vinyls and Chlor-Alkali. Modifiers also did not recover as we had expected in the building materials and construction markets in Europe and the U.S.

* For E & I Technology, the performance remained weak due to a prolonged demand adjustment for smartphones and large-screen TVs since 2Q. In addition, for Performance Fibers, demand for hair accessory products remained sluggish against the backdrop of higher inflation in African countries. Both of these markets have been gradually recovering since 4Q, and a full-scale market recovery is expected in the next fiscal year.

②Steady Growth in Leading-edge Businesses

Our leading-edge businesses saw a steady growth in Health Care Solutions Unit, Supplemental Nutrition and PV & Energy management by providing solutions to crises on health, global environment, and energy, even in the midst of the global economic turmoil.

*For Medical, sales of the blood purification devices and catheters grew in both Japan and overseas. For Pharma, Bio-CDMO and small molecule pharmaceuticals performed well. For Supplemental Nutrition, the probiotics business started contributing to profitability in addition to the active form of coenzyme Q10.

*Amid the global energy crisis, our PV products have successfully responded to growing demand for photovoltaic modules for residential use. At the same time, we have made progress in initiatives contributing to CO₂ reduction, such as self-consignment and microgrids. Full-scale delivery of in-vehicle PV has also begun.

③Resource Investments for Future Growths

We have decided on major investments in leading-edge businesses to strengthen our manufacturing capability toward business growths in the next fiscal year and beyond.

*For Medical, the expansion of the catheter production facility in Vietnam was completed in August, and the construction of a new facility for blood purification devices in Hokkaido is proceeding well to start operation in 2024. For Pharma, Kaneka Eurogentec S.A. has decided to increase the capacity of manufacturing facilities for mRNA, which is expected to grow speedily for use in vaccines for infectious diseases as well as in therapeutics for genetic diseases and cancer.

*In Material Solutions Unit, we have decided to increase the capacity of Modified Silicone polymers in Belgium whose global demand is expected to increase. For PV & Energy management, we have decided to invest in capacity increase of heterojunction PV to meet growing demand for high-efficiency photovoltaic modules for residential use.

Despite the uncertain business environment, growth and earnings are expanding for leading-edge businesses and we are making steady progress in transforming our business portfolio. We are focusing further on strengthening the foundation for growth in leading-edge businesses, such as capacity increases.

※Foundation businesses ... Vinyls and Chlor-Alkali, Modifiers, Foam & Residential Techs, Performance Fibers, Foods

Leading-edge businesses... Modified Silicone polymers, E & I Technology, Pharma, Medical, Supplemental Nutrition, Agris, PV & Energy management

The operating performance by business segment was as follows:

①Material Solutions Unit

This unit was strongly affected by the economic slowdown in Europe, the U.S., and Asia, especially from the latter half of 2Q, resulting in higher sales and lower profits.

- For Vinyls and Chlor-Alkali, caustic soda sales remained firm, but the Asian markets for PVC was sluggish from 3Q.
- For Modifiers, the performance was weak due to sluggish demand for rigid PVC applications for housing in Europe and the U.S. since 2Q. Nevertheless, we focused on expanding the market for non-PVC applications, and has recovered the business performance from 4Q.
- For Modified Silicone polymers, we have decided to increase its capacity in Belgium for the future growth, as the underlying tone of demand is firm despite a temporary slump in the construction market in Europe and the U.S. Thus, we are making the final review on the next capacity expansion in the U.S.
- For KANEKA Biodegradable Polymer Green Planet™, we have made steady progress in joint development with major brand holders in Japan, the U.S., and Europe, and have seen sales growing along with the expansion of applications. In March, we were selected as a NEDO*1 Green Innovation Fund Project regarding research and development of innovative technology to produce Green Planet™ from CO₂ and hydrogen toward social implementation of “biomanufacturing.”

*1. New Energy and Industrial Technology Development Organization

②Quality of Life Solutions Unit

This unit reported higher sales and lower profits due to the significant impact of the prolonged supply-demand adjustment for E & I Technology.

