

Interim Consolidated Financial Results for the Term Ending March 2002

November 14, 2001

Name of Listed Company: Kaneka Corporation
Code Number: 4118
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Title: General Manager - Finance and Accounting

Stock Exchanges Listed:
Tokyo, Osaka, Nagoya, Fukuoka and Sapporo
Prefecture where headquarters are located:
Osaka Prefecture

Date of board of directors meeting for closing of interim accounts: November 14, 2001

1. Consolidated business performance for the interim term ended September 2001 (from April 1, 2001 to September 30, 2001)

(1) Consolidated business performance Note: Figures have been rounded down to the nearest million yen.
(Unit: ¥million, %, yen)

	Net sales		Operating income		Ordinary income	
Interim term ended September 2001	179,390	(2.0)	10,800	(11.8)	9,658	(13.1)
Interim term ended September 2000	183,104	4.7	12,238	(7.2)	11,113	(5.4)
Term ended March 2001	367,339		24,006		22,084	

	Interim net income		Interim net income per share		Fully diluted interim net income per share	
Interim term ended September 2001	5,164	(15.7)	14.44		13.71	
Interim term ended September 2000	6,124	(19.5)	17.13		16.17	
Term ended March 2001	10,539		29.47		27.96	

- Notes: 1. Profit and loss based on equity-method investment balance: ¥78 million in interim term ended September 2001, ¥79 million in interim term ended September 2000, ¥239 million in term ended March 2001
2. Average number of shares (consolidated): 357,608,997 in interim term ended September 2001, 357,600,201 in interim term ended September 2000, 357,604,522 in term ended March 2001
3. Changes to accounting policies: None
4. The percentages in the net sales, operating income, ordinary income, and interim net income columns, represent increases (decreases) compared with interim results for the previous year.

(2) Consolidated Financial Position

(Unit: ¥million, %, yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
Interim term ended September 2001	388,775	178,355	45.9 %	498.74
Interim term ended September 2000	397,793	177,533	44.6 %	496.45
Term ended March 2001	405,207	179,139	44.2 %	500.94

Note: Number of shares issued and outstanding (consolidated) at end of period: 357,611,514 in interim period to September 2001, 357,607,382 in interim period ended September 2000, 357,610,167 in period ended March 2001

(3) Cash flow conditions on a consolidated basis

(Unit: ¥million)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Outstanding balances of cash and cash equivalents as of the end of the term
Interim term ended September 2001	13,407	(11,604)	(11,850)	30,852
Interim term ended September 2000	11,710	(12,255)	(5,659)	33,658
Term ended March 2001	28,099	20,617	(6,749)	40,793

(4) Scope of subsidiary consolidation and equity method

Consolidated subsidiaries: 39, equity method non-consolidated subsidiaries: 0, equity method affiliated companies: 3

(5) Changes to scope of subsidiary consolidation and equity method

Consolidated companies (new): 1 (excluded): 1, equity method companies (new): 0 (exclusion): 0

2. Forecast for consolidated business performance in the term ending March 2002 (from April 1, 2000 to March 31, 2001)

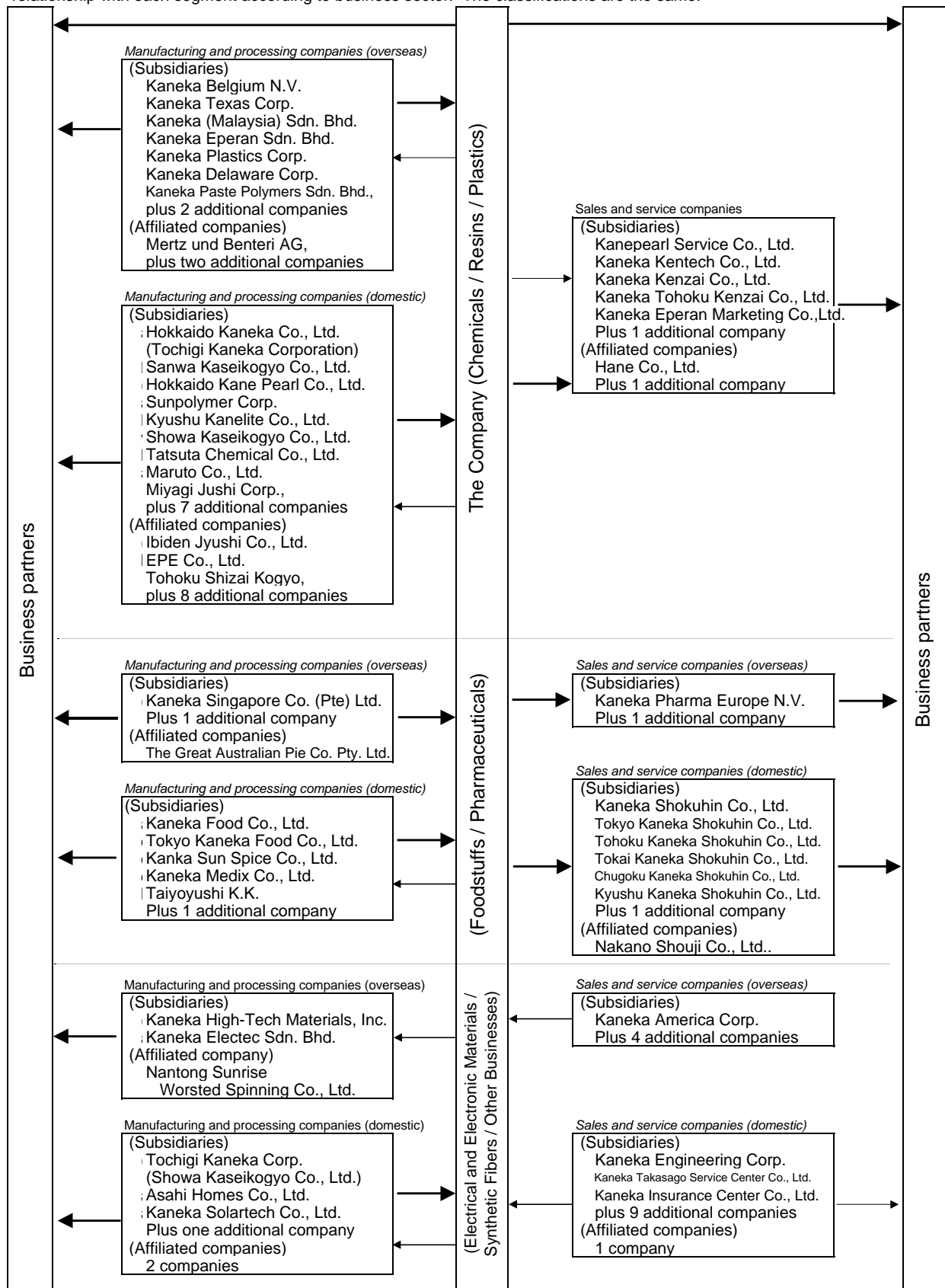
(Unit: ¥million)

