

# Consolidated Financial Results for the Term Ending March 2003

May 8, 2003

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 Department

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

Date of directors' meeting for approval of accounts: May 8, 2003  
 Name of parent company (Code number: ) Parent company's shareholding ( %)  
 US accounting standards: Not adopted Note: Figures have been rounded down to the nearest million yen.

## 1. Consolidated Results for Year Ended March 2003 (April 1, 2002-March 31, 2003)

### (1) Consolidated business performance

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Year ended March 2003	372,269	4.7	26,911	31.5	23,005	25.9
Year ended March 2002	355,580	(3.2)	20,457	(14.8)	18,266	(17.3)

	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 2003	13,373	42.7	37.24	35.63	7.3	6.1	6.2
Year ended March 2002	9,372	(11.1)	25.95	24.60	5.2	4.7	5.1

Notes: 1. Profit and loss based on equity-method investment balance: Year ended March 2003: ¥(73) million  
 Year ended March 2002: ¥228 million  
 2. Average number of shares (consolidated): 356,102,542 in year ended March 2003, 357,601,011 in year ended March 2002  
 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 2003	370,050	185,747	50.2	521.77
Year ended March 2002	379,944	180,895	47.6	505.68

Note: Number of shares issued and outstanding (consolidated) at end of period: 355,779,305 in year ended March 2003, 357,566,620 in year 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
Year ended March 2003	40,040	(27,899)	(13,364)	31,051
Year ended March 2002	33,117	(22,706)	(19,613)	31,567

### (4) Scope of subsidiary consolidation and equity method

Consolidated subsidiaries: 41, equity method non-consolidated subsidiaries: 0,  
 Equity method affiliated companies: 2

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

Consolidated companies (new): 2 (excluded): 0,  
 Equity method companies (new): 0 (excluded): 1

## 2. Consolidated Performance Forecasts for the Year to March 2004 (April 1, 2003-March 31, 2004)

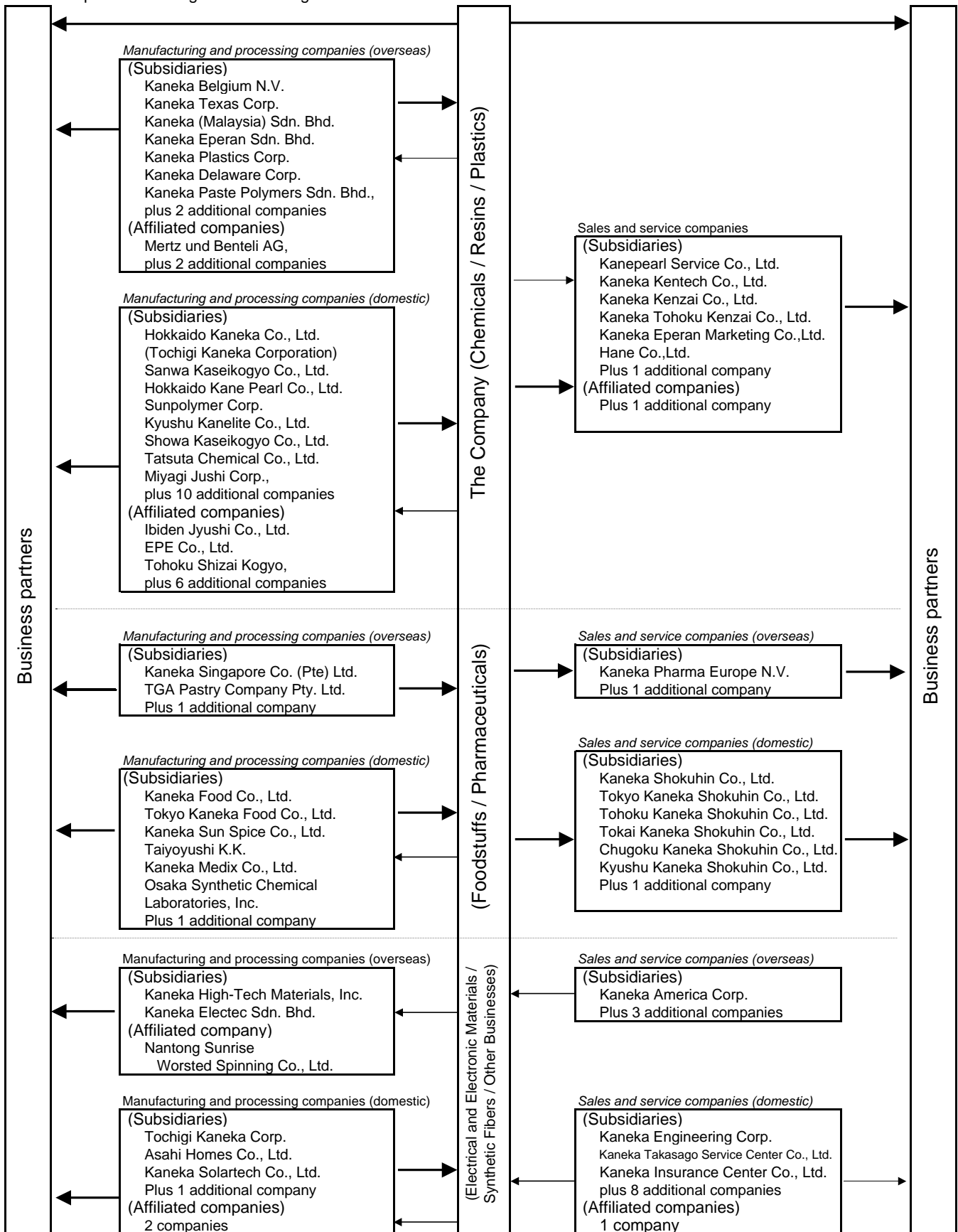
	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Interim	190,000	12,000	6,500
Overall term	390,000	27,000	14,500

