

Consolidated Financial Results for the Term Ending March 2002

May 15, 2002

Name of Listed Company: Kaneka Corporation

Code Number: 4118

(URL: <http://www.kaneka.co.jp>)

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Title: Director/General Manager - Finance and Accounting

Date of directors' meeting for approval of accounts: May 15, 2002

Name of parent company (Code number:) Parent company's shareholding (%)

American accounting standards: Not adopted

Stock Exchanges Listed:

Tokyo, Osaka, Nagoya, Fukuoka and Sapporo

Prefecture where headquarters are located:

Osaka Prefecture

1. Consolidated Results for Year Ended March 2002 (April 1, 2001-March 31, 2002)

(1) Consolidated business performance

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

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Year ended March 2002	355,580	(3.2)	20,457	(14.8)	18,266	(17.3)
Year ended March 2001	367,339	3.8	24,006	(9.6)	22,084	(22.2)

	Net income		Net income per share	Fully diluted net income per share	Net income-equity ratio	Ordinary income-total assets ratio	Ordinary income-sales ratio
	¥million	%	¥	¥	%	%	%
Year ended March 2002	9,372	(11.1)	26.21	24.84	5.2	4.7	5.1
Year ended March 2001	10,539	200.5	29.47	27.96	6.1	5.6	6.0

- Notes:
1. Profit and loss based on equity-method investment balance: Year ended March 2002: ¥228 million
Year ended March 2001: ¥239 million
 2. Average number of shares (consolidated): 357,601,011 in year ended March 2002, 357,604,522 in year ended March 2001
 3. Changes to accounting policies: None
 4. Percentages relating to net sales, operating income, ordinary income, and net income denote increases (decreases) relative to the previous accounting term.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Year ended March 2002	379,944	180,895	47.6	505.91
Year ended March 2001	405,207	179,139	44.2	500.94

Note: Number of shares issued and outstanding (consolidated) at end of period: 357,566,620 in year ended March 2002, 357,610,167 in year ended March 2001

(3) Cash flow conditions on a consolidated basis

	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
	¥million	¥million	¥million	¥million
Year ended March 2002	33,117	(22,706)	(19,613)	31,567
Year 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. Consolidated Performance Forecasts for the Year to March 2003 (April 1, 2002-March 31, 2003)

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Interim	183,000	8,600	4,300
Overall term	368,000	20,500	11,000

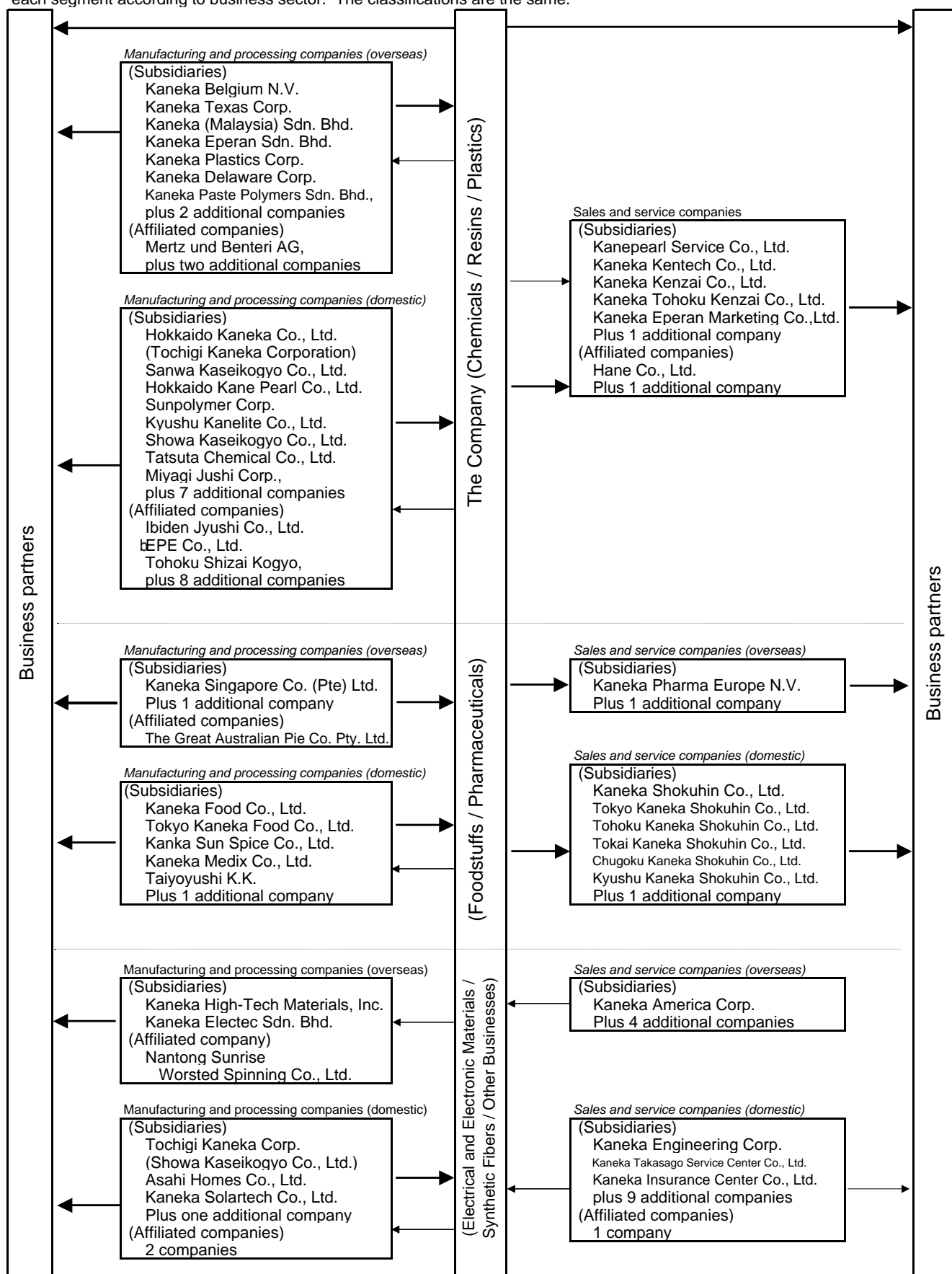
(Reference) Projected net income per share (whole year): ¥30.76

