

Interim Consolidated Financial Results for the Term Ending March 2003

November 14, 2002

Name of Listed Company: Kaneka Corporation
Code Number: 4118
(URL <http://www.kaneka.co.jp>)

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

Representative Title: President, Representative Director Name: Masatoshi Takeda
Contact Title: General Manager - Finance and Accounting Name: Setsuo Shimazaki

Date of board of directors meeting for closing of interim accounts: November 14, 2002

1. Consolidated business performance for the interim term ended September 2002 (from April 1, 2002 to September 30, 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	%
Interim term ended September 2002	182,772	1.9	11,832	9.6	10,153	5.1
Interim term ended September 2001	179,390	(2.0)	10,800	(11.8)	9,658	(13.1)
Term ended March 2002	355,580		20,457		18,266	

	Interim net income		Interim net income per share	Fully diluted interim net income per share
	¥million	%	¥	¥
Interim term ended September 2002	5,358	3.8	15.00	14.41
Interim term ended September 2001	5,164	(15.7)	14.44	13.71
Term ended March 2002	9,372		26.21	24.84

- Notes: 1. Profit and loss based on equity-method investment balance: ¥14 million in interim term ended September 2002, ¥78 million in interim term ended September 2001, ¥228 million in term ended March 2002
2. Average number of shares (consolidated): 357,186,892 in interim term ended September 2002, 357,608,997 in interim term ended September 2001, 357,601,011 in term ended March 2002
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

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Interim term ended September 2002	376,620	182,661	48.5	513.83
Interim term ended September 2001	388,775	178,355	45.9	498.74
Term ended March 2002	379,944	180,895	47.6	505.91

Note: Number of shares issued and outstanding (consolidated) at end of period: 355,487,477 in interim period to September 2002, 357,611,514 in interim period ended September 2001, 357,566,620 in the term ended March 2002

(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
Interim term ended September 2002	25,424	(15,108)	(2,012)	39,743
Interim term ended September 2001	13,407	(11,604)	(11,850)	30,582
Term ended March 2002	33,117	(22,706)	(19,613)	31,567

(4) Scope of subsidiary consolidation and equity method

Consolidated subsidiaries: 40, 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): 0,
Equity method companies (new): 0 (exclusion): 0

2. Forecast for consolidated business performance in the term ending March 2003 (from April 1, 2002 to March 31, 2003)

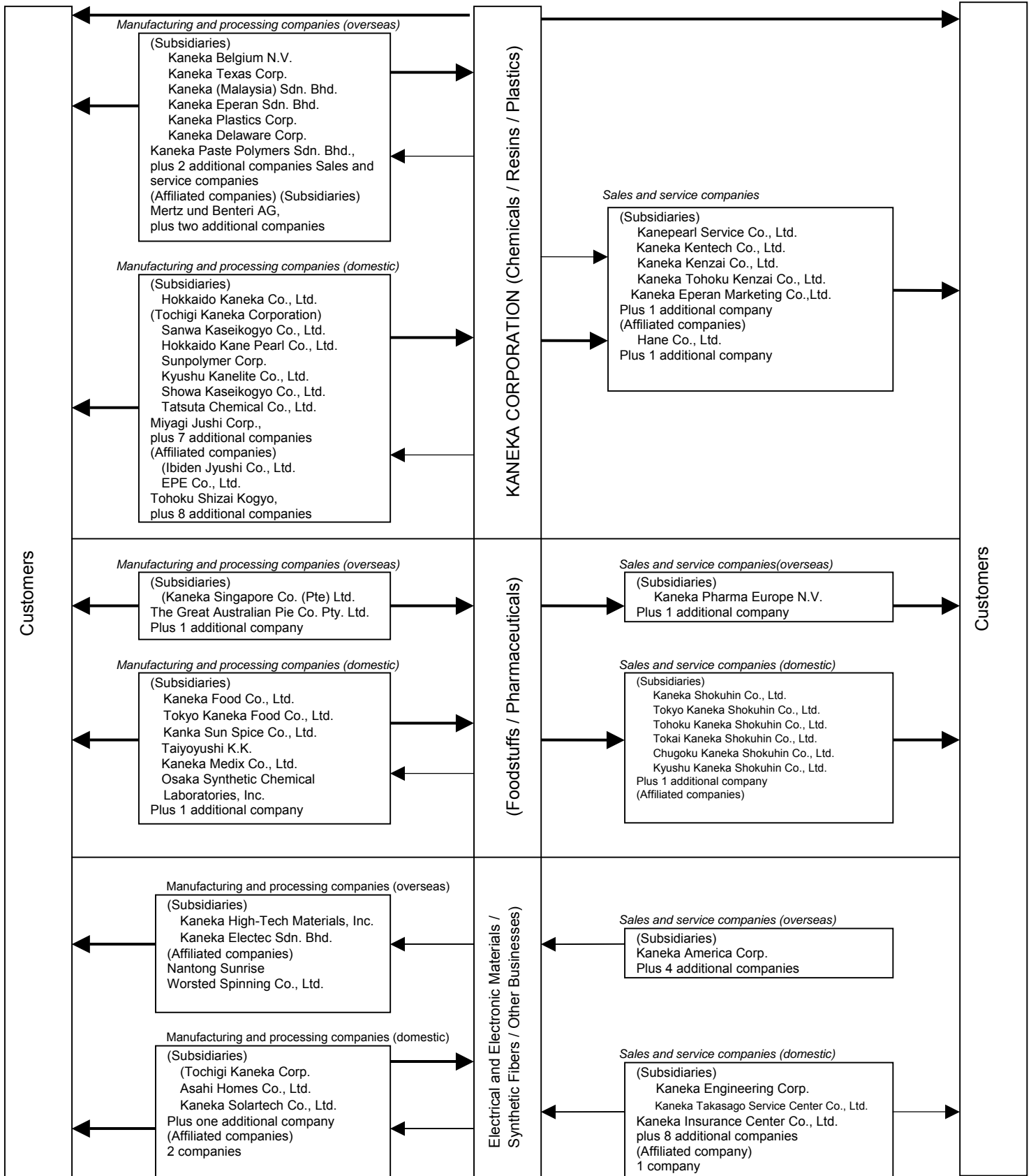
	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Overall term	368,000	21,000	11,000