(Reference) Projected net income per share (whole year): ¥40.44

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

The major business of the company, its 74 subsidiaries and 17 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. subsidiaries that overlap in several segments
  5. Asahi Homes Co., Ltd. is registered on the over-the-counter market of the Japan Securities Dealers Association

## **1. Corporate Philosophy**

### **(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.

### **(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 common stock, 18,000 million yen in total. Accordingly, in the current period the company has acquired treasury stock comprising 3,511 thousand shares from the market.

Retained earnings are used to supply funds for measures that will improve our financial position base from a medium- to long-term perspective, including capital investment in both the parent company and domestic and overseas affiliates, 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 necessary 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 ordinary income to total assets.

#### **(e) Medium-Range Management Strategies**

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 leader among chemical companies in the market.

To Achieve this Objective:

- We will inject management resources focusing on the 5 most important strategic fields expected to grow in the future, namely, high-performance resins, information & communications, functional foods, pharmaceuticals & healthcare, and solar cells; and
- We will effectively promote the above strategy by categorizing our businesses on the basis of market potential, technological expansibility, competitive positioning, etc., and by showing the allocation of resources and the directions for implementing business in each field.

Based on these two basic strategies, we will work on the following tasks as a matter of priority, in an effort to steadily yield results.

#### **(f) Our Tasks**

Kaneka is endeavoring to execute business restructuring aimed at further growth, develop strong corporate fundamentals and broadly implement the code of conduct relating to compliance, which are defined as priority tasks in the mid-term management plan launched in April 2002. The gist of the plan is as follows.

##### **1. Change of Business Structure**

We will aggressively seek business opportunities and actively expand businesses, with the aim to increase the weight of high value-added products backed by highly specialized techniques.

In order to achieve this, we will accelerate the development of new products and new businesses in growth areas, while checking and thoroughly enhancing the competitiveness of each business in tune with changes in the environment. For the implementation of businesses, we will further accelerate overseas operations, taking the possibility of acquisitions and business alliances into consideration.