	Net sales	Ordinary income	Net income
Overall term	358,000	17,300	9,500

(Reference) Projected net income per share (whole year): ¥26.57

The Corporate Group Situation

The major business of the company, its 70 subsidiaries and 22 affiliated companies is to manufacture and sell chemicals, resins and plastics, plastic products, foodstuffs, pharmaceuticals, medical equipment, and electrical and electronic materials and synthetic fibers. The following chart shows the positioning of each company within the company's total business, and the relationship with each segment according to business sector. The classifications are the same.



- Notes:
1. The " " mark indicates a consolidated subsidiary, and the " " an equity method company.
 2. —————> indicates the flow of products.
 3. —————> indicates the flow of materials and services (including provisions for technologies).
 4. Tochigi Kaneka Corp. and Showa Kaseikogyo Co., Ltd. are subsidiaries that overlap in several segments
 5. Asahi Homes Co., Ltd. is registered on the over-the-counter market of the Japan Securities Dealers Association

1. Corporate Philosophy

(1) Basic Management Policies

At a time when the chemical industry is undergoing massive restructuring on a global scale, Kaneka Corporation is determined to establish a position for itself as an enterprise capable of sustained growth and activity in the 21st century. Its basic management policies are targeted toward a role as a “specialty chemical company”. As a “specialty chemical company”, its strategy will be to select markets in which it can take advantage of its original technology, and to secure a large share of those markets by supplying highly specialized products and services that match market needs.

Kaneka is working to strengthen its business competitiveness in all areas of activity. We have identified four key factors that are crucial to our future success as a specialty chemical manufacturer.

- Research and development capable of creating highly specialized products
- Sophisticated marketing tailored to those product groups
- A cost structure that makes us competitive worldwide
- A distinctive global business development program rooted in a clearly defined strategy

(2) Basic Policy on Profit Distribution

The most important task for Kaneka’s management is to improve earning potential while strengthening the Company’s corporate fundamentals, and to maximize returns to shareholders. Our basic dividend policy is to maintain stable dividends while reviewing dividend levels on the basis of medium-range income trends.

Retained earnings are used to supply funds for measures that will improve our income base from a medium- to long-term perspective, including investment in plant and facilities in Japan and overseas, and investment and lending. Through these measures we will strengthen our overall financial structure.

(3) Targets and Indicators

Kaneka’s goals for the early 21st century are group net sales of ¥500,000 million and group ordinary income of ¥50,000 million. We are still working toward the achievement of these goals, which reflect the scale that we believe to be necessary if Kaneka is to maintain dynamic activities and growth as a “specialty chemical company” in the new century.

Kaneka has a number of development concepts, most of which are in growth fields. It is also steadily enhancing its competitiveness in existing areas of business. We are confident that we can progress toward high growth and high earnings through prioritized deployment of R&D resources, and through rapid and decisive restructuring of our business activities.

(4) Medium-Range Management Strategies

Kaneka has targeted a future role as a “specialty chemical company”. To realize this goal, it is working to strengthen its business structures in individual business segments. At the same time it is focusing on the following strategic priorities.

1. The achievement of sustained high growth and earnings through business restructuring and prioritized investment of management resources in core areas
2. Global business development in world markets through the reinforcement of overseas business operations
3. Accelerated research and development focusing on key strategic areas with high growth potential, specifically information technology, life sciences, functional plastics and solar cells
4. The reform of management systems to create internal systems suitable for a “specialty chemical company”, including human resource systems that focus on results and ability, and stronger group management systems.

(5) Our Task

The fundamental question for the Japanese chemical industry is how companies can survive in international markets in an era of borderless competition. Kaneka is no exception. Our most important priority is to ensure the Company’s survival as a specialist chemical manufacturer in today’s harsh business environment.

There are also issues relating to specific areas of activity. In the chemicals, resins and plastics segment, the effects of declining domestic demand for PVC have been compounded by a serious decline in profit margins due to falling prices. A key advantage for Kaneka in the PVC area is its integrated manufacturing system, which covers all categories from electrolysis to monomers, polymers and compounds. We also produce specialized products, such as paste. We aim to use these advantages to improve our profitability in this segment.

In the foodstuffs and pharmaceuticals segment, our strategy for foodstuffs is to respond appropriately to customer needs in this era of plenty. We will further expand the scope of our activities in this area by continuously developing new products and applications. In the area of pharmaceuticals, we will target further growth through the continuing development and introduction of new products, especially pharmaceutical intermediates. We also intend to expand and strengthen our medical equipment activities with a view to making the intervention business another key source of sales, to complement our existing business based on adsorption columns for extracorporeal circulation. We also intend to use our biotechnology expertise to develop products and markets in the new field of functional foodstuffs.

In the electrical and electronic materials, synthetic fibers and other businesses segment, our profit margins in the area of electrical and electronic materials are being eroded by

the worldwide declining in the IT sector. Operations that are no longer profitable in Japan will be shifted to overseas production, allowing our domestic facilities to specialize in areas in which we use our unique technology to differentiate products. We will also work to achieve further quality improvements and cost reductions. Electrical and electronic materials offer growth potential, and we intend to expand this area of activity into a core business area. In the area of synthetic fibers, demand continued to be stagnant. In response, we are working to generate new demand through enhancing our new product proposal activities, a company strength.