(Reference) Projected net income per share (whole year): ¥30.94

*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.

The Corporate Group Situation

The major business of the company, its 71 subsidiaries and 20 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 "o" 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. is a subsidiary that overlaps 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

(a) Basic Management Policies

At a time when the chemical industry is undergoing massive restructuring on a global scale, Kaneka Corporation's objectives are focused on sustained high growth and high profitability and at the same time, being a corporation highly recognized in society for acting fairly and positively. To achieve these objectives we have adopted a management vision under which we are determined to become a "Leading Chemical Company Focusing on Specific Markets" in our mid-term management plan (2002 to 2004) which started in April of 2002.

We are working to realize this vision by emphasizing several key factors, including;

- effective research continuing to create strategic technologies of originality and uniqueness,
- new developments establishing attractive and innovative products as well as businesses matching our strategic technologies to current market trends,
- selected marketing plans offering added value that satisfies our customers,
- international cost competitiveness based on enhanced technology and specialties, and
- unique, global business development pursuing specified markets worldwide.

We are aiming to establish a distinctive corporation, Kaneka Group, which will act fairly and positively in the 21st century by achieving management policies based on the above five key factors above.

(b) 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. In addition, at the annual meeting of shareholders in June 2002, our decision to implement our flexible capital plan corresponding to changes in the financial environment was approved: Kaneka was to acquire equity capital of up to 18 million ordinary shares, 18 billion yen in total. Accordingly, in the current interim period the company has acquired treasury stock comprising 2 million shares from the market.

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 both in Japan and overseas, and investment and lending. Through these measures, we intend to strengthen our overall financial structure.

(c) Concepts and Policies on Cutting Investment Units

In the current circumstances of liquidity or supply of our own stock and cost effectiveness, we consider that the cutting of investment units is not reasonable at present. We will continuously identify and analyze our shareholders' needs and the state of the stock market in order to act in a timely manner suitable to achieve optimum results.

(d) Targets and Management Indicators

Kaneka's goals for the early 21st century are consolidated net sales of ¥500,000 million, consolidated ordinary income of ¥50,000 million, and the very effective management of individual businesses indicated by the important indicator, management ROA, the rate of total assets to ordinary income.

(e) Medium-Range Management Strategies

A fundamental issue for the Japanese chemical industry is how a company can survive internationally 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, by acting fairly and positively. Kaneka is characterized by diversified businesses and a focus on specified global markets that provide us with competitiveness, as well as by offering added values that satisfy our customers' needs in terms of products, services and information. We aim to be a winner among chemical companies that lead the market. For that purpose, Kaneka is determined to initiate a change of its business structure to achieve stronger corporate fundamentals and further growth in accordance with the interim program which started in April 2002. To achieve these objectives, Kaneka is focusing on several issues, as described below, and is attempting to obtain positive results by meeting optimum "selection," "speed" and "productivity" requirements.

(f) Our Tasks**1. Change of Business Structure**

Five potential segments consisting of high-performance resins, information and communication, functional foods, pharmaceuticals and healthcare, and solar cells have been designated as the most important strategic fields into which the company's management resources will be effectively invested.

2. Higher Competitiveness of Existing Businesses

Management resources will be selectively invested in our existing businesses that are expected to be profitable. On the other hand, unprofitable or poorly profitable businesses will be identified and analyzed in terms of the potential for future development or self-recovery and will be determined for possible downsizing, withdrawal, alliance or other radical measures.

3. Higher Efficiency of In-House Systems

For quick responses to possible changes in our business environment, the improvement of in-house systems is a critical issue. In April 2002, new management and control systems were introduced for enhanced group management, as well as higher efficiency of the resources operation, cash-flow control, business ROA control and other new management and controlling systems.