## 2. Development of Strong Business Fundamentals

We will go back to the basics as a manufacturer, and vigorously promote cost-cutting and improvements in our production-technology capabilities. At the same time, we will work on operational reform as a Group in order to realize a low-cost management structure. We will also nurture our personnel and reinforce our organization based on ability-oriented personnel treatment, and form an enterprise group with advanced capabilities that can survive the global competition.

## 3. Broad Implementation of Code of Conduct relating to Compliance

Reaffirming that compliance is a basic requirement for the company's survival, the top management will demonstrate leadership in strengthening the internal structure and work on the identification and resolution of issues, while developing rules and regulations and giving thorough guidance and education on the code of conduct, including affiliated companies.

### **(g) Basic Approach to Corporate Governance and Execution Status of Measures Therefor**

Kaneka convenes management conferences, as necessary, to discuss and review significant issues with company-wide effects. Additionally, in order to further accelerate the decision-making process and realize swift execution, we have introduced a system under which senior directors are responsible for multiple business divisions. Further, divisional managers hold monthly meetings to report on the status of operations in the respective divisions, where they are required to report directly to all directors and auditors.

Kaneka has an internal audit department, which reports directly to the President. It demonstrates internal disciplining functions by conducting financial and operational audits as required, in order to ensure that all activities at each level are in compliance with the social rules and internal procedures.

Kaneka adopts an auditor system. There are four auditors, of which three satisfy the requirements of external auditors.

### **(h) Other Important Matters Relating to Management**

Kaneka and its overseas subsidiaries Kaneka Texas Corp. and Kaneka Belgium N.V. have been investigated by the Japan Fair Trade Commission (JFTC), the U.S. Department of Justice, and the European Commission for being suspected of engaging in anti-competitive transactions in the past, in Japanese, American and European MBS resins markets. Although the investigation is still in progress, we solemnly acknowledge the fact that we have been investigated. Accordingly, we are currently reeducating all of our employees and thoroughly enforcing their compliance with the law.

## 2. Business Results

### (a) Business Performance

#### (1) Overview of the Results for Fiscal 2003

The global economy during the period was characterized by the further loss of momentum in Western economies due to the slowdown in consumption growth, while Asian economies underwent a trend of recovery driven by the expansion of the Chinese economy. In the latter half of the period, however, the war against Iraq threw the global economy into disarray.

The Japanese economy was characterized by the recovery of corporate business performance, backed by the increase in exports. However, domestic demand remained sluggish due to prolonged deflation, and stock prices tumbled to a new low since the collapse of the Bubble, fueling concerns about stalled economic recovery.

The chemicals industry equally remained unstable, as dependency on foreign demand increased amid poor domestic demand, while the price of petrochemical materials increased in response to the rise in the price of crude oil and naphtha, in anticipation of the war against Iraq.

In such a tough business environment, the Kaneka Group, including domestic and foreign consolidated subsidiaries, actively engaged in business restructuring and made efforts to improve management efficiency, in order to strengthen competitiveness and financial fundamentals.

Consolidated net sales in the period increased to ¥372,269 million (year-on-year increase of 4.7%), and operating income rose to ¥26,911 million (year-on-year increase of 31.5%), both of which turned out to be record-breaking figures. Ordinary income also increased relative to the previous year to ¥23,005 million (year-on-year increase of 25.9%). Net income for the period was a record-high ¥13,373 million (year-on-year increase of 42.7%).

As for the non-consolidated results, net sales totaled ¥243,564 million (year-on-year increase of 3.8%), operating income was ¥19,051 million (year-on-year increase of 17.1%), and ordinary income was 17,778 million (year-on-year increase of 5.1%). Current net income was ¥9,898 million (year-on-year increase of 29.4%).

On the basis of these achievements, the dividend per share at year-end are expected to be ¥4, yielding a total dividend for the full year of ¥8.

