

Consolidated Quarterly Financial Results for the Third Quarter Ended December 2003

February 9, 2004

Name of Listed Company: Kaneka Corporation

Code Number: 4118 Tokyo, Osaka, Nagoya (First section)

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

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1. Notes to Consolidated Quarterly Financial Statements

- (1) Standards adopted in financial statements : (same as the interim consolidated financial statements)
- Changes in accounting policies : None
- Changes in accounting method from interim financial statements : None
- (2) Changes in scope of consolidation or application of the equity method : None
- (3) Auditing by certified public accountant or auditing companies : None

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

2. Consolidated Business Performance for the Third Quarter Ended December 2003

(from April 1, 2003 to December 31, 2003)

*Financial data for the third quarter of the previous fiscal year, which was not disclosed, has been prepared for the purpose of comparison with the current third quarter according to similar procedures.

(1) Consolidated Business Performance

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
Nine months ended December 2003	299,272	6.8	24,751	19.4	22,397	22.6	12,077	35.0
Nine months ended December 2002	280,116	-	20,738	-	18,265	-	8,943	-
Year ended March 2003 (reference)	372,269	4.7	26,911	31.5	23,005	25.9	13,373	42.7

	Net income per share	Fully diluted net income per share
	¥	¥
Nine months ended December 2003	34.25	33.14
Nine months ended December 2002	25.08	24.02
Year ended March 2003 (reference)	37.24	35.63

Note: The percentages in the net sales, operating income, ordinary income, and quarter net income columns, represent increases (decreases) compared with corresponding period of the previous year.

(2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
As of December 2003	387,793	197,389	50.9	562.81
As of December 2002	381,303	181,358	47.6	511.32
As of March 2003 (reference)	370,050	185,747	50.2	521.77

(Consolidated Cash Flows)

	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
Nine months ended December 2003	25,477	(18,617)	(12,867)	24,956
Nine months ended December 2002	25,621	(19,026)	(4,262)	33,919
Year ended March 2003 (reference)	40,040	(27,899)	(13,364)	31,051

3. Forecast for Consolidated Business Performance in the Term Ending March 2004

(from April 1, 2003 to March 31, 2004)

Forecast has been revised since the announcement of interim financial statements on November 6, 2003. (See page 3.)

	Net sales	Ordinary income	Net income	Net income per share
	¥million	¥million	¥million	¥
Overall term	397,000	28,500	15,000	42.59

Note: Projected net income per share is based on the estimated average number of issued shares during the term ending March 2004.

*The above performance forecasts are regarded as reasonable on the basis of information available at the time of announcement, therefore, readers should be aware that actual results may vary from these forecasts due to the various uncertain factors involved.

1. Business Results

The Group recorded higher sales and profits for the nine months (from April 1, 2003 to December 31, 2003) than in the same period in the previous fiscal year. Net sales, operating income and ordinary income amounted to ¥299,272 million (up 6.8%), ¥24,751 million (up 19.4%) and ¥22,397 million (up 22.6%), respectively.

Sales by business segment are detailed below:

[Chemicals, Resins and Plastics]

Exports of PVC and caustic soda increased. Sales of specialty plastics were solid, partly attributable to the increase in sales volume of MS polymers in Europe and the U.S. In the plastic products category, sales of expanded polyolefin foams were brisk. As a result, total sales generated by the segment increased from the same period in the previous fiscal year.

[Foodstuffs and Pharmaceuticals]

Sales of foodstuffs exceeded the level posted in the same period of the previous year due to an increase in sales volume, while pharmaceuticals also performed strongly, especially functional foodstuffs. As a result, total sales in this segment increased from the same period in the previous fiscal year.

[Electrical and Electronic Materials, Synthetic Fibers and Others]

In the electrical and electronic materials category, sales of ultra heat-resistant Polyimide films, optical films, etc. increased. The sales volume of solar cells also increased significantly, driven by exports. On the other hand, sales of synthetic fibers decreased due to the weak market and the impact of the strong yen. Consequently, total sales generated by this segment increased, especially due to outstanding contributions made by electrical and electronic materials.