4. Acceleration of Global Business Development

Global business development is essential for achieving our management plans. Kaneka has been working on this for years by establishing production facilities and marketing headquarters abroad, including those in Belgium, the U.S. and Malaysia, that will operate continuously and effectively by focusing on competitive products and services. Also, Kaneka is planning various businesses division-wise for Chinese markets, which are gaining competitiveness as "world factories."

(g) Programs for Higher Efficiency of Management and Control Structures

Kaneka's top management calls management conferences whenever required to discuss and review issues 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, and its task is to carry out financial and operational audits as required to ensure that all activities are in compliance with the external regulations and internal procedure rules.

(h) Other Important Matters Relating to Management

Our basic policies for corporate activities are as follows:

1. We contribute to society and social needs and pursue the growth of our company simultaneously, through the development and supply of products and services that are useful and valuable for industries and the public.
2. We conduct our activities in accordance with all applicable laws and governmental regulations and also with applicable social and ethical standards.
3. We strive to produce safe products, and to anticipate, meet and comply with all applicable environmental standards.
4. We act fairly in business and trade, and embrace the precepts of free and fair competition.
5. We communicate properly and as appropriate with our investors and with the public.
6. We strive to maintain a safe and motivated workplace and to respect individuals of all origins and the rights of employees.

2. Business Results

(a) Overview of the Interim Results for Fiscal 2003

Interim Results

The global economy in this interim period showed active consumption in the U.S., in the sectors of housing and automobiles in particular. Meanwhile, the public's distrust accounting statements of companies, uncertainty about the political situation in the Middle East, and the likelihood of worsening performance by many companies are expected to add to the unfavorable effects of the current situation. And in Europe, the economic recovery was obstructed by the recent great flood.

Asia's economies have been recovering, towed along by an active Chinese economy, yet exports to the U.S. are not optimistic. The Japanese economy has gradually recovered by increasing exports and the performance of companies has turned positive. However, prolonged deflation has kept domestic demand low, including capital expenditure and individual consumption. Under the circumstances, the Japanese stock market recorded its lowest levels since the crash of the bubble economy, showing a lack of strong steps toward real recovery.

In the chemical industries, the circumstances kept fluctuating so that stagnant domestic demand accelerated the dependency on foreign demand and the price of petrochemical materials increased due to the effect of high prices for crude oil or naphtha.

In such a business environment, the Kaneka Group and affiliate companies, domestic and foreign, actively initiated plans regarding reformation of business structure and improvement of management efficiency in order to strengthen competitiveness and financial fundamentals. Consolidated net sales in the interim period were ¥182,772 million (1.9% higher than the result of the previous year), ordinary income amounted to ¥10,153 million (5.1% higher than the result of the previous year).

Net income in the interim period was ¥5,358 million (3.8% higher than the result of the previous year), despite the extraordinary loss for the allocation of the early retirement encouragement plan at ¥530 million.

The non-consolidated results of the interim period show that net sales totaled ¥119,270 million, an increase of 0.9% compared with the same period last year, ordinary income was ¥7,220 million, a decline of 27.8%, and net income was ¥4,298 million, a decline of 35.9%.

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

Segment Trends

Chemicals, Resins and Plastics

In the area of PVC and caustic soda, exports of PVC to China and other Asian countries increased, but domestic sales declined due to the low demand in housing investment and public investment. There was also a volume decline in sales of caustic soda due to poor domestic demand.

In the area of specialty plastics, sales and income from MBS resins increased in Europe, the U.S. and Asia. Domestic sales of specialty PVC resins remained at the same level as in the previous year. However, sales in Asia and other foreign countries increased significantly. New applications and markets for modified silicon polymers successfully developed in Europe and the U.S. resulted in an increase of sales.

In the plastic products category, non-FC products, which have superior environmental adaptability, were well-marketed for construction-related use, yet their sales volumes remained at the same level as the previous year due to the influence of the decrease in housing starts. Expanded polystyrene, focused on fish containers and the construction and civil engineering fields, resulted in an increase in sales compared with the results of the previous year, despite the fact that demand for packaging for electrical appliances remained low. Sales of polyolefin bead foam resins increased in all four important regions, Japan, the U.S., Europe and Asia, compared with the previous period, because demand for shock-absorbent packaging for PCs and other products recovered slightly and demand for bumper-core materials used for automobiles remained firm in the U.S.

Consequently, sales of this segment recorded higher levels than for the same term in the previous year. Income improvement from overseas subsidiaries largely contributed to a significant increase of profit.

Foodstuffs and Pharmaceuticals

Under harsh business circumstances in which consumer needs are widely diversified in the confectionary and bread markets, and a low price orientation has been established, sales of foodstuffs in this segment increased due to improving the efficiency of our supply system to distributors, as well as focusing on the marketing of new products and the development of new applications, by using nationwide distributor networks. However, due to the prolonged stagnant market and a cost hike in raw materials owing to the increase of oil price, profit decreased compared with the same period of the previous year.