Note: The above forecasts were compiled on the basis of information available as of the date of publication.

Actual results may vary from the forecasts due to a variety of factors.

The Corporate Group Situation Kaneka Corporation (Consolidated)

The major business of the company, its 70 subsidiaries and 21 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. Management Policy

(a) Basic Management Policies

At a time when the chemical industry is undergoing massive restructuring on a global scale, Kaneka Corporation aims to establish for itself a position as a dynamic enterprise that earns the respect of society while maintaining high growth and earnings. In order to achieve this target, it has to date worked hard to realize its goal of becoming a "specialty chemical company."

Kanaka's new Medium-term Business Plan (from the year ending March 31 2003 through the year ending March 2005) aims to extend the Company's role as a "specialty chemical company" still further by establishing a new vision whereby it aspires to become a "leading chemical company focusing on specific global markets."

We have identified five key factors that are crucial to realizing our new management vision.

Research to create a stream of strategic technologies that are strong in originality and differentiation.

Development of attractive new products and businesses that fit in well with market trends and strategic technologies.

Marketing that offers value to satisfy customers.

International cost competitiveness supported by technology and a high degree of specialization.

A distinctive program to develop global business by expanding specific overseas markets.

While keeping an eye on changes in the business environment, Kaneka aims to transform itself into a dynamic corporate group for the 21st century by steadily implementing management policies based on these five factors.

(b) Basic Policy on Profit Distribution

The most important tasks for Kaneka's management are to improve earning potential while strengthening the Company's corporate fundamentals, and to increase returns to shareholders. Our basic dividend policy is to maintain stable dividends while monitoring 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.

(c) Policy Concerning the Reduction of the Stock Investment Unit

In light of current levels of liquidity in Kaneka's stocks, the supply-demand environment and cost effectiveness, there appears to be no immediate need to reduce the size of Kaneka's stock investment unit. However, we shall proceed with studies into adopting appropriate responses while monitoring such factors as

our shareholders' needs and the situation in the stock market.

(d) Targets and Indicators

Kaneka's specific management targets for the 21st century include the early achievement of group net sales of ¥500,000 million, group ordinary income of ¥50,000 million, as well as thoroughgoing improvements in management efficiency in each business sector as measured in terms of the key ROA (Return on Assets) indicator.

(e) Medium-Range Management Strategies

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 work dynamically to ensure the Company's survival in today's harsh business environment.

One of Kaneka's salient features is its multidimensional business operations. Our aim to survive as the leading chemical company in each market by focusing on those specific global markets where we can best exploit our advantages in each of these businesses and delivering levels of value—through products, services and information—that provide optimum customer satisfaction. In particular, our new Medium-term Business Plan calls for structural reforms of our business activities with a view to building the robust corporate management structures and achieving the new growth necessary for coming through the anticipated harsh business environment as a winner. Achieving these targets depends on delivering assured results not only through an unwavering commitment to 'focus', 'speed' and 'productivity', but also through concerted efforts to tackling the issues outlined below.

(f) Our Tasks

1. Business restructuring

We shall establish five sectors as key strategic areas for prioritized investment of management resources—functional plastics, information technology, functional foodstuffs, pharmaceuticals and healthcare, and solar cells.

2. Enhancing competitiveness in existing areas of business

We shall also channel investment of management resources into core areas of existing businesses. At the same time, we intend to hold a drastic appraisal of unprofitable and low-yield businesses. After ascertaining whether they have future growth potential or are capable of rebuilding themselves, we will decide whether to reduce our involvement, withdraw altogether or form alliances.