We decided to establish a solar cell business in response to needs for clean energy. Our efforts so far have focused on the development of production facilities, a product line-up and distribution channels. In the first half of the current accounting year we launched a new hybrid product with a high conversion ratio onto the market. We plan to target rapid growth in sales volumes, accompanied by improved profit margins. Our aim is to expand and strengthen this activity steadily into a next-generation core business.

(6) Improving the Management Organization

Kaneka's top management call management conferences whenever required to discuss matters that are of corporate significance. To speed up decision-making and improve implementation processes, we have introduced a system under which senior directors are responsible for multiple business divisions. In addition, divisional managers hold monthly meetings to report on the state of operations in each area. At these meetings, divisional managers report directly to top management and the auditors. We have an internal audit department. Its task is to carry out financial and operational audits as required to ensure that all activities are in compliance with the governmental regulations and internal procedure rules.

(7) Other Important Matters Relating to Management

Environmental protection has become a major world issue. Kaneka has already achieved ISO14001 accreditation at its four plants in Japan. In the current fiscal year we have gained accreditation for a subsidiary, Tochigi Kaneka Corporation. We will continue to improve our environmental management systems in the spirit of responsible care.

2. Business Results

(1) Overview of First Half of Current Accounting Year

Summary of Results

The U.S. economy, which had been the driving force for the world economy, showed increasingly clear signs of recession, especially in the IT sector. The terrorist attacks, occurring at a time when economic performance was already slowing down, appear to have made a recession inevitable. This also affected the European economies, which shifted from comparatively steady performance to a decelerating trend. The Asian economies meanwhile experienced a slowdown in their export trade. Trends such as these pointed to a simultaneous global recession.

The stagnation of the Japanese economy worsened. Domestic and external demand was pushed down by an ongoing deflationary trend combined with global economic deceleration. Business earnings deteriorated, and unemployment reached a record high. The prolonged economic slump has become a grave problem.

In the chemical industry, business earnings came under pressure from sharply lower sales and escalating international competition. The impact was particularly severe in the areas of petrochemical products and IT-related materials, components and parts, which were affected by the semiconductor market slump.

The Kaneka Group worked to adapt to a rapidly changing market environment by strengthening its competitiveness. It approached this task by restructuring its business operations, including the activities of its subsidiaries, in Japan and overseas, and by targeting efficiency improvements. Another goal was reinforcement of our financial structure.

Consolidated net sales in the first half of the current accounting period were 2.0% below the result for the same period last year at ¥179,390 million. The decline reflects a worsening supply-demand environment, triggered by the IT slump. Ordinary income amounted to ¥9,658 million, a decline of 13.1%, while net income was 15.7% lower at ¥5,164 million.

The non-consolidated results show that net sales totaled ¥118,202 million, a decline of 5.2%. Ordinary income was 4.2% lower at ¥10,001 million, while net income showed a 5.4% decline to ¥6,701 million. There was an extraordinary gain of ¥1,076 million, resulting from proceeds on the sale of part of the site of the former Kobe Research Institute, which has been unused since the restructuring of Kaneka's research facilities.

On the basis of these results, it was decided to set the interim dividend at ¥4 per share.

Consolidated Cash Flows

Cash flows from operating activities in the first half of the current accounting year amounted to ¥13,407 million. The main components of this total included interim net income before income taxes of ¥10,735 million, depreciation and amortization of ¥11,923 million, a ¥6,082 million reduction in trade receivables, a ¥6,230 million reduction in trade payables, and income taxes, etc., paid amounting to ¥5,893 million. There was a marginal increase, due to the fact that income and depreciation and amortization were similar to the figures for the same period last year.

Cash flows from investing activities were negative to the tune of ¥11,604 million. The main item was expenditure on the acquisition of tangible fixed assets, which amounted to ¥12,491 million.

Cash flows from finance activities were also negative by ¥11,850 million. Here the main item was redemption of the seventh unsecured convertible bond issue, ¥9,893 million.

Consequently cash and equivalents decreased ¥10,211 million to ¥30,582 million at the end of the half-year period.

Segment Trends

Chemicals, Resins and Plastics

In the area of PVC and caustic soda, sales of PVC declined in volume terms. This reflects a deteriorating economic situation in Japan, which was reflected in an increasing trend toward production cutbacks in user industries. Export volumes to Asia, especially China, were below the level in the same period last year. There was also a volume decline in sales of caustic soda.

In the area of specialty plastics, sales of MBS resins remained firm despite an overall decline in resin sales due to economic deceleration in the United States. Both sales and profits rose in this category. Demand for heat-resistant and fire-resistant ABS resins in the electrical appliance sector remained sluggish, but sales to the automobile sector were buoyant. Kaneka reached agreement with Technopolymer Co., Ltd concerning the transfer of sales rights for Kaneka MUH heat-resistant ABS resin to Technopolymer on October 1, 2002. Despite stagnant construction demand due to reduced public works orders and other factors, domestic sales of specialty PVC resins matched the level in the first half of last year in volume terms. Sales volumes in Asia increased with the start of production by Kaneka Paste Polymer Sdn. Bhd. We continued to develop markets for modified silicon polymers in the United States and Europe, and sales volumes increased.

In the plastic products category, sales of construction-related products were affected by a continuing downward trend in the number of new housing starts. However, sales increased in volume terms compared with the result for the first half of last year. Factors contributing to this growth included the development of new sales channels, and increased sales of non-FC products. Sales of expanded polystyrene for use in fish containers remained strong, and we also worked to expand sales in the construction and civil engineering fields. However, reduced demand for packaging for electrical appliances held sales volumes down to the same level as in the first half of last year. Sales of polyolefin bead foam resins were severely affected by the IT slump. Reduced demand for shock-absorbent packing for PCs and other products resulted in declines in Japan, North America, Europe and Asia, and sales volumes were lower.