2. Financial Conditions

(1) Cash Flows

Cash flows provided by operating activities were ¥25,477 million, while cash flows used in investing activities amounted to ¥18,617 million and cash flows used in financing activities were ¥12,867 million. Consequently, the balance of cash and cash equivalents as of the end of the third quarter was ¥24,956 million, a decrease of ¥6,095 million from March 31, 2003.

(2) Assets, Liabilities and Shareholder's Equity

Total assets increased by ¥17.7 billion to ¥387.7 billion from March 31, 2003. On the other hand, the balance of liabilities with interest decreased by ¥7.3 billion to ¥67.9 billion. Shareholder's equity increased by ¥11.6 billion to ¥197.3 billion primarily due to increases in retained earnings and net unrealized gains on available-for-sale securities.

3. Performance Forecasts

Our performance forecasts for the year ending March 31, 2004 are revised as follows:

(1) Forecasts for Consolidated Business Performance in the Term Ending March 2004 (from April 1, 2003 to March 31, 2004)

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Forecast presented at the time of announcement of interim financial statements (A)	395,000	27,000	14,500
Revised forecast (B)	397,000	28,500	15,000
Increase (decrease) (B) - (A)	2,000	1,500	500
Percentage change (%)	0.5	5.6	3.4

(2) Forecasts for Non-consolidated Business Performance in the Term Ending March 2004 (from April 1, 2003 to March 31, 2004)

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Forecast presented at the time of announcement of interim financial statements (A)	255,000	22,500	13,000
Revised forecast (B)	256,500	24,500	13,500
Increase (decrease) (B) - (A)	1,500	2,000	500
Percentage change (%)	0.6	8.9	3.8

Note: 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.

Balance Sheets (Consolidated)

(Unit: ¥million)

	As of December 31, 2002	As of December 31, 2003	As of March 31, 2003		As of December 31, 2002	As of December 31, 2003	As of March 31, 2003
Item	¥million	¥million	¥million	Item	¥million	¥million	¥million
Assets				Liabilities			
I. Current Assets				I. Current Liabilities			
Cash and deposit	30,350	22,051	27,848	Notes and accounts payable	54,856	60,317	50,850
Notes receivable and accounts receivable	100,669	106,018	93,932	Short-term borrowings	20,645	13,702	20,848
Marketable securities	6,681	11,009	8,428	Convertible bonds redeemed within 1 year	7,598	18,593	-
Inventories	41,646	43,749	42,921	Others	30,057	35,719	30,404
Others	12,551	14,307	11,748	Total current liabilities	113,157	128,331	102,102
Total current assets	191,901	197,135	184,879				
II. Fixed Assets				II. Fixed Liabilities			
Tangible fixed assets	131,663	128,604	131,845	Bonds and convertible bonds	38,593	20,000	38,593
Intangible fixed assets	3,175	3,118	3,319	Long-term borrowings	16,023	15,605	15,783
Investments and other assets	54,564	58,933	50,007	Employees' severance and retirement benefits	25,433	19,697	20,659
Total fixed assets	189,402	190,657	185,171	Others	1,831	1,845	2,278
				Total fixed liabilities	81,882	57,148	77,314
				Total liabilities	195,039	185,480	179,417
				Minority interests			
				Minority interests	4,905	4,923	4,885
				Shareholders' equity			
				I. Common stock	33,046	33,046	33,046
				II. Additional paid in capital	34,647	34,837	34,826
				III. Retained earnings	116,655	130,224	121,084
				IV. Unrealized gain on available-for-sale securities	3,485	9,085	2,049
				V. Foreign currency translation adjustments	(4,400)	(4,990)	(4,031)
				VI. Treasury stock	(2,075)	(4,813)	(1,228)
				Total shareholders' equity	181,358	197,389	185,747
Total assets	381,303	387,793	370,050	Total liabilities, minority interests and shareholders' equity	381,303	387,793	370,050