3. Reforming in-house systems

To enable us to respond effectively to environmental changes, it is extremely important that we reform our in-house systems. During the fiscal year under review, we carried out reforms of our human resource systems to strengthen the emphasis on results and ability. In the coming fiscal year, we shall introduce a new management control system based on cash flow and ROA management in each department designed to

- make stronger group management and efficient asset management.
4. Accelerate development of global business operations
The development of global business operations is essential for realizing our management vision. We have already been operating through production and sales bases located in Belgium, the United States and Malaysia for many years, but we now intend to concentrate more effort into overseas production and sales of competitive products.
- (g) Measures to Improve the Management Organization
Kaneka's top management calls management conferences whenever required to resolve key matters that have a significant impact on the entire Company. To speed up decision-making and improve the flexibility of 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 submit reports on the state of operations in each area directly to all board of directors and the statutory auditors.
We have an internal audit department that reports directly to the President. Its task is to carry out financial and operational audits as required to ensure that activities at all levels are in compliance with governmental regulations and internal procedure rules.
- (h) Other Important Matters Relating to Management
1. Environmental protection
Environmental protection has become a major world issue. Kaneka has already achieved ISO14001 at its four plants and several subsidiaries in Japan. The Kaneka Group as a whole will continue to improve its environmental management systems in the spirit of responsible care.
 2. Compliance with the Law
We have distilled all stipulations pertaining to compliance with legal and other provisions into our new "Basic Policies for Corporate Activities" and "Ethical Behavior Standards," and ensure that they are rigorously observed throughout the Group.
 3. Product safety assurance
We shall continue to make every effort to ensure that our products are safe.

2. Business Results and Financial Position

(a) Business Results

(1) Summary of Results

Since the terrorist attacks of September 11, 2001 came amidst a slowdown in the US economy caused by the collapse of the IT bubble, the world economy went into a serious downturn in the second half of the fiscal year under review. As a result, the slowdown in economic activity in Europe and Asia continued.

In Japan, falling domestic and overseas demand and the ongoing

deflationary trend compounded the impact of global economic deceleration on the economy, which weakened further as corporate earnings continued to deteriorate and unemployment rates hit historical highs. Although the US economy was showing signs of a recovery toward the end of the fiscal year under review, the Japanese economy does not show obvious signs of hitting bottom or beginning to recover.

In the chemical industry, corporate earnings came under pressure from sluggish demand for petrochemical products, lower capacity utilization resulting from the IT recession, and increasingly intense international competition.

The Kaneka Group worked to adapt to a rapidly changing market environment by strengthening its competitiveness and reinforcing its financial structure. It approached this task by restructuring its business operations and improving management efficiency in many areas, including the activities of its consolidated subsidiaries in Japan and overseas.

Consolidated net sales for the full fiscal year were 3.2% below the result for the preceding fiscal year at ¥355,880 million. Ordinary income was 17.3% lower at ¥18,266 million, while net income declined by 11.1% to ¥9,372 million.

There was an extraordinary gain of ¥2,709 million from proceeds on the sale of part of the land that became idle following the consolidation of facilities. The Company also posted a total of ¥3,238 million in extraordinary losses consisting of ¥797 million in expenses for restructure of the electrical and electronic materials business, ¥694 million in losses on investments in affiliated companies, and ¥1,746 million in valuation losses on investments in securities.

On a non-consolidated basis, net sales fell by 5.2% compared with the previous year to ¥234,743 million, ordinary income by 21.5% to ¥16,912 million, and net income by 38.9% to ¥7,650 million.

The Company plans to pay a dividend for the term at the rate of ¥8.0 per share, making the term-end dividend the same as the interim dividend at ¥4.0 yen per share.

(2) Segment Trends

Chemicals, Resins and Plastics

In the area of PVC and caustic soda, sales of PVC fell in volume terms as the domestic market stagnated under the impact of the decline in housing demand and public investment. In contrast, exports increased in the second half because of efforts to expand sales to take advantage of an improvement in market conditions in Asia. Sales of caustic soda fell in volume terms as a result of lackluster domestic demand.

In the area of specialty plastics, sales of MBS resins remained firm in the United States, Europe and Asia, resulting in higher net sales and profits in this category. While domestic sales of specialty PVC resins declined in volume terms as a result of lower construction demand, sales

volumes in Asia increased markedly following the start of production by Kaneka Paste Polymer Sdn. Bhd., the Group's base in Malaysia. Sales of modified silicon polymers increased as a result of our ongoing efforts to develop our markets in the United States and Europe and expand the range of applications in which these polymers are used.

In the plastic products category, sales of construction materials were affected in volume terms by the continuing downtrend in housing starts, despite efforts to develop new sales channels and expand sales of FC free products. Although the decline in demand for packaging for electrical appliances continued, sales of expanded polystyrene increased in volume terms compared with last fiscal year, benefiting from focused efforts to promote sales for use in fish containers and the construction and civil engineering fields. Sales of polyolefin foam were severely affected by the IT slump. Reduced demand for shock-absorbent packing for PCs and other products resulted in lower sales volumes except in the United States, where cores for automobile fenders did well.

Sales in this segment declined compared with the previous fiscal year, but profits were higher thanks to an improvement in earnings at overseas subsidiaries and other factors.

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. Since market conditions stagnated, however, both sales and profits fell below the previous year's levels.

In the pharmaceuticals category, sales of existing pharmaceutical bulk and intermediates declined because of lower sales of existing products, such as semi-synthetic penicillin intermediates. However, we used our superior quality and cost competitiveness in continued efforts to promote sales to drug manufacturers in Europe and North America, and were able to achieve a healthy increase in sales of newly developed products which lifted net sales above the levels achieved in the preceding fiscal year. The launching of new products and promotional activities also helped to boost sales volumes in the area of medical equipment.