Overall, both sales and profit in this segment increased relative to the same period last year.

Foodstuffs and Pharmaceuticals

In the foodstuffs category, we worked to develop new products and applications to meet the increasingly diverse needs and growing price consciousness of consumers in the markets for confectionery and bread. We also used our nationwide network of sales companies as the basis for aggressive marketing efforts. While sales volumes were higher than in the same period last year, however, escalating market competition caused prices to stagnate, with the result that sales remained static and profit decreased.

In the pharmaceuticals category, sales of pharmaceutical bulk and intermediates declined because of reduced sales of existing products, such as semi-synthetic penicillin intermediates. However, we used our superior quality and cost competitiveness to promote sales to drug manufacturers in Europe and North America, and we were able to achieve a healthy increase in sales of newly developed products. The introduction and marketing of new products also helped to boost sales volumes in the area of medical equipment.

Sales in this segment increased compared with the same period last year, but profit was lower.

Electrical and Electronic Materials, Synthetic Fibers and Other Businesses

The global IT slump caused sharp declines in both volume sales and selling prices in the area of electrical and electronic materials. This caused a significant deterioration of profitability. We sought to improve our cost competitiveness by restructuring our business operations, including the integration of a production shift from Japan to Malaysia. In the solar cell category, we launched a hybrid product with a 10% conversion ratio in April 2001.

In the area of synthetic fibers, a continuing slump in the acrylic market caused sales volumes to fall below last year's first-half level. However, we were able to keep profit at the same level by focusing our marketing efforts on products with characteristics that enhance added value.

Sales and profits for electrical and electronic materials and synthetic fibers both fell compared with the results for the first half of last year.

Other business activities were affected by deteriorating economic conditions and the resulting decline in demand. While sales fell below the previous year's first-half result, however, profitability improved thanks to better operating efficiency.

International Sales

There were increases in both overseas sales and the overseas sales ratio. This reflects a higher export ratio and the effects of exchange rate movements.

(2) Outlook for Year to March 2002

The downturn in the U.S. economy is expected to continue in the wake of the terrorist attacks. The European and Asian economies are also decelerating, and the outlook for the world economy appears increasingly uncertain.

The slowdown in the world economy is a major blow for Japan, which is already suffering from a deflationary trend and Japan's structural problems, including bad loans and the need for government fiscal restructuring. A further worsening of conditions seems inevitable.

There is little hope of an early economic recovery. The chemical industry seems to face a continuing slump in demand, and competition will intensify as companies struggle to survive. Industry restructuring, including the demise of some companies, is likely to occur on a global scale.

The Kaneka Group's strategy in response to this outlook calls for business restructuring and prioritized research and development focusing on growth areas. We will also accelerate our efforts to reduce costs. By enhancing our competitiveness in this way, we aim to achieve sustainable growth.

Forecasts for the Year to March 2002

1. Consolidated Forecasts

Sales	¥358.0 billion (2.5% decline from year ended March 2001)
Ordinary income	¥17.3 billion (21.7% decline from year ended March 2001)
Current net income	¥9.5 billion (9.9% decline from year ended March 2001)

2. Non-Consolidated Forecasts

Sales	¥235.0 billion (5.1% decline from year ended March 2001)
Ordinary income	¥16.6 billion (23.0% decline from year ended March 2001)
Current net income	¥8.4 billion (32.9% decline from year ended March 2001)

The above performance forecasts for the Kaneka Group are regarded as reasonable on the basis of information available at the time of announcement. Readers should be aware that actual results may vary from these forecasts because of the various uncertain factors involved. The forecasts are based on exchange rates of ¥120 to the U.S. dollar, which is our main currency used, and ¥108 to the euro.

Interim Balance Sheets (Consolidated)

(Unit: ¥million)

Item	Interim term ended Sept. 30, 2001	Term ended March 31, 2001	Interim term ended Sept. 30, 2000	Item	Interim term ended Sept. 30, 2001	Term ended March 31, 2001	Interim term ended Sept. 30, 2000
Assets	388,775	405,207	397,793	Liabilities	205,745	221,386	215,460
Current assets	183,886	196,023	184,395	Current liabilities	117,495	131,795	121,683
Cash and deposits	5,545	18,129	19,549	Notes and accounts payable	48,073	54,355	51,592
Notes receivable and accounts receivable	95,087	101,303	98,493	Short-term borrowings	28,466	28,525	23,796
Marketable securities	26,425	23,263	16,601	Convertible bonds redeemed within 1 year	-	9,894	9,894
Inventories	41,734	43,183	39,129	Accrued income taxes	4,826	5,471	4,423
Deferred tax assets	2,502	2,225	2,305	Accrued consumption taxes	305	750	481
Others	12,976	8,474	9,035	Deferred tax liabilities (current)	-	1	133
Allowance for doubtful receivables	(385)	(556)	(719)	Others	35,823	32,796	31,361
Fixed assets	204,889	209,184	213,398	Fixed liabilities	88,250	89,591	93,777
Tangible fixed assets	139,582	137,759	134,498	Bonds payable	20,000	20,000	20,000
Buildings and structures	46,393	46,035	44,470	Convertible bonds payable	26,191	26,191	26,191
Machinery and equipment	64,530	65,233	64,753	Long-term loans payable	13,280	13,993	16,421
Land	21,230	21,170	20,911	Allowance for employee retirement benefits	27,148	27,617	27,620
Construction in progress	7,427	5,320	4,363	Allowance for director retirement bonuses	784	734	667
Intangible fixed assets	3,206	3,254	3,356	Deferred tax liabilities (non-current)	391	396	2,295
Investments and other assets	62,099	68,170	75,543	Others	454	658	581
Investments in securities	40,519	48,869	56,390	Minority interests	4,673	4,681	4,800
Unconsolidated subsidiaries and affiliates	5,523	5,516	5,955	Shareholders' equity	178,355	179,139	177,533
Long-term loans receivable	3,476	3,668	3,743	Common stock	33,046	33,046	33,046
Long-term prepaid expenses	974	978	1,438	Additional paid-in capital	34,647	34,646	34,646
Deferred tax assets (non-current)	4,435	1,965	489	Retained earnings	107,879	104,135	101,150
Others	7,840	7,891	7,989	Gains from appreciation of securities	8,081	12,213	15,963
Allowance for doubtful receivables	(669)	(719)	(463)	Cumulative translation adjustment	(5,298)	(4,901)	(7,269)
				Treasury stock	0	(1)	(4)
Total assets	388,775	405,207	397,793	Total liabilities, minority interests and shareholders' equity	388,775	405,207	397,793