- For Foam & Residential Techs, the performance improved greatly due to a recovery in domestic sales and the securing of spreads through price revisions. Sales in the overseas automobile sector are also in recovery phase.
- For PV & Energy management, sales of high-efficiency photovoltaic modules for residential use grew. In addition, the Tokyo Metropolitan Government and other municipalities have expanded their mandates to install PV in new houses, and we have been receiving more and more inquiries from various municipalities. In the in-vehicle PV market, our hetero junction back-contact type solar cells were adopted for the roof glass of Toyota Motor Corporation's all-new Prius PHEV, which went on sale in March.
- For E & I Technology, the performance was weak due to continued significant production adjustment of LCD panels for smartphones and large-screen TVs since 2Q. We have focused on our unique lineup of differentiated new products such as for 5G, flexible displays, and image sensor applications.
- For Performance Fibers, we were affected by a declined demand for hair accessory products due to rising inflation in Africa and the U.S., however, the demand has been recovering with the introduction of new high-performance products since 4Q.

③Health Care Solutions Unit

This unit achieved a significant increase in both sales and profits, expanding performance in both Medical and Pharma.

- For Medical, sales of blood purification devices and catheters expanded steadily in Japan and overseas. We have also been strengthening our sales structure in the U.S., the largest market, and reinforcing manufacturing plants in Hokkaido and Vietnam with the aim of accelerating global expansion of the medical business.
- For Pharma, Kaneka Eurogentec's Bio-CDMO business expanded steadily. High growth is expected for mRNA, for which the decision was made to increase capacity in response to rising number of inquiries from clients who are expecting usage in therapeutics for genetic diseases and cancer. In small molecule pharmaceuticals, sales of intermediates for Xocova®² tablets, a new COVID-19 treatment, contributed to its performance.

*2. Xocova® is a trademark of Shionogi & Co., Ltd registered in Japan.

④ Nutrition Solutions Unit

This unit reported higher sales and profits due to market expansion in Supplemental Nutrition and improved profits in Foods & Agris.

- Supplemental Nutrition expanded sales of the active form of coenzyme Q10 in the U.S., Japan, Europe, Oceania, and Asia especially in China. We will strengthen sales for the Chinese e-commerce market. The probiotics business has started contributing to profitability, and we will hasten the reinforcement of the global Supplement production sales structure. We will further strengthen our lineup of foods with functional claims.
- Foods & Agris saw a significant improvement in profits as a result of vigorous efforts to expand sales of high value-added products and price revisions; sales of the “Watashi no Chikara (My Energy)™ - Q10 Yogurt” drink type, launched in August, have been strong, and production capacity has been doubled. Kaneka Shokuhin’s new e-commerce site was launched, and the sales structure for BtoC sales of dairy products, bread, chocolate, and other products was strengthened. With the newly established Healthy Foods Strategic Unit as a driver, we will focus on initiatives that provide new value under the theme of good taste and health.

(2) Overview of Consolidated Financial Position

Total assets were ¥782,640 million as of March 31, 2023, up ¥55,680 million a year ago, 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.

Liabilities totaled ¥346,217 million, up ¥31,461 million a year ago, primarily reflecting an increase in loans payable.

Net assets were ¥436,422 million, up ¥24,218 million a year ago, owing chiefly to an increase in retained earnings and an increase in foreign currency translation adjustments resulting from the weakening of yen, and the equity ratio was 53.3%, the same level a year ago.

(3) Overview of Consolidated Cash Flows

In the current fiscal year ended March 31, 2023, net cash provided by operating activities was ¥28,710 million, mainly due to the recording of income before income taxes and depreciation and amortization, while there was an increase in working capital related to higher sales. Net cash used in investing activities amounted to ¥41,970 million, mainly due to purchase of property, plant and equipment. Net cash provided by financing activities was ¥12,352 million due to proceeds from an increase in loans payable, which offset payments for purchase of treasury stock and dividends. As a result, cash and cash equivalents as of March 31, 2023 totaled ¥40,699 million.

(4) Performance Forecasts for the Fiscal Year Ending March 31, 2024

➤ Kaneka's Purpose Management

Today, the natural environment is being increasingly stressed, and human activities may cause dangerous climate change and mass extinction. To reduce this risk, we must deepen our understanding of nature and deploy the appropriate technologies more rapidly. This perspective is exactly the Purpose Management that Kaneka, “The Dreamology Company – Make your dreams come true –,” aims for. We are refining our technology in three domains: the environmental and energy crisis, the food crisis, and the wellness (better living) crisis with an aspiration to provide optimal solutions through their social implementation.