Sales in this segment remained flat compared with the previous fiscal year, but profits were lower.

Electrical and Electronic Materials, Synthetic Fibers and Other Businesses

While there were signs of a partial recovery in the area of electrical and electronic materials through the year-end, the impact of the global IT slump was significant enough to cause a sharp decline in sales volumes, leading to lower sales and profits. To deal with these harsh conditions, we sought to improve our cost competitiveness by shifting production of some products from Japan to Malaysia and taking other steps to

restructure our business operations. In the solar cell category, the full-scale launch of a hybrid product with a 10% conversion ratio during the year resulted in a substantial increase in sales volumes.

In the area of synthetic fibers, a continuing slump in the acrylic fiber market caused sales to decline below last year's levels in both volume and sales amount. However, we achieved an increase in profits by focusing our marketing efforts on products with characteristics that enhance added value.

In the electrical and electronic materials, synthetic fibers and other businesses segment, sales and profits fell year-on-year, primarily because of the large decline affecting the IT sector.

Other business activities were affected by deteriorating economic conditions and the resulting decline in demand. Yet although sales fell below the previous fiscal year's figures, profits increased thanks to the impact of restructuring.

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.

(3) Outlook for Year to March 2003

While the US economy was seriously affected by the terrorist attacks on New York and Washington, it has since shown its underlying strength by regaining its stability. The Asian economies have reacted by displaying signs of a recovery in IT-related production, and changes are emerging in materials market conditions centered on China.

As a result of these developments, we are beginning to see the first faint glimmers of light for the Japanese economy, but uncertainties about its future persist as a result of delays in resolving structural issues such as non-performing loan disposals and the inability to escape from deflationary concerns.

In the chemical industry, raw materials prices are expected to increase as a result of rising naphtha prices and the yen's depreciation. However, a recovery in profitability looks quite unlikely since stagnant domestic demand centered on personal consumption makes it very difficult to transfer cost increases to product prices. Moreover, competition is expected to intensify as companies struggle to survive, accelerating the weeding-out and restructuring processes affecting companies and businesses on a global scale.

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

Forecasts for the Year to March 2003

1. Consolidated Forecasts

Net Sales	¥368.0 billion (3.5% increase over year ended March 2002)
Ordinary income	¥20.5 billion (12.2% increase over year ended March 2002)
Net income	¥11.0 billion (17.4% increase over year ended March 2002)

2. Non-Consolidated Forecasts

Net Sales	¥242.0 billion (3.1% increase over year ended March 2002)
Ordinary income	¥18.0 billion (6.4% increase over year ended March 2002)
Net income	¥10.5 billion (37.3% increase over year ended March 2002)

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 therefore 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 ¥125 to the U.S. dollar, which is our main currency used, and ¥112 to the euro.

(b) Financial Position

(1) Consolidated Cash Flows

Cash flows from operating activities during the fiscal year under review amounted to ¥33,117 million. The main components of this total include net income before income taxes of ¥17,737 million, depreciation and amortization of ¥25,245 million, and working capital of ¥3,845 million. Income taxes, etc., paid amounted to minus ¥10,740 million.

Cash flows from investing activities were negative to the tune of ¥22,706 million, primarily because of the acquisition of tangible fixed assets worth ¥26,591 million such as ultra heat-resistant polyamide film manufacturing facilities.

Cash flows from finance activities were also negative by ¥19,613 million, mainly because of the redemption of the seventh unsecured convertible bond issue (¥9,893 million) using the Company's own funds.

Consequently the balance of cash and equivalents at the end of the fiscal year decreased by ¥9,226 million compared with the preceding year to ¥31,567 million.

(2) Assets, Liabilities and Capital

Total assets at the end of the fiscal year dropped by ¥25,262 million compared with the preceding year to ¥379,944 million, largely because

investments in securities declined as a result of falling market values.

In contrast, interest-bearing debt at year-end fell by ¥15,675 million to ¥82,929 million following the use of the Company's own funds to redeem the seventh unsecured convertible bond issue, and debt repayments.

Shareholders' equity increased by ¥1,756 million to ¥180,895 million because retained earnings were sufficient to absorb the decline in appreciation gains on securities.

As a result, the Company's financial health improved. The shareholders' equity ratio increased year-on-year from 44.2% to 47.6%, and the D/E ratio (debt to equity ratio) improved from 0.55 to 0.46.

Consolidated Balance Sheet

(Unit: ¥million)