#### (2) Segment Trends

##### (Chemicals, Resins and Plastics)

In the area of PVC and caustic soda, exports of PVC increased especially to China, but domestic sales remained sluggish. Consequently, sales remained more or less at the previous year's level. On the profit front, we could not bring an end to loss-making due to the strong impact of the rise in the price of ethylene and other raw materials, despite our efforts to improve profitability by adjusting product prices and thoroughly

reducing costs based on optimum production, etc.

In the area of specialty plastics, sales were brisk especially for MBS resins in Europe, the U.S. and Asia, while both sales and profits generated by modified silicon polymers dramatically increased with the progress in the development of European and American markets. Of note, the business rights to heat-resistant ABS resin "Kaneka MUH" were transferred to Techno Polymer Co., Ltd.

In the plastic products category, amid sluggish domestic demand, extruded polystyrene foam boards were notable for making progress in expanding sales for FC free products, with superior environmental friendliness. Sales for expanded polyolefin resin increased in all four markets (i.e. Japan, U.S., Europe and Asia), primarily due to the demand for shock-absorbent packaging for PCs and for bumper-core materials used for automobiles. Consequently, sales generated by this segment were only slightly higher than in the previous year, but profits increased dramatically in line with cost-cutting.

As a result, sales of this segment exceeded the previous year's level and profits increased dramatically, primarily due to improvements in overseas subsidiaries' income.

#### (Foodstuffs and Pharmaceuticals)

The food business environment became increasingly harsh amid the diversification of consumer needs and consumers' fixation to lower prices, while medium-sized food makers went bankrupt one after the other as consumer confidence in food safety was undermined by scandals. Under these circumstances, we concentrated our efforts in improving the production and sales structures and developing new products and applications, which resulted in sales equivalent to the previous year. However, profits substantially fell short of the previous year's level, due to weak market conditions as well as the price hike of the edible oil as raw materials.

In the pharmaceuticals category, both sales and profits were substantially higher than in the previous year, as bulk pharmaceuticals, intermediates and medical devices were helped by expanded sales of existing products and the release of newly-developed products, while functional foodstuffs performed impressively in overseas market.

As a result, sales in this segment exceeded the previous year's level but profits remained more or less the same.

#### (Electrical and Electronic Materials, Synthetic Fibers and Others)

In the electrical materials and components category, both sales and profits substantially exceeded the previous years' level, as ultra-heat-resistant polyimide film and optical film sales expanded due to the recovery in demand driven by mobile phones. In regard to solar cells, domestic sales increased centering on hybrid types which improved conversion rate, but exports led by amorphous types turned out to be stagnant.

In the area of synthetic fibers, sales volume increased especially for pile application, but only to a limited extent compared to the previous year's level as fierce competition led to weak market price conditions, and profits fell short of the previous year's level due to the hike in raw material prices.

As a result, in the electrical and electronic materials and synthetic fibers business, the recovery of electrical and electronic materials contributed to both higher sales and profits than in the previous year.

In other businesses, sales were lower than in the previous year as a result of lower

demand due to the stagnant economy, but profits increased due to the effects of improvements in business management.

#### (International Sales)

Our export ratio increased and sales of the subsidiaries in Europe, the U.S. and Asia were generally favorable, resulting in increases in both overseas sales and the overseas sales ratio compared with the previous year's results.

### (3) Outlook for Next Year

It is impossible to measure the impact of the war against Iraq and the postwar solutions in terms of international politics and economics. On the other hand, uncertainties in the economic environment are expected to be aggravated further by the obvious loss of momentum of Western economies.

In the meantime, the Japanese economy remains trapped in prolonged deflation and its road to recovery is uncertain.

In the chemical sector, competition is intensifying on a worldwide scale, and the culling/reorganization of companies and businesses is expected to accelerate further. It is believed that the requirement for survival will be concerned with ensuring stable income while buffering violent fluctuations in the price of raw materials, exchange rate fluctuations and other such risks.

