

Consolidated Quarterly Financial Results for the First Quarter Ended June 2003

August 8, 2003

Name of Listed Company: Kaneka Corporation Code Number:4118
 (URL <http://www.kaneka.co.jp/>) Stock Exchange Listed: Tokyo, Osaka, Nagoya (First section)
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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 statement : 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 First Quarter Ended June 2003 (from April 1, 2003 to June 30, 2003)

(1) Consolidated business performance

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
First quarter ended June 2003	97,618	8.6	7,206	10.3	6,608	19.9	3,650	17.3
First quarter ended June 2002	89,913	—	6,534	—	5,512	—	3,112	—
Year ended March 2003	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
	¥	¥
First quarter ended June 2003	10.28	9.96
First quarter ended June 2002	8.71	8.33
Year ended March 2003	37.24	35.63

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

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
As of June 2003	375,616	189,757	50.5	534.81
As of June 2002	376,147	181,557	48.3	507.82
As of March 2003	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
First quarter ended June 2003	10,469	(4,664)	(2,499)	34,295
First quarter ended June 2002	14,437	(6,245)	(3,406)	36,224
Year ended March 2003	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)

	Net sales	Ordinary income	Net income	Net income per share
	¥million	¥million	¥million	¥
Interim term	190,000	12,000	6,500	18.32
Overall term	390,000	27,000	14,500	40.55

Note: Projected net income per share is based on the number of shares issued at the end of this first quarter.

*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 growth in terms of sales and profit for the first quarter of the fiscal year ending March 2004. Net sales, operating income and ordinary income for the first quarter were ¥97,618 million (up 8.6% higher than the first quarter of the previous fiscal year), ¥7,206 million (up 10.3%) and ¥6,608 million (up 19.9%) respectively.

Sales by business segments are detailed below:

[Chemicals, Resins and Plastics]

While domestic demand remained sluggish and the Asia region suffered some effect of SARS (Severe Acute Respiratory Syndrome), exports of PVC and caustic soda remained robust and European and U.S. sales of MBS resins and MS polymer increased in the specialty plastics category. Furthermore, in the plastic products category, sales of polyolefin foams grew steadily. As a result, total sales in this segment exceeded the sales recorded in the first quarter of the previous fiscal year.

[Foodstuffs and Pharmaceuticals]

Although sales of foodstuffs remained at the same level as in the first quarter of the previous fiscal year, sales of pharmaceutical intermediates and bulk, medical devices and functional foods were all strong. As a result, total sales in this segment significantly exceeded the sales recorded in the first quarter of the previous fiscal year.

[Electrical and Electronic Materials, Synthetic Fibers and Others]

In the electrical and electronic materials category, sales were brisk primarily in the area of ultra-heat-resistant polyimide film and optical film. In addition, sales volume of solar cells increased in Japan and overseas. On the other hand, sales of synthetic fibers decreased compared with the first quarter of the previous fiscal year as the market demand remained weak. Due to the high performance of electrical and electronic materials, sales in this segment significantly exceeded the sales recorded in the first quarter of the previous fiscal year.

2. Financial Conditions

a) Cash Flows

Cash flows from operating activities were ¥10,469 million while cash used for investing activities were ¥4,664 million and cash flows used for financing activities were ¥2,499 million. Consequently, cash and cash equivalents as of June 2003 was ¥34,295 million, an increase of ¥3,243 million from as of March 2003.

b) Assets, Liabilities and Shareholder's Equity

Total assets increased by ¥5,566 million to ¥375,616 million during the first quarter. On the other hand, the balance of liabilities with interest decreased by ¥543 million to ¥74,681 million. Shareholder's equity increased by ¥4,010 million to ¥189,757 million primarily due to increases in retained earnings and net unrealized gains on available-for-sale securities.

3. Business Outlook

Since the performance for the first quarter is in line with our expectations, interim and annual performance forecasts will not be revised at this time.

Balance Sheets (Consolidated)

(Unit: ¥million)

Term Item	As of June 30, 2003	As of March 31, 2003	As of June 30, 2002	Term Item	As of June 30, 2003	As of March 31, 2003	As of June 30, 2002
Assets	375,616	370,050	376,147	Liabilities	180,907	179,417	189,865
Current assets	190,567	184,879	181,691	Current liabilities	103,897	102,102	112,051
Cash and deposit	31,063	27,848	26,577	Notes and accounts payable	50,510	50,850	49,328
Notes receivable and accounts receivable	94,383	93,932	90,980	Short-term borrowings	19,618	20,848	22,226
Marketable securities	9,215	8,428	11,106	Convertible bonds redeemed within 1 year	—	—	7,598
Inventories	42,441	42,921	42,546	Others	33,768	30,404	32,899
Others	13,553	11,748	10,480	Long-term liabilities	77,010	77,314	77,813
Fixed assets	185,048	185,171	194,456	Bonds and convertible bonds	38,593	38,593	38,593
Tangible fixed assets	131,066	131,845	134,128	Long-term borrowings	16,469	15,783	11,590
Intangible fixed assets	3,259	3,319	3,098	Employees' severance and retirement benefits	20,052	20,659	25,871
Investments and other assets	50,723	50,007	57,229	Others	1,894	2,278	1,759
				Minority interests	4,951	4,885	4,724
				Shareholders' equity	189,757	185,747	181,557
				Common stock	33,046	33,046	33,046
				Additional paid-in capital	34,826	34,826	34,647
				Retained earnings	123,200	121,084	112,246
				Unrealized gain on available-for-sale securities	4,034	2,049	6,410
				Foreign currency translation adjustments	(3,584)	(4,031)	(4,734)
				Treasury stock	(1,765)	(1,228)	(60)
Total assets	375,616	370,050	376,147	Total liabilities, minority interests and shareholders' equity	375,616	370,050	376,147