Interim Statements of Income and Retained Earnings (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2001 to Sept. 30, 2001	Interim term from April 1, 2000 to Sept. 30, 2000	Increase (decrease)	Term from April 1, 2000 to March 31, 2001
Net sales		179,390	183,104	(3,714)	367,339
Cost of sales		129,931	132,783	(2,851)	265,869
Gross profit		49,459	50,321	(862)	101,470
Selling, general and administrative expenses		38,659	38,082	576	77,463
Operating income		10,800	12,238	(1,438)	24,006
Non-operating income		1,702	1,460	241	3,307
Interest and dividends income		481	598	(117)	1,203
Others		1,220	861	359	2,104
Non-operating expenses		2,844	2,585	258	5,230
Interest and discount expense		988	1,030	(41)	1,986
Others		1,855	1,555	300	3,243
Ordinary income		9,658	11,113	(1,454)	22,084
Extraordinary gain		1,076	1,009	67	1,009
Gain on land sales		1,076	-	1,076	-
Gain on sales of stock of affiliated companies		-	1,009	(1,009)	1,009
Extraordinary loss		-	500	(500)	2,365
Research facility retirement cost		-	-	-	1,865
Securities losses		-	500	(500)	500
Net income before taxes		10,735	11,622	(887)	20,728
Income taxes (current)		5,248	4,853	395	10,174
Income taxes (deferred)		203	587	(384)	(39)
Minority interests		118	57	61	54
Net income		5,164	6,124	(959)	10,539
Outstanding balances of consolidated surpluses at beginning of term		104,135	96,566	7,569	96,566
Increase in retained earnings		124	-	124	-
Consolidated subsidiaries newly included		124	-	124	-
Decrease in retained earnings		1,544	1,539	5	2,970
Dividends		1,430	1,430	0	2,860
Bonuses to directors and statutory auditors		114	109	5	109
Outstanding balances of consolidated surpluses at term end		107,879	101,150	6,728	104,135

Kaneka Corporation (Consolidated)

Interim Statements of Cash Flows (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2001 to Sept. 30, 2001	Interim term from April 1, 2000 to Sept. 30, 2000	Term from April 1, 2000 to March 31, 2001
I. Cash flows from operating activities				
Net income before taxes		10,735	11,622	20,728
Depreciation and amortization		11,923	11,761	23,884
Increase/decrease in allowance for doubtful receivables		(219)	93	181
Increase/decrease in allowance for employee retirement and severance		-	(27,697)	(27,697)
Increase/decrease in allowance for employee retirement benefits		(464)	27,620	27,617
Gain on land sales		(1,076)	-	-
Loss on sales and disposals of tangible fixed assets		612	528	3,219
Gain on sales of affiliate equities		-	-	(1,009)
Gain on sales of investment securities		(818)	(1,553)	(536)
Write down of investment securities		105	537	592
Equity in undistributed earnings of unconsolidated subsidiaries and affiliates		(78)	(79)	(239)
Interest and dividend income		(481)	(598)	(1,203)
Interest expense		988	1,030	1,986
Increase in trade receivables		6,082	(11,197)	(13,037)
Increase in inventories		1,383	(297)	(3,681)
Increase in trade payables		(6,230)	4,312	6,773
Others		(2,660)	3,303	2,876
Subtotal		19,801	19,384	40,455
Interest and dividends received		511	541	1,132
Interest paid		(1,012)	(1,000)	(1,954)
Income taxes paid		(5,893)	(7,214)	(11,533)
Net cash provided by operating activities		13,407	11,710	28,099
II. Cash flows from investment activities				
Payment for purchase of marketable securities		(1,000)	(2,196)	(3,396)
Proceeds from marketable securities		200	355	3,455
Payments for purchase of tangible fixed assets		(12,491)	(8,668)	(18,834)
Payment for purchase of intangible fixed assets		(406)	(190)	(552)
Payment for purchase of investments		(256)	(708)	(998)
Proceeds from sales and maturities of investments		2,169	2,524	3,565
Increase in loans receivables		(252)	(596)	(1,235)
Decrease in loans receivables		365	299	393
Others		68	(3,073)	(3,015)
Net cash used in investing activities		(11,604)	(12,255)	(20,617)
III. Cash flows from finance activities				
Decrease in short-term borrowings		873	(459)	1,698
Proceeds from long-term debts		235	1,600	2,570
Repayment of long-term debts		(1,572)	(5,320)	(8,065)
Repayment of convertible bonds		(9,893)	-	-
Dividends paid		(1,430)	(1,430)	(2,860)
Dividends paid to minority interests		(63)	(55)	(101)
Others		-	6	9
Net cash used in finance activities		(11,850)	(5,659)	(6,749)
IV. Effect of exchange rate variation on cash and equivalents				
		(165)	292	482
V. Net increase (decrease) in cash and equivalents				
		(10,211)	(5,911)	1,215
VI. Cash and equivalents at beginning of term				
		40,793	39,569	39,569
VII. Effect of changes in consolidated subsidiaries				
		-	-	8
VIII. Cash and equivalents at term end				
		30,582	33,658	40,793

The relation between the outstanding balances of cash and equivalents at the term end and the respective amounts in items listed on the interim consolidated balance sheet (consolidated balance sheet)

	Interim term ended Sept. 2001	Interim term ended Sept. 2000	Term ended March 2001
Cash and cash account	5,545	19,549	18,129
Time deposits (period of deposit greater than 3 months)	(107)	(186)	(188)
Accounts of marketable securities	26,425	16,601	23,263
Stocks and bonds (redemption period exceeds 3 months)	(1,280)	(2,306)	(410)
Cash and equivalents	30,582	33,658	40,793