Statements of Income (Consolidated)

	Term from April 1, 2002 to December 31, 2002	Term from April 1, 2003 to December 31, 2003	Increase (Decrease)	Term from April 1, 2002 to March 31, 2003
Item	¥million	¥million	¥million	¥million
I. Net sales	280,116	299,272	19,156	372,269
II. Cost of sales	200,390	214,039	13,649	267,683
Gross profit	79,725	85,232	5,506	104,586
III. Selling, general and administrative expenses	58,987	60,480	1,493	77,674
Operating income	20,738	24,751	4,013	26,911
IV. Non-operating income	1,062	1,374	311	1,405
Interest and dividends income	609	666	57	843
Others	453	707	253	561
V. Non-operating expenses	3,535	3,728	193	5,311
Interest expense	1,205	1,111	(93)	1,692
Others	2,329	2,616	286	3,618
Ordinary income	18,265	22,397	4,131	23,005
VI. Extraordinary gain	-	-	-	4,592
VII. Extraordinary loss	2,585	465	(2,119)	4,897
Income before income taxes	15,680	21,931	6,250	22,700
Income taxes (current)	6,413	9,687	3,273	9,037
Minority interests	324	166	(157)	290
Net income	8,943	12,077	3,134	13,373

Statements of Cash Flows (Consolidated)

	Term from April 1, 2002 to December 31, 2002	Term from April 1, 2003 to December 31, 2003	Term from April 1, 2002 to March 31, 2003
Item	¥million	¥million	¥million
I. Cash flows from operating activities			
Net income before income taxes	15,680	21,931	22,700
Depreciation and amortization	17,407	16,444	23,526
(Increase) decrease in trade receivables	(7,597)	(12,557)	1,230
(Increase) decrease in inventories	319	(1,393)	(618)
Increase (decrease) in trade payables	6,714	9,776	928
Others	(6,902)	(8,724)	(7,728)
Net cash provided by operating activities	25,621	25,477	40,040
II. Cash flows from investing activities			
Payment for purchase of marketable securities	(1,734)	(3,885)	(2,380)
Proceeds from marketable securities	409	3,377	397
Payment for purchase of fixed assets	(14,029)	(10,925)	(19,815)
Payment for purchase of intangible assets	(701)	(490)	(1,051)
Payment for purchase of investment securities	(4,354)	(6,339)	(6,223)
Proceeds from sales and maturities of investment securities	2,253	1,434	2,448
Others	(867)	(1,787)	(1,273)
Net cash used in investing activities	(19,026)	(18,617)	(27,899)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings	(3,473)	(6,183)	(4,088)
Proceeds from long-term debt	5,250	870	5,250
Repayment of long-term debt	(1,089)	(981)	(1,442)
Dividends paid	(2,852)	(2,826)	(2,852)
Others	(2,097)	(3,746)	(10,230)
Net cash used in financing activities	(4,262)	(12,867)	(13,364)
IV. Effect of exchange rate changes on cash and cash equivalents	19	(87)	61
V. Net increase (decrease) in cash and cash equivalents	2,352	(6,095)	(1,161)
VI. Cash and cash equivalents at beginning of term	31,567	31,051	31,567
VII. Cash and cash equivalents due to change in the scope of consolidation	-	-	646
VIII. Cash and cash equivalents at term end	33,919	24,956	31,051

Segment Information

1. Segment Information by Business

(Unit: ¥million)

		Term from April 1, 2002 to December 31, 2002	Term from April 1, 2003 to December 31, 2003	Term from April 1, 2002 to March 31, 2003
Sales	Chemicals, Resins and Plastics	137,346	148,228	182,437
	Foodstuffs and Pharmaceuticals	104,784	107,413	139,350
	Electrical and Electronic Materials, Synthetic Fibers and Others	37,984	43,630	50,481
	Total	280,116	299,272	372,269
Operating Income	Chemicals, Resins and Plastics	8,214	7,616	9,955
	Foodstuffs and Pharmaceuticals	13,769	17,203	19,111
	Electrical and Electronic Materials, Synthetic Fibers and Others	1,274	2,908	1,381
	Eliminations and corporate	(2,520)	(2,976)	(3,537)
	Total	20,738	24,751	26,911

Note: From this third quarter, we changed the absorption method for the fundamental research and development. The consolidated results of the previous year and previous third quarter are also indicated by the new absorption method.