➤ The New Frontier of Biomanufacturing and Chemistry

Life and Earth are one, and chemical reactions are its common substance. Each domain is a new frontier that Kaneka is striving in. KANEKA Biodegradable Polymer Green Planet™, genome editing technologies,

biopharmaceuticals, regenerative and cellular medicine, organic dairy businesses, supplements, biomanufacturing including fermentation and culture process technologies, PV technology, E & I, medical devices, etc. are all connected to the big “life,” that is, “life on Earth.” This is the new frontier created by chemistry.

➤ Kaneka's “Hybrid Management”

Innovation is a new combination that moves things differently. To create new combinations between different things in different business fields. That is what Kaneka calls “Hybrid Management.” Numerous new combinations have been created and are growing steadily, such as “Biodegradable Polymer Green Planet™,” which combines biotechnology and macromolecular chemistry, and “Watashi no Chikara (My Energy)™ - Q10 Yogurt,” which was developed from Supplement and Foods, combining products with other products. In the future, more products, technologies, and businesses that will drive our hybrid management will appear one after another in the future.

➤ Restoring Bonds -Trust & Respect -

We all had to manage with online meetings and text messages during the COVID-19 pandemic. We might, however, have suffered a lack of communication without even noticing it.

The end of the pandemic suggests the beginning of “new Trust & Respect.” Customers and colleagues are restoring a true One Team by bringing back “Trust and Respect.”

We will continue to promote “Human Driven Management” focusing on ESG and “Wellness First” health management activities led by the Engine of Sustainability (SX) Management this year as well.

➤ Acceleration of “3+5” Strategic Platform

The three Focal Points are ①Restoring life-nurturing humanity under the theme of “SX (Sustainability + DX),” ②Promoting structural reform through M&A, and ③Promoting diversity through diverse people, business areas, regions, and technologies. By prioritizing these three points, we will accelerate transformation and growth through (1) Strengthening the Asia strategy, (2) Advancing digital transformation (DX), (3) Advancing carbon neutrality, (4) Alliances and M&A, and (5) Diversity Committee.

➤ Performance Forecasts for the Fiscal Year Ending March 31, 2024

In April, the IMF downwardly revised its forecast for 2023 global GDP growth to 2.8% (from 3.4% forecast in 2022). The outlook is becoming increasingly uncertain due to the assumed risks such as the trend of monetary policy to control inflation, financial system instability, the turmoil in Ukraine and the widening geopolitical division among countries.

Although economic recession and business slowdown are expected in the short term, we will further demonstrate our adaptability and focus on transforming our business portfolio with the three crises of sustainability as our business domains centering on “Selection and Concentration.” We will realize social implementation of unique products and technologies as a Solution Provider through the development of innovative materials (Breakthrough Technology) and active investment in management resources of R&D activities which contribute to the future.

Among the leading-edge businesses, Medical in Health Care Solutions Unit expects to launch new blood purification devices and catheters and expand the business globally. Pharma expects to expand in the biopharmaceuticals market especially mRNA field. Supplemental Nutrition expects sales of the active form of coenzyme Q10 to further increase in overseas market, and also the probiotics business to grow. E & I Technology expects the polyimide film for smartphones and acrylic film resin for TV market recover, and

Modified Silicone polymer plans to expand its market in Europe and the U.S.

Business performance for the fiscal year ending March 31, 2024 (April 1, 2023 to March 31, 2024)

	FY2022 Result	FY2023 Forecast	Difference
Net sales (Millions of yen)	755,821	800,000	44,178 5.8%
Operating income (Millions of yen)	35,087	42,000	6,912 19.7%
Ordinary income (Millions of yen)	32,411	38,500	6,088 18.8%
Net income attributable to owners of parent (Millions of yen)	23,008	27,000	3,991 17.3%
Net income per share (yen)	349.59	416.06	66.47

Among the foundation businesses, we expect recovery in global demand for Modifiers and the market for non-PVC applications to expand, although a full recovery will be in 2Q of the next fiscal year. Foods & Agris will prioritize investment in dairy products, health care ingredients, and global procurement to expand sales of high value-added products. Performance Fibers will strengthen measures to stimulate demand in the African market and introduce differentiated products to speedily regain and increase sales.