In the pharmaceuticals category, sales of newly developed products in bulk pharmaceuticals and intermediates was lower than for the same period last year, while sales of existing products, such as anti-hypertensive agent intermediates and semi-synthetic penicillin intermediates, increased. Meanwhile, the intensive introduction and marketing approaches for new products contributed to an increase in sales of medical devices.

Sales in this segment maintained the level of the same period last year, yet profit decreased.

Electrical and Electronic Materials, Synthetic Fibers and Others

Since the beginning of the term, the demand for electrical materials and components has started to recover and sales, including ultra-heat-resistant polyimide film and optical film, were significantly higher than for the same period last year. The solar cell sales increased due to good result of hybrid types, which improved conversion efficiency to 10%. In the area of synthetic fibers, the demand for acrylic fibers started to recover in the export market and sales, mainly of pile, were higher than for the same period last year, yet the profit just maintained the same level as the same period last year due to the influence of a sharp rise in raw-material prices.

In the electrical and electronic materials and synthetic fibers business, the recovery of electrical and electronic materials contributed to higher sales and higher profit for the business than for the same period last year.

In the other businesses, due to the stagnant economy and poor demand, sales were lower than for the same period last year, but profit increased due to the effects of improvements in business management.

International Sales

Our export ratio increased and sales of the subsidiaries in Europe and the U.S. were generally favorable, resulting in increases in both overseas sales and the overseas sales ratio compared with the results for the same period last year.

Outlook for Year to March 2003

The U.S. economy has been gradually recovering. However, the housing investment that had remained firm began to decrease and the prospects are gloomy in the country. In Asia, the Chinese economy has continuously expanded, but in other Asian areas, exports to the U.S. began decreasing.

Japan still cannot find a solution to the bad loans and other structural problems, and is continuously struggling against deflationary trends. And IT-related demand began decreasing again, adding a pessimistic prospect to the Japanese economy.

In the chemical sector, the price of raw materials remains high due to the effects of the sharp rise of naphtha price and the weak yen. Ensuring profitability by the revision of product prices became a very important issue. Survival competition will intensify and the demise, downsizing or restructuring of companies is likely to continue 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.

Thus, the performance forecasts for the year ended March 31, 2002 are as follow.

1. Consolidated Forecasts

Sales	¥368 billion (3.5% increase from year ended March 2002)
Ordinary income	¥21 billion (15.0% increase from year ended March 2002)
Current net income	¥11 billion (17.4% increase from year ended March 2002)

2. Non-Consolidated Forecasts

Sales	¥242 billion (3.1% increase from year ended March 2002)
Ordinary income	¥15 billion (11.3% increase from year ended March 2002)
Current net income	¥9 billion (17.6% increase from 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 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 to be used, and ¥117 to the Euro.

(b) Financial Conditions

Consolidated Cash Flows

The cash flow provided by operating activities in the interim period was ¥25,424 million, including interim net income before income tax of ¥9,623 million, depreciation and amortization of ¥11,486 million, a decrease in working capital of ¥5,258 million, and payment of income taxes, ¥3,510 million.

The cash flow used in investing activities was ¥15,108 million mainly due to the purchase of tangible fixed assets, such as the pharmaceutical intermediates development plant etc.

The cash flow used in financing activities was ¥2,012 million resulting from the borrowing of long-term loans of ¥5,000 million, the purchase of treasury stock, and the repayment of short-term loans.

Consequently, cash and cash equivalents increased ¥8,176 million to ¥39,743 million at the end of the current interim period.

State of Assets, Liabilities, and Equities

Total assets as of the end of the interim period decreased by ¥3,300 million to ¥376,600 million due to deferring working capital. This resulted in a higher ROA (rate of assets to ordinary income)(annual basis value) of 5.4% (previous term 4.7%).

The balance of liabilities with interest as of the end of the interim period was ¥83,200 million, similar to that at the end of the previous term.

Equity capital was ¥182,600 million after absorbing a decrease, arising from the purchase of treasury stock, with an increase of surplus by ¥1,700 million.

Consequently, the equity capital ratio was 48.5% (previous term 47.6%), and the D/E ratio (rate of debt with interest to equity capital) was 0.46 (previous term 0.46), maintaining a healthy financial structure.

Interim Balance Sheets (Consolidated)

(Unit: ¥million)