2. International Sales

(Unit: ¥million)

		Term from April 1, 2002 to December 31, 2002	Term from April 1, 2003 to December 31, 2003	Term from April 1, 2002 to March 31, 2003
Sales	Asia	36,166	37,183	49,088
		12.9%	12.4%	13.1%
	North America	22,560	24,355	29,611
		8.1%	8.1%	7.9%
	Europe	27,562	27,795	37,103
		9.8%	9.3%	9.9%
	Other Areas	4,092	4,011	5,214
	1.5%	1.4%	1.4%	
	Total	90,382	93,345	121,018
	The ratio of international sales to consolidated sales (%)	32.3%	31.2%	32.5%
Consolidated net sales		280,116	299,272	372,269

Recent Trends in Quarterly Business Performance (Reference)

Term ending March 2004 (Consolidated)

	First quarter from April 1, 2003 to June 30, 2003	Second quarter from July 1, 2003 to September 30, 2003	Third quarter from October 1, 2003 to December 31, 2003	Fourth quarter from January 1, 2004 to March 31, 2004
	¥million	¥million	¥million	¥million
Net sales	97,618	99,315	102,337	-
Gross profit	27,858	26,907	30,466	-
Operating income	7,206	7,193	10,351	-
Ordinary income	6,608	6,002	9,785	-
Income before income taxes	6,608	6,002	9,319	-
Net income	3,650	3,324	5,103	-
	¥	¥	¥	¥
Net income per share	10.28	9.44	14.53	-
Fully diluted net income per share	9.96	9.17	14.01	-
Total assets	375,616	379,637	387,793	-
Shareholders' equity	189,757	192,718	197,389	-
	¥	¥	¥	¥
Shareholders' equity per share	534.81	549.35	562.81	-
	¥million	¥million	¥million	¥million
Cash flows from operating activities	10,469	8,048	6,959	-
Cash flows from investing activities	(4,664)	(6,522)	(7,431)	-
Cash flows from financing activities	(2,499)	(4,320)	(6,047)	-
Cash and cash equivalents as of the end of the term	34,295	31,550	24,956	-

Term ended March 2003 (Consolidated)

	First quarter from April 1, 2002 to June 30, 2002	Second quarter from July 1, 2002 to September 30, 2002	Third quarter from October 1, 2002 to December 31, 2002	Fourth quarter from January 1, 2003 to March 31, 2003
	¥million	¥million	¥million	¥million
Net sales	89,913	92,859	97,343	92,153
Gross profit	25,525	25,350	28,849	24,860
Operating income	6,534	5,298	8,905	6,173
Ordinary income	5,512	4,641	8,112	4,739
Income before income taxes	5,512	4,111	6,057	7,020
Net income	3,112	2,245	3,585	4,429
	¥	¥	¥	¥
Net income per share	8.71	6.29	10.08	12.16
Fully diluted net income per share	8.33	6.08	9.61	11.61
Total assets	376,147	376,620	381,303	370,050
Shareholders' equity	181,557	182,661	181,358	185,747
	¥	¥	¥	¥
Shareholders' equity per share	507.82	513.83	511.32	521.77
	¥million	¥million	¥million	¥million
Cash flows from operating activities	14,437	10,986	197	14,418
Cash flows from investing activities	(6,245)	(8,862)	(3,918)	(8,873)
Cash flows from financing activities	(3,406)	1,394	(2,250)	(9,101)
Cash and cash equivalents as of the end of the term	36,224	39,743	33,919	31,051