Item	Year ended March 31, 2002	Year ended March 31, 2001	Increase (decrease)	Item	Year ended March 31, 2002	Year ended March 31, 2001	Increase (decrease)
Assets	379,944	405,207	(25,262)	Liabilities	194,400	221,386	(26,986)
Current assets	182,051	196,023	(13,972)	Current liabilities	115,622	131,795	(16,173)
Cash and deposits	12,679	18,129	(5,450)	Trade notes and accounts payable	48,162	54,355	(6,192)
Trade notes and accounts receivable	93,163	101,303	(8,140)	Short-term borrowings	24,898	28,525	(3,627)
Marketable securities	20,418	23,263	(2,844)	Convertible bonds redeemed within 1 year	7,598	9,894	(2,296)
Inventories	42,159	43,183	(1,023)	Accrued income taxes	3,283	5,471	(2,188)
Deferred tax assets	2,742	2,225	517	Accrued consumption taxes	573	750	(177)
Others	11,368	8,474	2,893	Reserve for losses on debts guaranteed	592	-	592
Allowance for doubtful receivables	(480)	(556)	75	Deferred tax liabilities (current)	6	1	5
				Others	30,507	32,796	(2,288)
Fixed assets	197,893	209,184	(11,290)	Fixed liabilities	78,778	89,591	(10,812)
Tangible fixed assets	137,207	137,759	(551)	Bonds	20,000	20,000	-
Buildings and structures	46,318	46,035	283	Convertible bonds	18,593	26,191	(7,598)
Machinery and equipment	64,947	65,233	(285)	Long-term loans	11,839	13,993	(2,153)
Land	21,674	21,170	504	Employee's severance and retirement benefits	26,631	27,617	(985)
Construction in progress	4,266	5,320	(1,054)	Retirement benefits for directors and statutory auditors	859	734	124
				Deferred tax liabilities (non-current)	452	396	56
Intangible fixed assets	3,178	3,254	(76)	Others	402	658	(256)
Investments and other assets	57,507	68,170	(10,662)	Minority interests	4,649	4,681	(32)
Investments in securities	35,012	48,869	(13,857)				
Unconsolidated subsidiaries and affiliates	5,331	5,516	(184)	Shareholders' equity	180,895	179,139	1,755
Long-term loans receivable	3,069	3,668	(598)	Common stock	33,046	33,046	0
Long-term prepaid expenses	875	978	(103)	Additional paid-in capital	34,647	34,646	0
Deferred tax assets (non-current)	6,431	1,965	4,466	Retained earnings	110,656	104,135	6,521
Others	7,524	7,891	(367)	Net unrealized gains on marketable securities	6,158	12,213	(6,055)
Allowance for doubtful receivables	(737)	(719)	(17)	Foreign currency translation adjustment	(3,577)	(4,901)	1,323
				Treasury stock	(35)	(1)	(34)
Total assets	379,944	405,207	(25,262)	Total liabilities, minority interests and shareholders' equity	379,944	405,207	(25,262)

Consolidated Income Statement and Retained Earnings

(Unit: ¥million)

Item	Year ended March 31, 2002	Year ended March 31, 2001	Increase (decrease)
Net sales	355,580	367,339	(11,758)
Cost of sales	257,232	265,869	(8,636)
Gross profit	98,437	101,470	(3,122)
Selling, general and administrative expenses	77,890	77,463	427
Operating income	20,457	24,006	(3,549)
Non-operating income	3,094	3,307	(213)
Interest and dividends income	764	1,203	(438)
Others	2,330	2,104	225
Non-operating expenses	5,286	5,230	55
Interest paid	1,871	1,986	(115)
Others	3,414	3,243	171
Ordinary income	18,266	22,084	(3,818)
Extraordinary gain	2,709	1,009	1,700
Gain on land sales	2,709	-	2,709
Gain on sales of stock of affiliated companies	-	1,009	(1,009)
Extraordinary loss	3,238	2,365	872
Valuation losses on investment securities	1,746	-	1,746
Losses on investments in affiliated companies	694	-	694
Expenditure on structural improvement of electrical and electronic material business	797	-	797
Losses on disposals of research facilities	-	1,865	(1,865)
Write down on investment securities	-	500	(500)
Net income before taxes, etc.	17,737	20,728	(2,990)
Income taxes (current)	8,518	10,174	(1,655)
Income taxes (deferred)	(455)	(39)	(415)
Minority interests	302	54	248
Net income	9,372	10,539	(1,167)
Outstanding balances of consolidated surpluses at beginning of term	104,135	96,566	7,569
Increase in retained earnings	124	-	124
Increase by merge of consolidated subsidiaries	124	-	124
Decrease in retained earnings	2,975	2,970	5
Dividends	2,860	2,860	0
Bonuses to directors and statutory auditors	114	109	5
Outstanding balances of consolidated surpluses at term end	110,656	104,135	6,521

Consolidated Statement of Cash Flows

(Unit: ¥million)