Item	Interim term ended Sept. 30, 2002	Term ended March 31, 2002	Interim term ended Sept. 30, 2001	Item	Interim term ended Sept. 30, 2002	Term ended March 31, 2002	Interim term ended Sept. 30, 2001
Assets	376,620	379,944	388,775	Liabilities	189,184	194,400	205,745
Current assets	181,569	182,051	183,886	Current liabilities	106,899	115,622	117,495
Cash and deposits	35,073	12,679	5,545	Notes and accounts payable	45,752	48,162	48,073
Notes receivable and accounts Receivable	87,685	93,163	95,087	Short-term borrowings	21,065	24,898	28,466
Marketable securities	7,487	20,418	26,425	Convertible bonds redeemed within 1 year	7,598	7,598	-
Inventories	39,653	42,159	41,734	Accrued income taxes	3,929	3,283	4,826
Deferred tax assets	3,000	2,742	2,502	Accrued consumption taxes	676	573	305
Others	9,082	11,368	12,976	Allowance for loss on guarantees	592	592	-
Allowance for doubtful receivables	(413)	(480)	(385)	Deferred tax liabilities (current)	1	6	-
Fixed assets	195,051	197,893	204,889	Others	27,284	30,507	35,823
Tangible fixed assets	133,742	137,207	139,582	Fixed liabilities	82,284	78,778	88,250
Buildings and structures	45,610	46,318	46,393	Bonds payable	20,000	20,000	20,000
Machinery and equipment	60,718	64,947	64,530	Convertible bonds payable	18,593	18,593	26,191
Land	22,005	21,647	21,230	Long-term loans payable	16,040	11,839	13,280
Construction in progress	5,406	4,266	7,427	Employees' severance and retirement Benefits	25,841	26,631	27,148
Intangible fixed assets	3,072	3,178	3,206	Retirement benefits for directors and statutory auditors	817	859	784
Investments and other assets	58,236	57,507	62,099	Deferred tax liabilities (non-current)	464	452	391
Investments in securities	41,847	39,769	45,468	Others	528	402	454
Investment	1,471	1,603	1,673	Minority interests	4,774	4,649	4,673
Long-term loans receivable	2,874	3,069	3,476	Shareholders' equity	182,661	180,895	178,355
Long-term prepaid expenses	744	875	974	Common stock	33,046	33,046	33,046
Deferred tax assets (non-current)	5,712	6,431	4,435	Additional paid-in capital	34,647	34,647	34,647
Others	6,307	6,494	6,741	Retained earnings	114,492	110,656	107,879
Allowance for doubtful receivables	(722)	(737)	(669)	Unrealized gain on available-for-sale securities	6,618	6,158	8,081
				Foreign currency translation adjustments	(4,573)	(3,577)	(5,298)
				Treasury stock	(1,569)	(35)	0
Total assets	376,620	379,944	388,775	Total liabilities, minority interests and shareholders' equity	376,620	379,944	388,775

Interim Statements of Income (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2001 to Sept. 30, 2001	Increase (Decrease)	Term from April 1, 2001 to March 31, 2002
Net sales		182,772	179,390	3,381	355,580
Cost of sales		131,896	129,931	1,964	257,232
Gross profit		50,876	49,459	1,416	98,347
Selling, general and administrative expenses		39,043	38,659	384	77,890
Operating income		11,832	10,800	1,032	20,457
Non-operating income		917	1,702	(784)	3,094
Interest and dividends income		526	481	44	764
Others		391	1,220	(829)	2,330
Non-operating expenses		2,597	2,844	(246)	5,286
Interest expense		826	988	(161)	1,871
Others		1,770	1,855	(85)	3,414
Ordinary income		10,153	9,658	494	18,266
Extraordinary gain		-	1,076	(1,076)	2,709
Gain on land sales		-	1,076	(1,076)	2,709
Extraordinary loss		530	-	530	3,238
Early retirement encouragement plan		530	-	530	-
Write-down of investment securities		-	-	-	1,746
Loss on investments in affiliated companies		-	-	-	694
Restructuring costs for electrical and electronic materials business		-	-	-	797
Income before income taxes		9,623	10,735	(1,111)	17,737
Income taxes (current)		3,973	5,248	(1,275)	8,518
Income taxes (deferred)		56	203	(146)	(455)
Minority interests		235	118	116	302
Net income		5,358	5,164	193	9,372

Interim Consolidated Statements of Additional paid in capital and Retained Earnings

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to September 30, 2002	Interim term from April 1, 2001 to September 30, 2001	Increase (Decrease)	Term from April 1, 2001 to March 31, 2002
<Additional paid in capital>					
Starting balance for capital surplus		34,647	34,646	0	34,646
Increase in capital surplus		-	0	0	0
Conversion of convertible bonds		-	0	0	0
Decrease in capital surplus		-	-	-	-
Balance of capital surplus at term end		34,647	34,647	-	34,647
<Retained Earnings>					
Beginning balance for retained earnings		110,656	104,135	6,521	104,135
Increase in retained earnings		5,358	5,288	69	9,496
Net income		5,358	5,164	193	9,372
Increase due to merger of a consolidated subsidiary		-	124	(124)	124
Decrease in retained earnings		1,522	1,544	(22)	2,975
Cash dividends paid		1,430	1,430	0	2,860
Bonuses to directors and statutory auditors		92	114	(22)	114
Outstanding balances of retained earnings at term end		114,492	107,879	6,613	110,656