Notes to Consolidated Financial Statements

1. Scope of Consolidation

- (1) Number of consolidated subsidiaries: 39 companies
- (2) Principal subsidiaries:
Kaneka Belgium N.V., Kaneka Texas Corp., Kaneka Singapore Co. (Pte.) Ltd., Kaneka Shokuhin Co., Ltd., Tokyo Kaneka Shokuhin Co., Ltd., and 34 other companies
- (3) Consolidated subsidiaries newly included:
Kaneka Eperan Marketing Co., Ltd.
- (4) Consolidated subsidiaries excluded:
Maruto Co., Ltd.: Excluded due to merger with Tatsuta Chemical Co., Ltd.
- (5) Other subsidiaries have been excluded from the scope of consolidation because they do not have significant influence on interim consolidated financial statements.

2. Application of equity method

Of non-consolidated subsidiaries and affiliated companies, the equity method is applied to investments in Hane Corporation and two other companies.

3. Date of interim account closing for consolidated subsidiaries

Interim accounts close for Kaneka Singapore Co. (Pte.) Ltd., Kaneka Plastics Corp., Kaneka Delaware Corp., and Taiyoyushi K.K. on June 30. Interim consolidated financial statements are prepared using the interim financial statements at the close date for these companies. Necessary adjustments for consolidation are applied to major transactions occurring between the closing date of these companies and the interim consolidation date.

4. Standards for account settlement

- (1) Valuation methods and criteria for important assets
 - A. Negotiable securities
 - Other negotiable securities
 - Stock with market value:* Market value accounting based on market price at the date of interim account closing (Valuation increase/decrease is calculated by the accounting method to appropriate the total value of capital. Cost of products sold is calculated by the moving average cost accounting method.)
 - Stock without market value:* Valuation at cost based on moving average cost method.
 - B. Valuation of inventories
 - Manufactured goods / merchandise:* Primarily, valuation at cost based on the periodic average method (monthly).
 - Raw materials / work in progress:* Primarily, valuation at cost based on the moving average cost method.
 - C. Derivatives
 - Market value method

(2) Accounting method for important depreciated assets

Tangible fixed assets: Primarily based on the fixed percentage method

(3) Standards of appropriation for important allowances

A. Allowance for doubtful receivables

The estimated amount of uncollected debts is recorded by calculations using the uncollected debt real rate method for general debts and by individually reviewing the possibility of collection for special debts including doubtful debts.

B. Allowance for employee retirement benefits

To prepare for payment of retirement benefits to employees, the amount deemed to be incurred at the interim term end is posted based on the estimated amount of liabilities on retirement payments and pension assets at interim term end. Past employment liabilities are calculated when they are incurred as expenses based on the straight line method for a fixed period of time (five years) within the average remaining employment period of employees. For the calculation difference, the proportionate amounts for each fiscal year based on the straight line method for a fixed period of time (ten years) within the average remaining employment period of the employees are posted as expenses in the following fiscal year.

C. Allowance for director retirement bonuses

To make appropriations for the payment of retirement bonuses to directors, the amount of payment required at the interim term end is posted in accordance with internal rules.

(4) Standards for translating major foreign currency denominated assets and liabilities into Japanese yen.

Foreign currency denominated claims and debts are translated into yen at spot rates on the interim closing date. The resulting translation adjustments are reported as profit or loss.

Assets and liabilities of overseas subsidiaries are translated into yen at spot rates on the interim closing date, and revenues and expenses are translated into yen at average rates of exchange during the year. Translation adjustments are included in minority interests, and cumulative translation adjustments in shareholders' equity.

(5) Treatment of major lease transactions

Finance lease transactions which do not transfer ownership are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

(6) Hedge accounting method

A. Hedge method

Deferred hedge accounting is applied. However, special accounting is applied to interest rate swap transactions that fulfill the requirements of special accounting, and transfer accounting is applied to currency swap transactions that fulfill the requirements of transfer accounting.

B. Hedge vehicles and hedge targets

Hedge vehicles: derivatives (interest rate swap and currency swap)

Hedge targets: Transactions that may incur loss on account of market movements which are not reflected in valuation, and transactions that have fixed cash flows and avoid movements.

C. Hedge policy

In accordance with internal regulations, currency movement risks, interest rate movement risks, and cash flow movement risks are hedged.

(7) Additional note regarding preparation of statements

Consumption taxes are not included in accounting treatments.

5. Scope of cash and equivalents in interim consolidated statements of cash flows

In preparing the interim consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturity not exceeding three months at the time of purchase are considered to be cash and equivalents.

Notes to the Interim Consolidated Balance Sheet

	Interim term ended Sept. 30, 2001	Term ended March 31, 2001	Interim term ended Sept. 30, 2000
	<u> </u>	<u> </u>	<u> </u>
			(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed assets	341,491	333,447	322,609
2. Discount on notes receivable	1,264	1,116	950
Notes payable endorsed for payment	687	588	518
3. Contingent liabilities			
Guarantees	1,187	1,250	1,199
Commitments to guarantee	110	124	138
Letter of awareness	159	167	473

1. Segment Information

1. Segment information by business

(1) Interim term from April 1, 2001 to Sept. 30, 2001

(Unit: ¥million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss						
Sales						
(1) Customers	88,689	67,454	23,246	179,390	-	179,390
(2) Intersegment	820	0	1,572	2,393	2,393	-
Total	89,509	67,454	24,819	181,783	2,393	179,390
Operating expenses	84,684	54,682	22,758	162,125	6,465	168,590
Operating income	4,824	12,772	2,061	19,658	8,858	10,800
II. Assets, depreciation and amortization and capital expenditures						
Assets	160,803	89,630	45,958	296,392	92,383	388,775
Depreciation & amortization	6,121	2,279	2,380	10,781	1,016	11,798
Capital expenditures	5,071	2,310	5,571	12,954	1,667	14,621