Item	Term	Year ended March 31, 2002	Year ended March 31, 2001
I. Cash flows from operating activities			
Net income before taxes		17,737	20,728
Depreciation and amortization		25,245	23,884
Decrease in allowance for employee retirement and severance		-	(27,697)
Increase (decrease) in allowance for employee retirement benefits		(1,000)	27,617
Increase (decrease) in allowance for doubtful receivables		(62)	181
Interest and dividend income		(764)	(1,203)
Interest expense		1,871	1,986
Gain on land sales		(2,709)	-
Loss on sales and disposals of tangible fixed assets		1,020	3,219
Gain on sales of affiliate equities		-	(1,009)
Write-down of investment securities		1,746	-
Loss on investments in affiliated companies		694	-
Expenditure on structural improvement of electrical and electronic material business		709	-
Gain on sales of investment securities		(228)	(239)
Decrease (increase) in trade receivables		8,758	(13,037)
Decrease (increase) in inventories		1,591	(3,681)
Increase (decrease) in trade payables		(6,503)	6,773
Others		(3,149)	2,932
Subtotal		44,953	40,455
Interest and dividends received		794	1,132
Interest paid		(1,890)	(1,954)
Income taxes paid		(10,740)	(11,533)
Net cash provided by operating activities		33,117	28,099
II. Cash flows from investment activities			
Payment for purchase of marketable securities		(1,140)	(3,396)
Income from sales, etc., of marketable securities		200	3,455
Payments for purchase of tangible fixed assets		(26,591)	(18,834)
Income from sales of tangible fixed assets		2,845	-
Payment for purchase of intangible fixed assets		(648)	(552)
Payment for purchase of investment securities		(1,339)	(998)
Income from sales, etc., of investment securities		3,419	3,565
Increase in loans receivables		(282)	(1,235)
Decrease in loans receivables		712	393
Others		118	(3,015)
Net cash used in investing activities		(22,706)	(20,617)
III. Cash flows from finance activities			
Increase (decrease) in short-term borrowings		(1,606)	1,698
Proceeds from long-term debts		660	2,570
Repayment of long-term debts		(5,761)	(8,065)
Repayment of convertible bonds		(9,893)	-
Dividends paid		(2,860)	(2,860)
Dividends paid to minority interests		(116)	(101)
Others		(34)	9
Net cash used in finance activities		(19,613)	(6,749)
IV. Effect of exchange rate variation on cash and equivalents		(24)	482
V. Increase (decrease) in cash and equivalents		(9,226)	1,215
VI. Cash and equivalents at beginning of term		40,793	39,569
VII. Effect of changes in consolidated subsidiaries		-	8
VIII. Cash and equivalents at term end		31,567	40,793

Relationship between balance of cash and equivalents at the end of the accounting term and the amounts of items shown in the consolidated balance sheet

(Unit: ¥million)

	Year ended March 31, 2002	Year ended March 31, 2001
Cash and cash account	12,679	18,129
Time deposits (period of deposit greater than 3 months)	(126)	(188)
Accounts of marketable securities	20,418	23,263
Stocks and bonds (redemption period exceeds 3 months)	(1,404)	(410)
Cash and equivalents	31,567	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 account closing for consolidated subsidiaries

Accounts close for Kaneka Singapore Co. (Pte.) Ltd., Kaneka Plastics Corp., Kaneka Delaware Corp., and Taiyoyushi K.K. on December 31. Consolidated financial statements are prepared using the 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 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 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. Derivatives
 - Market value method
 - C. Valuation of inventories
 - Manufactured goods / merchandise:* Primarily, valuation at cost based on the periodic (monthly) average method.
 - Raw materials / work in progress:* Primarily, valuation at cost based on the moving average cost method.

(2) Accounting method for important depreciated assets

Tangible fixed assets: Primarily based on the declining balance 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

The amount required to provide for employees' retirement benefits has been provided on the basis of estimated retirement benefit liabilities and pension assets at the end of the current fiscal year. 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

Provision has been made for retirement bonuses to directors on the basis of the amount required as of the end of the current fiscal year in accordance with internal rules.

D. Reserve for Losses on Debts Guaranteed

The estimated amount required for the fulfillment of debt guarantees to affiliated companies has been provided.

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

Foreign currency denominated assets and debts are translated into yen at spot rates on the 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 allocation accounting is applied to currency swap transactions that fulfill the requirements of allocation accounting method.

B. Hedge instruments and hedge items

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

Hedge items: 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 and interest rate movement risks are hedged.

D. Valuation method of effectiveness

Effectiveness of hedge is evaluated by comparing market movement or cash flow movement of hedge items and hedge instrument.

(7) Additional note regarding preparation of statements

Consumption taxes are not included in accounting treatments.

5. Evaluation of assets and liabilities of subsidiaries

Fair market value method is adopted.

6. Amortization of consolidation adjustment account

The difference between the cost of investments and equity in the net assets of subsidiaries is amortized over 5 years on a straight-line method. If such amount is not material, it is directly changed to income (loss) for the current year.

7. Distribution of retained earnings

Distribution of retained earnings are stated on the determined amount during the consolidated fiscal year.

8. Scope of cash and equivalents in consolidated statements of cash flows

In preparing the 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 Consolidated Balance Sheet

	Term ended March 31, 2002	Term ended March 31, 2001
	<hr/>	<hr/>
		(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed assets	352,760	333,447
2. Discount on notes receivable	1,264	1,116
Notes payable endorsed for payment	645	588
3. Contingent liabilities		
Guarantees	623	1,250
Commitments to guarantee	100	124
Letter of awareness	165	167

1. Segment Information

1. Segment information by business

(1) Year ended March 31, 2002

(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	175,092	133,850	46,637	355,580	-	355,580
(2) Intersegment	1,547	2	3,640	5,189	5,189	-
Total	176,639	133,852	50,277	360,770	5,189	355,580
Operating expenses	165,091	110,095	46,546	321,732	13,390	335,123
Operating income	11,548	23,757	3,731	39,037	18,580	20,457
II. Assets, depreciation and amor- tization and capital expenditures						
Assets	160,233	88,386	42,851	291,472	88,472	379,944
Depreciation & amortization	12,719	4,688	5,172	22,579	2,333	24,913
Capital expenditures	9,680	4,711	6,738	21,131	3,049	24,180