Interim Statements of Cash Flows (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2001 to Sept. 30, 2001	Term from April 1, 2001 to March 31, 2002
.Cash flows from operating activities				
Net income before income taxes		9,623	10,735	17,737
Depreciation and amortization		11,486	11,923	25,245
Provision for severance and retirement benefits		(793)	(464)	(1,000)
Increase (decrease) in allowance for doubtful receivables		(77)	(219)	(62)
Interest and dividend income		(526)	(481)	(764)
Interest expense		826	988	1,871
Gain on sale of land		-	(1,076)	(2,709)
Loss on disposals of property, plant and equipment		332	612	1,020
Gain on sales of investment securities		-	(818)	-
Write down of investment securities		-	105	1,746
Losses on investment in affiliated companies		-	-	694
Restructuring costs for electrical and electronic materials business		-	-	709
Equity in earnings of unconsolidated subsidiaries and affiliates		(14)	(78)	(228)
(Increase) decrease in trade receivables		5,360	6,082	8,758
(Increase) decrease in inventories		2,295	1,383	1,591
Increase (decrease) in trade payables		(2,397)	(6,230)	(6,503)
Others		3,083	(2,660)	(3,149)
Subtotal		29,200	19,801	44,953
Interest and dividends received		542	511	794
Interest paid		(807)	(1,012)	(1,890)
Income taxes paid		(3,510)	(5,893)	(10,740)
Net cash provided by operating activities		25,424	13,407	33,117
II. Cash flows from investing activities				
Payment for purchase of marketable securities		(1,233)	(1,000)	(1,140)
Proceeds from marketable securities		200	200	200
Payments for purchase of property, plant and equipment		(11,293)	(12,491)	(26,591)
Income from sales of land		-	-	2,845
Payment for purchase of intangible assets		(599)	(406)	(648)
Purchase of investments		(3,603)	(256)	(1,339)
Proceeds from sales and maturities of investments		2,269	2,169	3,419
Purchases of consolidated subsidiaries' stock		(1,057)	-	-
Increase in loans receivable		(204)	(252)	(282)
Decrease in loans receivable		173	365	712
Others		241	68	118
Net cash used in investing activities		(15,108)	(11,604)	(22,706)
III. Cash flows from financing activities				
Increase (decrease) in short-term borrowing		(3,197)	873	(1,606)
Proceeds from long-term debt		5,130	235	660
Repayment of long-term debt		(925)	(1,572)	(5,761)
Repayment of convertible bonds		-	(9,893)	(9,893)
Dividends paid		(1,430)	(1,430)	(2,860)
Dividends paid to minority shareholders		(66)	(63)	(116)
(Purchase) proceeds treasury stock		(1,522)	0	(34)
Net cash used in financing activities		(2,012)	(11,850)	(19,613)
IV. Effect of exchange rate changes on cash and cash equivalents				
		(127)	(165)	(24)
V. Net increase (decrease) in cash and cash equivalents				
		8,176	(10,211)	(9,226)
VI. Cash and cash equivalents at beginning of term				
		31,567	40,793	40,793
VII. Cash and cash equivalents at term end				
		39,743	30,582	31,567

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)

	(¥million)		
	Interim term ended Sept. 2002	Interim term ended Sept. 2001	Term ended March 2002
Cash and cash account	35,073	5,545	12,679
Time deposits (period of deposit greater than 3 months)	(288)	(107)	(126)
Accounts of marketable securities	7,487	26,425	20,418
Stocks and bonds (redemption period exceeds 3 months)	(2,529)	(1,280)	(1,404)
Cash and cash equivalents	39,743	30,582	31,567

Notes to Consolidated Financial Statements

1. Scope of Consolidation

- (1) Number of consolidated subsidiaries: 40 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 35 other companies
- (3) Consolidated subsidiaries newly included:
Osaka Synthetic Chemical Laboratories, Inc. became a subsidiary upon purchase of its stock and was included in the scope of the consolidation.
- (4) Consolidated subsidiaries excluded:
None
- (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., Taiyoyushi K.K. on June 30 and Osaka Synthetic Chemical Laboratories, Inc. on August 31. 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
Securities 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 securities sold is calculated by the moving average cost accounting method.)
 - Securities 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(monthly) average method.
 - 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 experienced rate of uncollected debt method for general debts and by individually reviewing the possibility of collection for special debts including doubtful debts.

B. Allowance for employee's severance and retirement benefits

To prepare for payment of severance and 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.

D. Allowance for loss on guarantees

The loss on fulfillment of liabilities guaranteed for subsidiaries was estimated.

(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 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.

D. Method for effectiveness evaluation

For evaluation of effectiveness, hedge targets and hedge methods are analyzed in market movements or cash flow fluctuations to determine any correlation.

(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.

(Additional information)

1 . Accounting for treasury stock and withdrawal from legal reserves

The standard on “Accounting for treasury stock and withdrawal from legal reserves” (Corporate Accounting Standard 1) has been newly applied to the current interim period. It has had a minor effect on gain or loss for the current period.

Due to revision of the rules for interim consolidated financial statements, those parts of shareholders' equity in the interim balance sheet (consolidated) and the interim retained earnings statements (consolidated) for the current term have been prepared in accordance with the revised rules.