Statements of Income (Consolidated)

(Unit: ¥million)

Item	Term	First quarter from April 1, 2003 to June 30, 2003	First quarter from April 1, 2002 to June 30, 2002	Increase (Decrease)	Term from April 1, 2002 to March 31, 2003
Net sales		97,618	89,913	7,705	372,269
Cost of sales		69,760	64,387	5,372	267,683
Gross profit		27,858	25,525	2,332	104,586
Selling, general and administrative expenses		20,651	18,991	1,660	77,674
Operating income		7,206	6,534	672	26,911
Non-operating income		511	551	(40)	1,405
Interest and dividends income		325	300	25	843
Others		186	251	(65)	561
Non-operating expenses		1,109	1,573	(464)	5,311
Interest expense		375	389	(13)	1,692
Others		734	1,184	(450)	3,618
Ordinary income		6,608	5,512	1,096	23,005
Extraordinary gain		—	—	—	4,592
Extraordinary loss		—	—	—	4,897
Income before income taxes		6,608	5,512	1,096	22,700
Income taxes (current)		2,929	2,317	612	9,037
Minority interests		28	82	(53)	290
Net income		3,650	3,112	537	13,373

Statements of Cash Flows (Consolidated)

(Unit: ¥million)

Item	Term	First quarter from April 1, 2003 to June 30, 2003	First quarter from April 1, 2002 to June 30, 2002	Term from April 1, 2002 to March 31, 2003
		Money amount	Money amount	Money amount
Cash flows from operating activities		6,608	5,512	22,700
Net income before income taxes		5,348	5,677	23,526
Depreciation and amortization		(293)	1,700	1,230
(Increase) decrease in trade receivables		500	(768)	(618)
(Increase) decrease in inventories		(414)	1,400	928
Increase (decrease) in trade payables		(1,279)	914	(7,728)
Others				
Net cash provided by operating activities		10,469	14,437	40,040
II. Cash flows from investing activities				
Payment for purchase of marketable securities		(842)	—	(2,380)
Proceeds from marketable securities		1,149	—	397
Payment for purchase of fixed assets		(3,834)	(5,988)	(19,815)
Payment for purchase of intangible assets		(116)	(251)	(1,051)
Payment for purchase of investment securities		(250)	(110)	(6,223)
Proceeds from sales and maturities of investment securities		55	18	2,448
Others		(825)	86	(1,273)
Net cash used in investing activities		(4,664)	(6,245)	(27,899)
III. Cash flows from financing activities				
Increase (decrease) in short-term borrowings		(763)	(1,546)	(4,088)
Proceeds from long-term debt		633	—	5,250
Repayment of long-term debt		(396)	(403)	(1,442)
Dividends paid to minority shareholders		(1,423)	(1,430)	(2,852)
Others		(549)	(26)	(10,230)
Net cash used in financing activities		(2,499)	(3,406)	(13,364)
IV. Effect of exchange rate changes on cash and cash equivalents		(62)	(127)	61
V. Net increase (decrease) in cash and cash equivalents		3,243	4,657	(1,161)
VI. Cash and cash equivalents at beginning of term		31,051	31,567	31,567
VII. Cash and cash equivalents due to change in the scope of consolidation		—	—	646
VIII. Cash and cash equivalents at term end		34,295	36,224	31,051

Segment Information

1. Segment Information by Business

(Unit: ¥million)

		First quarter from April 1, 2003 to June 30, 2003	First quarter from April 1, 2002 to June 30, 2002	Term from April 1, 2002 to March 31, 2003
Sales	Chemicals, Resins and Plastics	47,528	44,645	182,437
	Foodstuffs and Pharmaceuticals	36,616	33,226	139,350
	Electrical and Electronic Materials, Synthetic Fibers and Others	13,474	12,040	50,481
	Total	97,618	89,913	372,269
Operating income	Chemicals, Resins and Plastics	1,190	2,810	9,955
	Foodstuffs and Pharmaceuticals	6,463	4,098	19,111
	Electrical and Electronic Materials, Synthetic Fibers and Others	565	438	1,381
	Eliminations and corporate	(1,013)	(813)	(3,537)
	Total	7,206	6,534	26,911

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

2. International Sales

(Unit: ¥million)

		First quarter from April 1, 2003 to June. 30, 2003	First quarter from April 1, 2002 to June. 30, 2002	Term from April 1, 2002 to March 31, 2003
Sales	Asia	12,696 13.0%	12,711 14.1%	49,088 13.1%
	North America	8,647 8.9%	7,843 8.7%	29,611 7.9%
	Europe	10,305 10.5%	8,257 9.2%	37,103 9.9%
	Other Areas	1,253 1.3%	1,389 1.6%	5,214 1.4%
	Total	32,903	30,202	121,018
	The ratio of sales to consolidated sales (%)	33.7%	33.6%	32.5%
Consolidated sales		97,618	89,913	372,269