(2) Interim term from April 1, 2000 to Sept. 30, 2000

(Unit: ¥ million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss						
Sales						
(1) Customers	87,595	67,318	28,191	183,104	-	183,104
(2) Intersegment	847	0	1,464	2,312	2,312	-
Total	88,442	67,318	29,655	185,417	2,312	183,104
Operating expenses	84,183	54,104	26,323	164,612	6,253	170,866
Operating income	4,259	13,213	3,331	20,804	8,566	12,238
II. Assets, depreciation and amortization and capital expenditures						
Assets	162,165	86,229	48,357	296,752	101,040	397,793
Depreciation & amortization	6,245	2,033	2,463	10,742	863	11,606
Capital expenditures	5,137	3,010	1,306	9,455	2,073	11,528

(3) Term from April 1, 2000 to March 31, 2001

(Unit: ¥million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss						
Sales						
(1) Customers	178,473	134,129	54,736	367,339	-	367,339
(2) Intersegment	1,704	0	2,988	4,693	4,693	-
Total	180,177	134,130	57,724	372,032	4,693	367,339
Operating expenses	170,335	108,262	51,803	330,401	12,930	343,332
Operating income	9,841	25,867	5,920	41,630	17,623	24,006
II. Assets, depreciation and amortization and capital expenditures						
Assets	166,744	90,170	49,788	306,703	98,504	405,207
Depreciation & amortization	12,560	4,080	5,127	21,768	1,895	23,663
Capital expenditures	9,213	5,783	4,653	19,650	4,816	24,466

- Notes: 1. The classification of businesses was decided based on comprehensive judgements on type, application, method of manufacturing, similarities in the market and mutual relation in the manufacturing process, and common features during development, etc. regarding every product.
2. The major products by business are as follows:

Business Segments	Type of Sales	Major products, etc.
Chemicals, Resins and Plastics	PVC and Caustic Soda	PVC resins, Caustic soda, Chloride
	Specialty Plastics	MBS resins, Heat-resistant and flame-resistant ABS resins, Specialty PVC resins, Modified silicon polymers, PVC compounds (hard)
	Plastic Products	Extruded polystyrene foam boards, Polystyrene foam sheet, Polyolefin foam by beads method, Expandable polystyrene, PVC sash window
Foodstuffs and Pharmaceuticals	Foodstuffs and Pharmaceuticals	Margarine, Shortening, Quality fats for confectionery, Bakery yeast, Spices, Pharmaceuticals (bulk, intermediates,) Medical devices
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Electrical and Electronic Materials	Magnet wires, Heat-resistant polyimide film, PVC compounds (soft,) Bonded magnetic materials
	Synthetic Fibers	Modacrylic fibers (Kanekaron)
	Other businesses	Engineering operations, Housing construction

3. Operating expenses included in the 'corporate and eliminations' column of ¥8,874 million, ¥8,583 million and ¥17,650 million for the interim term ended September 30, 2001, the interim term ended September 30, 2000, and the term ended March 31, 2001, respectively, consist principally of general and administrative expenses and fundamental research of the Company.
4. Corporate and eliminations includes corporate assets of ¥93,243 million, ¥101,706 million, and ¥99,880 for the interim term ended September 30, 2001, the interim term ended September 30, 2000, and the term ended March 31, 2001, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

2. Segment Information by Geographic Area

(1) Interim term from April 1, 2001 to Sept. 30, 2001 (Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	156,031	23,359	179,390	-	179,390
(2) Intersegment	3,417	2,345	5,763	5,763	-
Total	159,449	25,704	185,153	5,763	179,390
Operating expenses	140,533	24,922	165,456	3,134	168,590
Operating income	18,915	781	19,697	8,897	10,800
II. Assets	258,299	42,182	300,481	88,293	388,775

(2) Interim term from April 1, 2000 to Sept. 30, 2000 (Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	163,759	19,345	183,104	-	183,104
(2) Intersegment	2,194	3,145	5,340	5,340	-
Total	165,954	22,490	188,444	5,340	183,104
Operating expenses	146,430	21,266	167,696	3,169	170,866
Operating income	19,523	1,224	20,748	8,509	12,238
II. Assets	264,494	36,112	300,607	97,186	397,793

(3) Term from April 1, 2000 to March 31, 2001 (Unit: ¥million)

	Japan	Other areas	Total	Elimination and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	326,851	40,487	367,339	-	367,339
(2) Intersegment	4,557	5,492	10,049	10,049	-
Total	331,409	45,979	377,389	10,049	367,339
Operating expenses	291,287	44,506	335,794	7,538	343,332
Operating income	40,121	1,472	41,594	17,587	24,006
II. Assets	266,892	43,308	310,200	95,007	405,207

Notes: 1. The regions falling under the 'other areas' category consist of North America, Europe and Asia. The sales and assets of each region account for less than 10% of the total sales of the sectors and the total assets of all sectors, so they are listed collectively as 'other areas.'

(1) Method of classification of country or area: geographic proximity

(2) Major country or area belonging to each classification by area:

Other areas North America: United States

Europe: Belgium

Asia: Malaysia, Singapore

2. Operating expenses included in the 'corporate and eliminations' column of ¥8,874 million, ¥8,583 million and ¥17,650 million for the interim term ended September 30, 2001, the interim term ended September 30, 2000, and the term ended March 31, 2001, respectively, consist principally of general and administrative expenses and fundamental research of the Company.