(2) Year ended 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 amor- tization 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 sheets, Polyolefin foam by beads method, Expandable polystyrene, PVC sash windows
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 ¥18,616 million and ¥17,650 million for the term ended March 31, 2002, 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 ¥88,897 million and ¥99,880 for the term ended March 31, 2002, 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) Year ended March 31, 2002

(Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	308,762	46,818	355,580	-	355,580
(2) Internal sales between segments	6,901	5,056	11,957	11,957	-
Total	315,664	51,874	367,538	11,957	355,580
Operating expenses	279,408	48,837	328,246	6,876	335,123
Operating income	36,255	3,037	39,292	18,834	20,457
II. Assets	252,691	43,946	296,637	83,306	379,944

(2) Year ended March 31, 2001

(Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	326,851	40,487	367,339	-	367,339
(2) Internal sales between segments	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) Year ended March 31, 2002

(Unit: ¥million)

	Asia	North America	Europe	Other regions	Total
Sales	43,331	26,366	30,894	5,872	106,464
Consolidated sales					355,580
The ratio of sales to consolidated sales (%)	12.2	7.4	8.7	1.6	29.9

(2) Year ended March 31, 2001

(Unit: ¥million)

	Asia	North America	Europe	Other regions	Total
Sales	46,253	22,674	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 leases that ownership of the assets is transferred to lessee

Unit: ¥million

(1) Amounts equivalent to acquisition, to less accumulated depreciation, and to the outstanding balances of leased properties at the closing date

	Term ended March 2002	Term ended March 2001
	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>
Amount equivalent to acquisition	3,711	3,780
Amount equivalent to less accumulated depreciation	1,940	2,107
Amount equivalent to outstanding balances at the term end	1,770	1,672

(2) Amount equivalent to outstanding balance of future lease payments at the term end

Within one year	662	713
<u>Over one year</u>	<u>1,107</u>	<u>959</u>
Total	1,770	1,672

(3) Lease payments (amount equivalent to depreciation and amortization)

801	756
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(4) The straight-line method is used to calculate amounts equivalent to depreciation and amortization.

(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

	Term ended March 2002	Term ended March 2001
Within one year	74	81
<u>Over one year</u>	<u>269</u>	<u>267</u>
Total	344	348

3. Transaction with related party

Not applicable

4. Tax Effective Accounting

1. Significant components of deferred tax assets and liabilities

Unit: ¥million

	Term ended March 2002	Term ended March 2001
(Deferred tax assets)		
Retirement benefits	9,294	9,415
Loss carryforwards	4,051	3,867
Valuation losses on investment securities	1,259	-
Excess bonuses accrued	1,229	1,023
Net unrealized holding gains on securities	30	340
Others	5,993	5,060
Sub-total	<u>21,799</u>	<u>19,709</u>
Provisions for evaluation	<u>(5,799)</u>	<u>(4,917)</u>
Total deferred tax assets	<u>15,999</u>	<u>14,791</u>
(Deferred tax liabilities)		
Net unrealized holding gains on securities	4,493	9,216
Others	2,791	1,782
Total deferred tax liabilities	<u>7,284</u>	<u>10,998</u>
Net deferred tax assets	<u>8,714</u>	<u>3,793</u>

2. Significant differences between the statutory tax rates and corporate effective tax rates

	Term ended March 2002	Term ended March 2001
Statutory tax rates	42.00 %	42.00 %
Losses carryforwards of subsidiaries which do not apply tax effect accounting	5.12	3.53
Foreign tax credit	(2.44)	(1.71)
Non-temporary expense such as entertainment expenses	1.16	1.01
Non-temporary gains such as dividend received	(1.65)	(1.72)
Elimination of dividends on consolidation	4.22	4.05
Others	(2.95)	1.73
Effective tax rate	<u>45.46</u>	<u>48.89</u>

5 . Securities

Term ended March 31, 2002

1. Securities held for dealing
No corresponding securities
2. Bonds held to maturity listed at market value
No corresponding bonds
3. Other securities with market value

(Unit: ¥million)

	Acquisition value	Amount on balance sheet	Difference
(Securities that amount exceeds acquisition cost on the consolidated balance sheet)			
(1) Stock	10,039	21,540	11,500
(2) Bonds			
Government bonds, local government bonds, etc.	-	-	-
Corporate bonds	11	14	3
Others	239	247	7
(3) Others	1,998	1,999	1
Sub total	12,289	23,802	11,512
(Securities that amount does not exceed acquisition cost on the consolidated balance sheet)			
(1) Stock	5,442	4,565	(877)
(2) Bonds			
Government bonds, local government bonds, etc.	-	-	-
Corporate bonds	641	618	(22)
Others	1,000	931	(68)
(3) Others	1,000	991	(8)
Sub total	8,083	7,107	(976)
Grand total	20,373	30,909	10,536

4. Other securities sold during the fiscal year (April 1, 2001 - March 31, 2002)

(Unit: ¥million)

Sales	Gains on sales	Losses on sales
2,412	898	8

5. Non-marketable securities and their amount on the consolidated balance sheet

- (1) Bond held to maturity
No corresponding bonds
- (2) Other securities (Unit: ¥million)

Non-listed stock (excluding OTC stock)	6,309
Non-listed overseas bonds	1,183
Mutual funds invested in bonds	17,014
Others	13