Net sales and operating income by segment for the fiscal year ending March 31, 2024 (Millions of yen)

	Net sales			Operating income		
	FY2022 Result	FY2023 Forecast	Difference	FY2022 Result	FY2023 Forecast	Difference
Material SU	333,854	323,000	(10,854) (3.3%)	27,449	27,500	50 0.2%
Quality of Life SU	172,766	212,000	39,233 22.7%	16,131	21,600	5,468 33.9%
Health Care SU	70,786	82,000	11,213 15.8%	15,682	17,700	2,017 12.9%
Nutrition SU	177,339	182,000	4,660 2.6%	7,585	8,600	1,014 13.4%
Others	1,074	1,000	(74) (6.9%)	554	600	45 8.2%
Adjustment	-	-	-	(32,316)	(34,000)	(1,683) -
Total	755,821	800,000	44,178 5.8%	35,087	42,000	6,912 19.7%

※SU : Solutions Unit

With regard to the exchange rates and raw material prices, forecast figures assume the exchange rates of ¥130 to the US dollar and ¥140 to the euro, and a domestic naphtha price of ¥63,000 per kiloliter from April 1, 2023 onward.

※The above forecasts for the Kaneka Group are regarded as reasonable based on information available at the time of the announcement. Readers should be aware that actual results may vary from these forecasts due to various factors.

2. Basic Rationale for Selection of Accounting Standards

The Kaneka Group had adopted Japanese Generally Accepted Accounting Principles (Japanese GAAP). The timing of the adoption of International Financial Reporting Standards (IFRS) has not yet been determined at this time. However, we will keep collecting information.

3. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 As of March 31, 2023
Assets		
Current assets		
Cash and deposits	41,735	41,774
Notes and accounts receivable-trade, and contract assets	164,128	170,154
Short-term investment securities	217	94
Merchandise and finished goods	69,183	89,223
Work in process	12,171	13,317
Raw materials and supplies	59,128	65,574
Other	17,897	18,327
Allowance for doubtful accounts	(1,552)	(1,502)
Total current assets	362,910	396,964
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	92,052	96,399
Machinery, equipment and vehicles, net	110,339	107,829
Land	32,855	33,079
Leased assets, net	4,297	15,412
Construction in progress	24,105	32,062
Other, net	7,624	7,831
Total property, plant and equipment	271,275	292,615
Intangible assets		
Goodwill	2,559	2,201
Other	12,417	13,987
Total intangible assets	14,977	16,189
Investments and other assets		
Investment securities	58,609	57,422
Investments in capital	184	970
Long-term loans receivable	660	597
Long-term prepaid expenses	2,539	2,489
Deferred tax assets	7,504	4,450
Other	8,599	11,223
Allowance for doubtful accounts	(300)	(283)
Total investments and other assets	77,796	76,870
Total noncurrent assets	364,049	385,675
Total assets	726,959	782,640

(Millions of yen)

	FY2021 As of March 31, 2022	FY2022 As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable-trade	92,068	88,663
Short-term loans payable	89,992	116,491
Lease liabilities	641	1,037
Accounts payable-other	26,889	25,862
Accrued expenses	15,332	14,708
Income taxes payable	3,466	5,055
Accrued consumption taxes	672	640
Provision for directors' bonuses	134	119
Other	5,303	5,663
Total current liabilities	234,502	258,242
Noncurrent liabilities		
Bonds payable	10,000	10,000
Long-term loans payable	28,627	33,706
Lease liabilities	3,569	14,709
Deferred tax liabilities	2,018	1,705
Net defined benefit liability	31,559	20,829
Provision for directors' retirement benefits	295	318
Provision for product warranties	2,331	2,057
Other	1,850	4,648
Total noncurrent liabilities	80,253	87,974
Total liabilities	314,755	346,217
Net assets		
Shareholders' equity		
Capital stock	33,046	33,046
Capital surplus	31,392	32,245
Retained earnings	309,507	323,213
Treasury stock	(11,528)	(11,407)
Total shareholders' equity	362,417	377,098
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	21,331	22,204
Deferred gains or losses on hedges	(4)	(3)
Foreign currency translation adjustment	4,381	11,543
Remeasurements of defined benefit plans	(975)	6,529
Total accumulated other comprehensive income	24,732	40,273
Subscription rights to shares	619	622
Non-controlling interests	24,435	18,427
Total net assets	412,204	436,422
Total liabilities and net assets	726,959	782,640