3. Corporate and eliminations includes corporate assets of ¥93,243 million, ¥101,706 million, and ¥99,880 for the interim term ended September 30, 2001, the interim term ended September 30, 2000, and the term ended March 31, 2001, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

3. International Sales

(1) Interim term from April 1, 2001 to Sept. 30, 2001

(Unit: ¥million)

	Asia	North America	Europe	Other regions	Total
Sales	21,663	13,920	16,061	2,719	54,364
Consolidated sales					179,390
The ratio of sales to consolidated sales (%)	12.1	7.8	9.0	1.5	30.3

(2) Interim term from April 1, 2000 to Sept. 30, 2000

(Unit: ¥million)

	Asia	North America	Europe	Other regions	Total
Sales	24,318	11,378	13,952	2,421	52,071
Consolidated sales					183,104
The ratio of sales to consolidated sales (%)	13.3	6.2	7.6	1.3	28.4

(3) Term from April 1, 2000 to March 31, 2001

(Unit: ¥million)

	Asia	North America	Europe	Other regions	Total
Sales	24,318	11,378	25,727	4,965	99,621
Consolidated sales					367,339
The ratio of sales to consolidated sales (%)	12.6	6.2	7.0	1.4	27.1

Notes: 1. International sales are sales of the company and consolidated subsidiaries in countries and areas other than Japan.

2. Method of classifying countries or areas and the major countries or regions belonging to each classification.

(1) Method of classification of country or area: geographical proximity

(2) Major country or region belonging to each classification by location

Asia: China, Korea, Taiwan

North America: United States, Mexico

Europe: Belgium, Britain

Other regions: Australia, Togo

2. Lease Transactions

1. Finance lease transactions excluding transfer of ownership

Unit: ¥million

(1) Amounts equivalent to acquisition, to less accumulated depreciation, and to the outstanding balances of leased properties at the interim term end

	Interim term ended Sept. 2001	Term ended March 2001	Interim term ended Sept. 2000
	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>
Amount equivalent to acquisition	3,927	3,780	3,430
Amount equivalent to less accumulated depreciation	2,201	2,107	1,884
Amount equivalent to outstanding balances at the term end	1,725	1,672	1,545

(2) Amount equivalent to outstanding balance of unearned lease fees at the term end

Within one year	683	713	654
Over one year	1,041	959	890
<u>Total</u>	<u>1,725</u>	<u>1,672</u>	<u>1,545</u>

(3) Lease fees paid (amount equivalent to depreciation and amortization)

	404	756	362
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(4) The fixed amount method is used to calculate amounts equivalent to depreciation and amortization with the lease period as durable years and the remaining amount as zero.

(5) Since the ratio of the outstanding balances at the end of the term of unearned lease fees to the outstanding balances at the end of the term of tangible fixed assets is low, the above notes use the accounting method to include interest earned.

2. Operating lease transactions

Unit: ¥million

Unearned lease fees

	Interim term ended Sept. 2001	Term ended March 2001	Interim term ended Sept. 2000
Within one year	61	81	57
Over one year	209	267	210
<u>Total</u>	<u>270</u>	<u>348</u>	<u>268</u>

3. Negotiable Securities

1. Bonds held to maturity listed at market value
No corresponding bonds

2. Other securities with market value

(Unit: ¥million)

	Interim term ended September 30, 2001			Term ended March 31, 2001			Interim term ended September 30, 2000		
	Acquisition value	Amount on interim balance sheet	Unrealized gain / loss	Acquisition value	Amount on balance sheet	Unrealized gain / loss	Acquisition value	Amount on interim balance sheet	Unrealized gain / loss
(1) Stock	17,419	31,413	13,994	18,580	39,811	21,231	18,249	45,976	27,727
(2) Bonds									
Government bonds, local government bonds, etc	-	-	-	-	-	-	-	-	-
Corporate bonds	11	18	6	11	17	6	11	17	6
Others	2,239	2,161	(78)	2,239	2,127	(111)	5,235	5,134	(101)
(3) Others	1,000	1,009	9	-	-	-	100	101	1
Total	20,670	34,602	13,932	20,831	41,957	21,125	23,596	51,230	27,633

3. Contents of major marketable securities without market value, and amount posted on the interim consolidated balance sheet

- (1) Bonds held to maturity
No corresponding bonds

- (2) Other securities

(Unit: ¥million)

	Interim term ended September 30, 2001	Term ended March 31, 2001	Interim term ended September 30, 2000
	Amount on interim balance sheet	Amount on balance sheet	Amount on interim balance sheet
Non-listed stock (excluding OTC stock)	6,001	5,925	6,269
Non-listed overseas bonds	1,183	1,183	1,183
Mutual funds (invested in bonds)	25,144	23,053	14,294
Others	13	13	13

4. Derivatives Transactions

Classification	Type	Interim term ended September 30, 2001			Term ended March 31, 2001			Interim term ended September 30, 2000		
		Contract amount	Market value	Valuation profit or loss	Contract amount	Market value	Valuation profit or loss	Contract amount	Market value	Valuation profit or loss
Currency	Forward transaction	-	-	-	-	-	-	4,251	4,286	(34)
Total		-	-	-	-	-	-	4,251	4,286	(34)

- Notes: 1. Derivatives that are applicable to hedge accounting are excluded from disclosure.
2. Forward transactions are used within the scope of real demands. Forward transactions are marked to market at the end of the term, and the valuation increase or decrease is treated as profit or loss (general treatment).

Manufacturing, Orders and Sales

(1) Manufacturing Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2001 to Sept. 30, 2001	Interim term from April 1, 2000 to Sept. 30, 2000	Increase/ Decrease Ratio (%)	Term from April 1, 2000 to March 31, 2001
Chemicals, Resins and Plastics	75,588	69,449	8.8	148,097
Foodstuffs and Pharmaceuticals	45,662	45,094	1.3	89,740
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	21,357	25,720	(17.0)	50,285
Total	142,608	140,265	1.7	288,124

Notes: 1. Amounts for manufacturing are indicated in values converted to sales prices.

2. Because transactions between consolidated companies are complicated and it is difficult to grasp sales by segment accurately, approximate values are indicated.

(2) Orders

Products are mainly manufactured based on sales estimations.

(3) Sales Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2001 to Sept. 30, 2001	Interim term from April 1, 2000 to Sept. 30, 2000	Increase/ Decrease Ratio (%)	Term from April 1, 2000 to March 31, 2001
Chemicals, Resins and Plastics	88,689	87,595	1.2	178,473
Foodstuffs and Pharmaceuticals	67,454	67,318	0.2	134,129
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	23,246	28,191	(17.5)	54,736
Total	179,390	183,104	(2.0)	367,339