Notes to the Interim Consolidated Balance Sheet

	Interim term ended Sept. <u>30, 2002</u>	Term ended March 31, <u>2002</u>	Interim term ended Sept. <u>30, 2001</u>
			(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed	360,085	352,760	341,491
2. Contingent liabilities			
Guarantees	705	623	1,187
Commitments to guarantee	100	100	110
Letter of awareness	134	165	159
3. Discount on notes receivable	921	1,264	1,264
Notes payable endorsed for payment	445	645	687

1. Segment Information

1. Segment information by business

(1) Interim term from April 1, 2002 to Sept. 30, 2002

(Unit: ¥million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
Sales						
(1) Customers	90,303	67,387	25,081	182,772	-	182,772
(2) Intersegment	861	3	2,342	3,207	(3,207)	-
Total	91,165	67,390	27,424	185,980	(3,207)	182,772
Operating expenses	86,095	59,321	25,900	171,317	(377)	170,939
Operating income	5,069	8,069	1,523	14,662	(2,830)	11,832

(2) 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
Sales						
(1) Customers	89,603	67,454	22,332	179,390	-	179,390
(2) Intersegment	820	0	1,572	2,393	(2,393)	-
Total	90,423	67,454	23,905	181,783	(2,393)	179,390
Operating expenses	88,368	56,710	23,573	168,652	(62)	168,590
Operating income	2,055	10,744	331	13,131	(2,330)	10,800

(3) Term from April 1, 2001 to 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
Sales						
(1) Customers	176,966	133,850	44,763	355,580	-	355,580
(2) Intersegment	1,547	2	3,640	5,189	(5,189)	-
Total	178,513	133,852	48,404	360,770	(5,189)	355,580
Operating expenses	172,685	114,359	48,385	335,430	(307)	335,123
Operating income	5,827	19,493	19	25,339	(4,881)	20,457

- 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, PVC compounds (flexible applications), PVC compounds (rigid applications), Caustic soda, Chloride
	Specialty Plastics	MBS resins, Heat-resistant and flame-resistant ABS resins, Specialty PVC resins, Modified silicon polymers
	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, Pharmaceutical bulk, pharmaceutical intermediates, Medical devices
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Electrical and Electronic Materials	Magnet wires, Heat-resistant polyimide film, Bonded magnetic materials
	Synthetic Fibers	Modacrylic fibers (Kanekearon)
	Other businesses	Engineering operations, Housing construction

3. Operating expenses included in the 'corporate and eliminations' column of ¥2,784 million, ¥2,347 million and ¥4,918million for the interim term ended September 30, 2002, the interim term ended September 30, 2001, and the term ended March 31, 2002, respectively, consist principally of fundamental research of the Company.

4. The costs for staff departments at headquarters, including the Accounting Department and the General Affairs Department etc., as well as the costs for fundamental research and development related to business sectors that have been treated as unabsorbed operating costs, were absorbed by the applicable business segments respectively.

The above changes were adopted for the further comprehensive understanding of business performances as soon as the "New Management and Control System" was introduced in the current term in order to strengthen the Group's management structure and improve the efficiency of the resources operation in response to changes in the business environment.

The business segments and sales classifications "PVC Compounds (flexible applications)" and "PVC Compounds (rigid applications)," changed from "Electrical and Electronic Materials and Others" to "PVC and Caustic Soda," and "Specialty Plastics" to "PVC and Caustic Soda," respectively.

The results of the previous interim term (consolidated) and the previous financial year (consolidated) are indicated by the new absorption method and the business segments.

2. Segment Information by Geographic Area

(1) Interim term from April 1, 2002 to Sept. 30, 2002 (Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
Sales					
(1) Customers	155,331	27,441	182,772	-	182,772
(2) Intersegment	4,288	2,516	6,805	6,805	-
Total	159,620	29,957	189,577	6,805	182,772
Operating expenses	148,559	26,252	174,811	3,871	170,939
Operating income	11,060	3,705	14,766	2,933	11,832

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

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
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	147,061	24,922	171,983	3,393	168,590
Operating income	12,388	781	13,170	2,369	10,800

(3) Term from April 1, 2001 to March 31, 2002 (Unit: ¥million)

	Japan	Other areas	Total	Elimination and corporate	Consolidated
Sales					
(1) Customers	308,762	46,818	355,580	-	355,580
(2) Intersegment	6,901	5,056	11,957	11,957	-
Total	315,664	51,874	367,538	11,957	355,580
Operating expenses	293,107	48,837	341,944	6,821	335,123
Operating income	22,557	3,037	25,594	5,136	20,457

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, 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 ¥2,784 million, ¥2,347 million and ¥4,918 million for the interim term ended September 30, 2002, the interim term ended September 30, 2001, and the term ended March 31, 2002, respectively, consist principally of fundamental research expenses of the Company.

3. As with the segment information by business category, the costs for staff departments at headquarters, including the Accounting Department and the General Affairs Department etc., as well as the costs for fundamental research and development related to business sectors that have been treated as unallocated operating costs, were allocated by the "Japan" segment. Segment information by geographic area in the interim term ended September 30, 2001 and the term ended March 31, 2002 is indicated in accordance with the new allocation method.