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

(Millions of yen)

	FY2021	FY2022
	From April 1, 2021 to March 31, 2022	From April 1, 2022 to March 31, 2023
Net sales	691,530	755,821
Cost of sales	494,880	556,895
Gross profit	196,649	198,926
Selling, general and administrative expenses	153,086	163,838
Operating income	43,562	35,087
Non-operating income		
Interest income	178	222
Dividends income	1,470	1,694
Foreign exchange gains	1,159	1,888
Equity in earnings of affiliates	132	137
Other	740	1,008
Total non-operating income	3,681	4,951
Non-operating expenses		
Interest expenses	1,064	1,965
Loss on retirement of noncurrent assets	1,638	1,839
Depreciation of inactive noncurrent assets	628	1,147
Other	3,095	2,675
Total non-operating expenses	6,427	7,627
Ordinary income	40,816	32,411
Extraordinary income		
Insurance claim income	1,671	—
Gain on sales of investment securities	—	1,410
Total extraordinary income	1,671	1,410
Extraordinary losses		
Restructuring charges	2,692	—
Impairment losses	1,059	—
Product warranty expense	2,331	—
Loss on valuation of investment securities	—	1,448
Total extraordinary losses	6,082	1,448
Income before income taxes	36,405	32,373
Income taxes-current	10,075	9,010
Income taxes-deferred	(1,398)	(711)
Total income taxes	8,676	8,298
Net income	27,728	24,074
Net income attributable to non-controlling interests	1,240	1,066
Net income attributable to owners of parent	26,487	23,008

Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2021 From April 1, 2021 to March 31, 2022	FY2022 From April 1, 2022 to March 31, 2023
Net income	27,728	24,074
Other comprehensive income		
Valuation difference on available-for-sale securities	455	882
Deferred gains or losses on hedges	5	0
Foreign currency translation adjustment	8,495	7,594
Remeasurements of defined benefit plans, net of tax	1,179	7,509
Share of other comprehensive income of associates accounted for using equity method	(7)	1
Total other comprehensive income	10,128	15,989
Comprehensive income	37,856	40,064
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	36,280	38,549
Comprehensive income attributable to non-controlling interests	1,575	1,515

(3) Consolidated Statements of Changes in Shareholders' Equity
Previous fiscal year (From April 1, 2021 to March 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the period	33,046	31,103	289,544	(11,535)	342,159
Changes of items during period					
Dividends of surplus			(6,523)		(6,523)
Net income attributable to owners of parent			26,487		26,487
Purchase of treasury stock				(4)	(4)
Disposal of treasury stock			(1)	10	9
Change in ownership interest of parent due to transactions with non-controlling interests		289			289
Net changes of items other than shareholders' equity					
Total changes of items during period	—	289	19,963	6	20,258
Balance at end of the period	33,046	31,392	309,507	(11,528)	362,417

	Accumulated other comprehensive income					Subscription rights to shares	Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	20,863	(9)	(3,753)	(2,160)	14,939	516	23,424	381,040
Changes of items during period								
Dividends of surplus								(6,523)
Net income attributable to owners of parent								26,487
Purchase of treasury stock								(4)
Disposal of treasury stock								9
Change in ownership interest of parent due to transactions with non-controlling interests								289
Net changes of items other than shareholders' equity	468	5	8,135	1,184	9,793	102	1,010	10,905
Total changes of items during period	468	5	8,135	1,184	9,793	102	1,010	31,163
Balance at end of the period	21,331	(4)	4,381	(975)	24,732	619	24,435	412,204

Current fiscal year (From April 1, 2022 to March 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the period	33,046	31,392	309,507	(11,528)	362,417
Changes of items during period					
Dividends of surplus			(7,599)		(7,599)
Net income attributable to owners of parent			23,008		23,008
Purchase of treasury stock				(8,051)	(8,051)
Disposal of treasury stock			(5)	30	25
Changes by share exchanges		789	(1,696)	8,142	7,235
Change in ownership interest of parent due to transactions with non-controlling interests		63			63
Net changes of items other than shareholders' equity					
Total changes of items during period	-	853	13,706	121	14,681
Balance at end of the period	33,046	32,245	323,213	(11,407)	377,098