6. Redemption schedule for other securities with maturity and bonds held-to-maturity

(Unit: ¥million)

	Maturity within one year	Maturity over one year less than five years
(1) Bonds		
Government bonds, local government bonds, etc.	-	-
Corporate bonds	140	493
Others	199	-
(2) Others	1,999	-
Total	2,340	493

Term ended March 31, 2001

1. Securities held for dealing
No corresponding securities
2. Bonds held to maturity listed at market value
No corresponding bonds
3. Other securities with market value

(Unit: ¥million)

	Acquisition value	Amount on balance sheet	Difference
(Securities that amount exceeds acquisition cost on the consolidated balance sheet)			
(1) Stock	13,489	35,426	21,937
(2) Bonds			
Government bonds, local government bonds, etc.	-	-	-
Corporate bonds	11	17	6
Others	239	244	4
(3) Others	-	-	-
Sub total	13,740	35,688	21,947
(Securities that amount does not exceed acquisition cost on the consolidated balance sheet)			
(1) Stock	5,090	4,384	(705)
(2) Bonds			
Government bonds, local government bonds, etc.	-	-	-
Corporate bonds	-	-	-
Others	2,000	1,883	(116)
(3) Others	-	-	-
Sub total	7,090	6,268	(821)
Grand total	20,831	41,957	21,125

4. Other securities sold during the fiscal year (April 1, 2000 - March 31, 2001)

(Unit: ¥million)

Sales	Gains on sales	Losses on sales
2,412	898	8

5. Non-marketable securities and their amount on the consolidated balance sheet

- (1) Bond held to maturity
No corresponding bonds

(2) Other securities	(Unit: ¥million)
Non-listed stock (excluding OTC stock)	5,925
Non-listed overseas bonds	1,183
Mutual funds invested in bonds	23,053
Others	13

6. Redemption schedule for other securities with maturity and bonds held-to-maturity

(Unit: ¥million)

	Maturity within one year	Maturity over one year less than five years
(1) Bonds		
Government bonds, local government bonds, etc.	-	-
Corporate bonds	-	17
Others	199	-
(2) Others	-	-
Total	199	17

6 . Derivatives Transactions

Term ended March 31, 2002

No applicable

(Note) Derivatives that are applicable to hedge accounting are excluded.

Term ended March 31, 2001

No applicable

(Note) Derivatives that are applicable to hedge accounting are excluded.

7 . Employees' Severance and Retirement Benefits

1. Outline of the System for Severance and Retirement Benefits

Kaneka and its domestic consolidated subsidiaries have a welfare pension fund plan, a qualified retirement pension plan and a lump-sum benefit plan as defined benefit plan. A premium severance payment system is being adopted in certain cases. Further, certain overseas consolidated subsidiaries have defined contribution plans.

2. Benefit obligation

	Term ended March 2002	Term ended March 2001
Projected benefit obligation	(78,970)	(71,216)
Fair valued of pension assets	40,233	37,824
Unfunded benefit obligation (+)	(38,736)	(33,391)
Unrecognized actuarial loss	13,549	5,773
Unrecognized prior service cost	1,445	-
Severance and retirement benefits (+ +)	(26,631)	(27,617)

(Notes) 1. The above includes the public portion of the welfare pension fund.

2. The subsidiaries use the simplified method in calculating the retirement benefit obligation.

3. Components of net pension and severance costs

	Term ended March 2002	Term ended March 2001
Service costs (see notes 1 and 2)	3,646	3,212
Interest costs	2,322	2,254
Expected return on plan assets	(1,292)	(1,360)
Net transition obligation	-	15
Recognized actuarial loss	577	-
Amortization of prior service cost	(361)	-
Severance and retirement benefit expenses (+ + + + +)	4,891	4,121

(Notes) 1. The above excludes employee contributions to the welfare pension fund.

2. Retirement benefit expenses of consolidated subsidiaries, which have adopted the simplified method, are included in service costs.

4. Assumptions used in the calculation of benefit obligation and others

	Term ended March 2002	Term ended March 2001
Allocation method for projected benefits	Straight-line standard	Straight-line standard
Discount rate	3.0%	3.5%
	(3.5% as of the beginning of the term)	
Expected rate of return on plan assets	3.5%	3.5%
Period of amortizing prior service cost	5 years	-
Period of amortizing actuarial differences	10 years	10 years
Period of amortizing net transition obligation	-	1 year

Manufacturing, Orders and Sales

(1) Manufacturing Results

(Unit: ¥million)

Business Segment	Term from April 1, 2001 to March 31, 2002	Term from April 1, 2000 to March 31, 2001	Year on year rate(%)
Chemicals, Resins and Plastics	146,024	148,097	98.6
Foodstuffs and Pharmaceuticals	87,449	89,740	97.4
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	42,272	50,285	84.1
Total	275,746	288,124	95.7

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	Term from April 1, 2001 to March 31, 2002	Term from April 1, 2000 to March 31, 2001	Year on year rate(%)
Chemicals, Resins and Plastics	175,092	178,473	98.1
Foodstuffs and Pharmaceuticals	133,850	134,129	99.8
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	46,637	54,736	85.2
Total	355,580	367,339	96.8