3. International Sales

(1) Interim term from April 1, 2002 to Sept. 30, 2002 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
Sales	24,490	15,401	18,144	2,792	60,829
Consolidated sales					182,772
The ratio of sales to consolidated sales (%)	13.4	8.4	9.9	1.5	33.3

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

	Asia	North America	Europe	Other Areas	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

(3) Term from April 1, 2001 to March 31, 2002 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	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

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 of America, Mexico

Europe: Belgium, United Kingdom

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. 2002	Term ended March 2002	Interim term ended Sept. 2001
	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>
Amount equivalent to acquisition	3,426	3,711	3,927
Amount equivalent to less accumulated depreciation	1,661	1,940	2,201
Amount equivalent to outstanding balances at the term end	1,764	1,770	1,725

(2) Future lease payments at the term end

Within one year	698	662	683
<u>Over one year</u>	<u>1,066</u>	<u>1,107</u>	<u>1,041</u>
Total	1,764	1,770	1,725

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

	387	801	404
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(4) The straight line 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 future lease payment to the outstanding balances at the end of the term of tangible fixed assets is low, figures shown in the above notes include interest.

2. Operating lease transactions

Unit: ¥million

Future lease payment

	Interim term ended Sept. 2002	Term ended March 2002	Interim term ended Sept. 2001
Within one year	55	74	61
<u>Over one year</u>	<u>187</u>	<u>269</u>	<u>209</u>
Total	242	344	270

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, 2002			Term ended March 31, 2002			Interim term ended September 30, 2001		
	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) Stocks	15,517	26,909	11,392	15,482	26,105	10,623	17,419	31,413	13,994
(2) Bonds									
Government bonds, local government bonds, etc	305	306	1	-	-	-	-	-	-
Corporate bonds	3,673	3,653	(20)	652	633	(19)	11	18	6
Others	239	243	3	1,239	1,179	(60)	2,239	2,161	(78)
(3) Others	1,000	1,027	27	2,998	2,991	(6)	1,000	1,009	9
Total	20,736	32,140	11,404	20,373	30,909	10,536	20,670	34,602	13,932

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

(Unit: ¥million)

	Interim term ended Sep. 30, 2002	Term ended March 31, 2002	Interim term ended Sep. 30, 2001
	Amount on interim balance sheet	Amount on balance sheet	Amount on interim balance sheet
(1) Bonds held to maturity ---	-	-	-
(2) Non-consolidated subsidiaries' stock and affiliates' stock	4,869	4,757	4,948
(3) Other securities			
Non-listed stock	7,223	6,309	6,001
Non-listed overseas bonds	-	1,183	1,183
Mutual funds (invested in bonds)	5,088	17,014	25,144
Others	13	13	13

4. Derivatives Transactions

Classification	Type	Interim term ended September 30, 2002			Term ended March 31, 2002			Interim term ended September 30, 2001		
		Contract amount	Market value	Unrealized gain (loss)	Contract amount	Market value	Unrealized gain (loss)	Contract amount	Market value	Unrealized gain (loss)
Currency	Foreign exchange contracts	4,148	4,124	24	-	-	-	-	-	-
Total		4,148	4,124	24	-	-	-	-	-	-

- Notes: 1. Derivatives that are applicable to hedge accounting are excluded from disclosure.
 2. Foreign exchanged contracts are made within the scope of real demand. Foreign exchange contracts are marked to market at the end of the term, and the valuation increase or decrease is treated as profit or loss.

Manufacturing, Orders and Sales

(1) Manufacturing Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2001 to Sept. 30, 2002	Interim term from April 1, 2000 to Sept. 30, 2001	Increase (Decrease) Ratio (%)	Term from April 1, 2001 to March 31, 2002
Chemicals, Resins and Plastics	74,729	76,503	(2.3)	148,272
Foodstuffs and Pharmaceuticals	41,282	45,662	(9.6)	87,449
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	24,075	20,442	17.8	40,024
Total	140,087	142,608	(1.8)	275,746

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.

3. The "New Management and Control System" was introduced in the current term in order to strengthen the Group's management structure and to improve the efficiency of the resources operation in response to changes in the business environment. Accordingly, the "PVC Compounds (flexible application)" business sector changed from "Electrical and Electronic Materials, Synthetic Fibers and Others" to "Chemicals, Resins and Plastics".

The results of the previous interim accounting period ended September 30, 2001 and the previous accounting year ended March 31, 2002 are indicated by the new business sectors.

(2) Orders

Products are mainly manufactured based on sales estimations.

(3) Sales Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2001 to Sept. 30, 2001	Increase (Decrease) Ratio (%)	Term from April 1, 2001 to March 31, 2002
Chemicals, Resins and Plastics	90,303	89,603	0.8	176,966
Foodstuffs and Pharmaceuticals	67,387	67,454	(0.1)	133,850
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	25,081	22,332	12.3	44,763
Total	182,772	179,390	1.9	355,580