Based on such an outlook, Kaneka Group intends to work on the development and the strategic application of new businesses aimed at continual growth at an accelerated pace, in addition to the improvement in management and further enhancement of competitiveness through the resolution of the aforementioned management tasks.

Thus, the performance forecasts for the year ended March 31, 2004 are as follow.

#### 1. Consolidated Forecasts

Sales	¥390,000 million (4.8% increase from year ended March 2003)
Ordinary income	¥27,000 million (17.4% increase from year ended March 2003)
Current net income	¥14,500 million (8.4% increase from year ended March 2003)

#### 2. Non-Consolidated Forecasts

Sales	¥248,000 million (1.8% increase from year ended March 2003)
Ordinary income	¥20,000 million (12.5% increase from year ended March 2003)
Net income	¥12,000 million (21.2% increase from year ended March 2003)

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 ¥120 to the Euro.

## (b) Financial Position

### (1) Consolidated Cash Flows

Cash flows from operating activities in the period was ¥40,040 million, including net income before income tax of ¥22,700 million, depreciation and amortization of ¥23,526 million, and payment of income taxes in the amount of ¥7,647 million.

Cash flows used for investing activities was ¥27,899 million, mainly attributable to the acquisition of tangible fixed assets amounting to ¥19,815 million, such as the pharmaceutical intermediates development plant.

Cash flows used for financing activities was ¥13,364 million, resulting from the redemption of the unsecured convertible bonds, the purchase of treasury stock, the repayment of short-term loans, etc. On the other hand, long term loans ¥5,250 million were borrowed.

Consequently, cash and cash equivalents decreased to ¥31,051 million at the current year-end, a year-on-year decrease of ¥515 million.

### (2) State of Assets, Liabilities, and Equity

Total assets as of the end of the period decreased by ¥9,800 million from the previous year to ¥370,000 million, primarily due to the reduction in investment securities attributable to the fall in the market value. As ordinary income increased by ¥4,700 million compared to the previous year, the rate of ordinary income to total assets (ROA) rose to 6.1% (previous year: 4.7%).

The balance of liabilities with interest as of the year-end fell by ¥7,700 million, to ¥75,200 million, due to the redemption of the unsecured convertible bonds, the repayment of short-term loans, etc.

Shareholders' equity increased by ¥4,800 million to ¥185,700 million, after absorbing the decrease in the unrealized gain on available-for-sale securities, the reduction due to the purchase of treasury stock, etc. by increasing the surplus.

Consequently, the shareholders' equity ratio was 50.2% (previous term: 47.6%), and the D/E ratio (rate of debt with interest to equity capital) was 0.40 (previous term 0.46), both of which improved and led to a healthier financial structure.

## (3) Financial Index Trends

	Term ended March 31, 1999	Term ended March 31, 2000	Term ended March 31, 2001	Term ended March 31, 2002	Term ended March 31, 2003
Shareholders' equity ratio	43.4%	43.2%	44.2%	47.6%	50.2%
Shareholders' equity ratio based on market value	92.0%	120.6%	87.6%	80.9%	53.6%
Number of years of debt redemption	-	2.7	3.5	2.5	1.9
Interest coverage ratio	-	14.4	14.1	17.7	23.7

## (Note)

Shareholders' equity ratio: Equity capital/total assets

Shareholders' equity ratio based on market value: Total market value of stock/total assets

Number of years of debt redemption: Liabilities with interest/operating cash flows

Interest coverage ratio: Operating cash flows/interests paid

\* All calculated according to financial figures on a consolidated basis.

\* The scope of cash flow is operating cash flows. The scope of liabilities with interest is all liabilities in the balance sheet for which interest is payable.