	Accumulated other comprehensive income					Subscription rights to shares	Noncontrolling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the period	21,331	(4)	4,381	(975)	24,732	619	24,435	412,204
Changes of items during period								
Dividends of surplus								(7,599)
Net income attributable to owners of parent								23,008
Purchase of treasury stock								(8,051)
Disposal of treasury stock								25
Changes by share exchanges								7,235
Change in ownership interest of parent due to transactions with non-controlling interests								63
Net changes of items other than shareholders' equity	873	0	7,162	7,504	15,541	3	(6,007)	9,537
Total changes of items during period	873	0	7,162	7,504	15,541	3	(6,007)	24,218
Balance at end of the period	22,204	(3)	11,543	6,529	40,273	622	18,427	436,422

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2021 From April 1, 2021 to March 31, 2022	FY2022 From April 1, 2022 to March 31, 2023
Net cash provided by (used in) operating activities		
Income before income taxes	36,405	32,373
Depreciation and amortization	37,953	39,456
Restructuring charges	2,692	—
Impairment losses	1,059	—
Product warranty expense	2,331	—
Insurance claim income	(1,671)	—
Increase (decrease) in net defined benefit liability	879	(139)
Increase (decrease) in allowance for doubtful accounts	162	(110)
Interest and dividends income	(1,648)	(1,917)
Interest expenses	1,064	1,965
Equity in losses (earnings) of affiliates	(132)	(137)
Loss (gain) on disposal of noncurrent assets	498	630
Loss (gain) on sales of investment securities	—	(1,410)
Loss (gain) on valuation of investment securities	—	1,448
Decrease (increase) in notes and accounts receivable-trade	(25,608)	(3,474)
Decrease (increase) in inventories	(27,541)	(24,875)
Increase (decrease) in notes and accounts payable-trade	14,628	(4,785)
Other, net	3,308	(4,620)
Subtotal	44,381	34,402
Interest and dividends income received	1,717	1,942
Interest expenses paid	(1,085)	(1,955)
Proceeds from insurance income	512	1,177
Income taxes paid	(11,419)	(6,856)
Net cash provided by (used in) operating activities	34,106	28,710
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(37,329)	(39,628)
Proceeds from sales of property, plant and equipment	—	87
Purchase of intangible assets	(2,601)	(2,363)
Purchase of investment securities	(77)	(909)
Proceeds from sales and distributions of investment securities	877	2,509
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(336)	—
Payments of loans receivable	(398)	(99)
Collection of loans receivable	632	336
Other, net	(362)	(1,902)
Net cash provided by (used in) investing activities	(39,595)	(41,970)

(Millions of yen)

	FY2021	FY2022
	From April 1, 2021 to March 31, 2022	From April 1, 2022 to March 31, 2023
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	6,606	21,814
Proceeds from long-term loans payable	9,119	13,541
Repayment of long-term loans payable	(9,390)	(6,198)
Repayments of lease obligations	(618)	(863)
Purchase of treasury stock	(4)	(8,051)
Proceeds from sales of treasury stock	0	0
Cash dividends paid	(6,523)	(7,599)
Proceeds from stock issuance to non-controlling shareholders	0	0
Dividends paid to non-controlling interests	(231)	(284)
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	(63)	(6)
Net cash provided by (used in) financing activities	(1,105)	12,352
Effect of exchange rate change on cash and cash equivalents	946	894
Net increase (decrease) in cash and cash equivalents	(5,647)	(13)
Cash and cash equivalents at beginning of period	46,360	40,712
Cash and cash equivalents at end of period	40,712	40,699

(5) Notes to the Consolidated Financial Statements

(Notes on the Premise of a Going Concern)

Not applicable

(Changes in Accounting Principles)

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

(Segment Information)

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 “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 as one to develop its business activities.