## Consolidated Balance Sheet

(Unit: ¥million)

Item	Year ended March 31, 2003	Year ended March 31, 2002	Increase (decrease)	Item	Year ended March 31, 2003	Year ended March 31, 2002	Increase (decrease)
<b>Assets</b>	<b>370,050</b>	<b>379,944</b>	<b>(9,894)</b>	<b>Liabilities</b>	<b>179,417</b>	<b>194,400</b>	<b>(14,983)</b>
Current assets	<b>184,879</b>	<b>182,051</b>	<b>2,827</b>	Current liabilities	<b>102,102</b>	<b>115,622</b>	<b>(13,519)</b>
Cash and deposits	27,848	12,679	15,169	Trade notes and accounts payable	50,850	48,162	2,687
Trade notes and accounts receivable	93,932	93,163	768	Short-term borrowings	20,848	24,898	(4,050)
Marketable securities	8,428	20,418	(11,989)	Convertible bonds redeemed within 1 year	-	7,598	(7,598)
Inventories	42,921	42,159	761	Accrued income taxes	3,537	3,283	254
Deferred tax assets	3,064	2,742	321	Accrued consumption taxes	546	573	(27)
Others	9,320	11,368	(2,047)	Reserve for losses on debts guaranteed	592	592	-
Allowance for doubtful receivables	(635)	(480)	(155)	Deferred tax liabilities (current)	1	6	(5)
				Others	25,727	30,507	(4,779)
Fixed assets	<b>185,171</b>	<b>197,893</b>	<b>(12,722)</b>	Fixed liabilities	<b>77,314</b>	<b>78,778</b>	<b>(1,464)</b>
Tangible fixed assets	<b>131,845</b>	<b>137,207</b>	<b>(5,362)</b>	Bonds	20,000	20,000	-
Buildings and structures	46,335	46,318	16	Convertible bonds	18,593	18,593	-
Machinery and equipment	58,693	64,947	(6,254)	Long-term loans	15,783	11,839	3,943
Land	23,218	21,674	1,543	Employee's severance and retirement benefits	20,659	26,631	(5,972)
Construction in progress	3,597	4,266	(668)	Retirement benefits for directors and statutory auditors	883	859	24
				Deferred tax liabilities (non-current)	420	452	(32)
Intangible fixed assets	<b>3,319</b>	<b>3,178</b>	<b>140</b>	Others	974	402	572
Investments and other assets	<b>50,007</b>	<b>57,507</b>	<b>(7,500)</b>	Minority interests	<b>4,885</b>	<b>4,649</b>	<b>236</b>
Investments in securities	31,458	39,769	(8,310)				
Unconsolidated subsidiaries and affiliates	1,331	1,603	(271)	Shareholders' equity	<b>185,747</b>	<b>180,895</b>	<b>4,852</b>
Long-term loans receivable	2,993	3,069	(76)	Common stock	33,046	33,046	-
Long-term prepaid expenses	679	875	(196)	Additional paid-in capital	34,826	34,647	179
Deferred tax assets (non-current)	7,835	6,431	1,403	Retained earnings	121,084	110,656	10,428
Others	6,757	6,494	262	Net unrealized gains on marketable securities	2,049	6,158	(4,108)
Allowance for doubtful receivables	(1,048)	(737)	(311)	Foreign currency translation adjustment	(4,031)	(3,577)	(454)
				Treasury stock	(1,228)	(35)	(1,192)
<b>Total assets</b>	<b>370,050</b>	<b>379,944</b>	<b>(9,894)</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>370,050</b>	<b>379,944</b>	<b>(9,894)</b>

## Consolidated Income Statement and Retained Earnings

(Unit: ¥million)