The Company therefore comprises four reporting segments categorized by solution: 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 biodegradable polymers that assist directly with the realization of environmental societies. The Quality of Life Solutions Unit contributes to energy conservation and the creation of high-quality lifestyles by providing solutions in the form of high-performance materials and unique services that respond to the need for energy conservation and adoption of smart technologies in housing and daily infrastructure. The unit is also responding to innovation in information-driven societies, such as the advancement of the IoT and AI. The Health Care Solutions Unit contributes to a society with better 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 health care business based on advanced medical technologies such as biopharmaceuticals and regenerative and cellular medicine. The Nutrition Solutions Unit contributes to health and high-quality food by providing a wide range of solutions in the form of distinctive materials and supplements that meet needs around 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, Extruded 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)	Small molecule 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 the Consolidated Financial Statements." Intersegment transactions are based on prevailing market prices.

3) Segment Information by Business Category
 Previous fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

	Reporting segments					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	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	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
Others									
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	57	2,469	—	—	2,527	—	2,527	—	2,527
Increase in fixed 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 insurance and life insurance business.

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

Fiscal year under review (from April 1, 2022 to March 31, 2023)

(Millions of yen)

	Reporting segments					Others (Note 1)	Total	Adjustment	Figures in consolidated financial statements (Note 2)
	Material Solutions Unit	Quality of Life Solutions Unit	Health Care Solutions Unit	Nutrition Solutions Unit	Total				
Sales									
Customers	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	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
Others									
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	69	2,584	—	—	2,654	—	2,654	—	2,654
Increase in fixed 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 insurance and life insurance business.

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

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

(Millions of yen)

Income	From April 1, 2021 to March 31, 2022	From April 1, 2022 to March 31, 2023
Segment total	71,075	66,849
Segment profit of Others	501	554
Elimination of intersegment transactions	7	1
Companywide expenses (Note)	(28,005)	(32,422)
Other adjustments	(17)	103
Operating income in the consolidated statements of income	43,562	35,087

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

(Millions of yen)

Assets	From April 1, 2021 to March 31, 2022	From April 1, 2022 to March 31, 2023
Segment total	663,173	712,218
Segment assets of Others	855	462
Elimination of intersegment transactions	(15,401)	(11,171)
Companywide assets (Note)	78,627	81,162
Other adjustments	(295)	(32)
Total assets in the consolidated balance sheets	726,959	782,640

Note: Companywide assets are Companywide surplus working capital, investment securities, land and certain other assets that are not allocable to any reporting segment.

(Millions of yen)

Other items	Reporting segment total		Others		Adjustments (Note)		Consolidated	
	Previous fiscal year	Current fiscal year						
Depreciation	33,781	34,536	19	19	3,888	4,624	37,690	39,180
Amortization of goodwill	465	540	—	—	91	110	557	650
Increase in fixed assets	29,454	29,476	41	101	8,486	14,770	37,982	44,348

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

(Related Information)

Information by Geographic Area

(Sales)

Previous fiscal year (from April 1, 2021 to March 31, 2022)

(Millions of yen)

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

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

Fiscal year under review (from April 1, 2022 to March 31, 2023)

(Millions of yen)

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

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

(Per Share Information)

Net assets per share, net income per share and the corresponding basis for computation, and fully diluted net income per share and the corresponding basis for computation are shown below.

Item	Previous fiscal year From April 1, 2021 to March 31, 2022	Fiscal year under review From April 1, 2022 to March 31, 2023
Net assets per share	¥5,934.36	¥6,431.63
Net income per share	¥406.01	¥349.59
Fully diluted net income per share	¥404.95	¥348.66

Item	Previous fiscal year From April 1, 2021 to March 31, 2022	Fiscal year under review From April 1, 2022 to March 31, 2023
Net income per share		
Net income attributable to owners of parent (Millions of yen)	26,487	23,008
Net income attributable to owners of parent ascribed to common stock (Millions of yen)	26,487	23,008
Average number of shares of common stock during the period (Thousands of shares)	65,239	65,815
Fully diluted net income per share		
Adjustment of net income attributable to owners of parent (Millions of yen)	(6)	—
Of which, adjustment for dilutive shares issued by consolidated subsidiaries (Millions of yen)	(6)	—
Increase in shares of common stock (Thousands of shares)	152	175
Of which, subscription rights to shares (Thousands of shares)	152	175

(Subsequent Events)

Not applicable