Term Item	Year ended March 31, 2003	Year ended March 31, 2002	Increase (decrease)
Net sales	372,269	355,580	16,689
Cost of sales	267,683	257,232	10,450
Gross profit	104,586	98,347	6,238
Selling, general and administrative expenses	77,674	77,890	(215)
Operating income	26,911	20,457	6,453
Non-operating income	<b>1,405</b>	<b>3,094</b>	<b>(1,689)</b>
Interest and dividends income	843	764	79
Others	561	2,330	(1,768)
Non-operating expenses	<b>5,311</b>	<b>5,286</b>	<b>25</b>
Interest paid	1,692	1,871	(179)
Others	3,618	3,414	204
Ordinary income	23,005	18,266	4,739
Extraordinary gain	<b>4,592</b>	<b>2,709</b>	<b>1,883</b>
Gain on return of substitutional portion of the Employee Pension Fund	4,592	-	4,592
Gain on land sales	-	2,709	(2,709)
Extraordinary loss	<b>4,897</b>	<b>3,238</b>	<b>1,659</b>
Write-down of investment securities	1,985	1,746	239
Expenses on pension plan amendment	1,286	-	1,286
Early retirement encouragement plan	820	-	820
Restructuring expenses	803	-	803
Losses on investments in affiliated companies	-	694	(694)
Restructuring cost of electrical and electronic material business	-	797	(797)
Income before income taxes	22,700	17,737	4,963
Corporate taxes, local taxes and business taxes	7,590	8,518	(927)
Income taxes deferred	1,446	(455)	1,901
Minority interests	290	302	(12)
Net income	13,373	9,372	4,000

## Consolidated Statements of Additional paid in capital and Retained Earnings

(Unit: ¥million)

Item	Term	Term from April 1, 2002 to March 31, 2003	Term from April 1, 2001 to March 31, 2002	Increase (Decrease)
<Additional paid in capital> Beginning balance for capital surplus		34,647	34,646	0
Increase in capital surplus		<b>179</b>	<b>0</b>	<b>179</b>
Issuance of new stock by capital increase		-	0	0
Increase in capital surplus due to stock swap		179	-	179
Decrease in capital surplus		-	-	-
Balance of capital surplus at term end		34,826	34,647	179
<Retained Earnings> Beginning balance for retained earnings		110,656	104,135	6,521
Increase in retained earnings		<b>13,373</b>	<b>9,496</b>	<b>3,876</b>
Net income		13,373	9,372	4,000
Increase due to merger of a consolidated subsidiary		-	124	(124)
Decrease in retained earnings		<b>2,944</b>	<b>2,975</b>	<b>(30)</b>
Cash dividends paid		2,852	2,860	(8)
Bonuses to directors and statutory auditors		92	114	(21)
Outstanding balances of retained earnings at term end		121,084	110,656	10,428

## Consolidated Statement of Cash Flows

(Unit: ¥million)

Item	Term	Year ended March 31, 2003	Year ended March 31, 2002
<b>I. Cash flows from operating activities</b>			
Net income before taxes		22,700	17,737
Depreciation and amortization		23,526	25,245
Provision for severance and retirement benefits		(1,414)	(1,000)
Increase (decrease) in allowance for doubtful receivables		331	(62)
Interest and dividend income		(843)	(764)
Interest expense		1,692	1,871
Gain on land sales		-	(2,709)
Loss on sales and disposals of tangible fixed assets		916	1,020
Write-down of investment securities		1,985	1,746
Loss on investments in affiliated companies		-	694
Restructuring expenses		803	-
Restructuring cost of electrical and electronic material business		-	709
Gain on return of substitutional portion of the employee pension fund		(4,592)	-
Equity in earnings of unconsolidated subsidiaries and affiliates		73	(228)
Decrease (increase) in trade receivables		1,230	8,758
Decrease (increase) in inventories		(618)	1,591
Increase (decrease) in trade payables		928	(6,503)
Others		1,783	(3,149)
Subtotal		48,503	44,953
Interest and dividends received		857	794
Interest paid		(1,673)	(1,890)
Income taxes paid		(7,647)	(10,740)
Net cash provided by operating activities		40,040	33,117
<b>II. Cash flows from investing activities</b>			
Payment for purchase of marketable securities		(2,380)	(1,140)
Proceeds from marketable securities		397	200
Payments for purchase of tangible fixed assets		(19,815)	(26,591)
Income from sales of tangible fixed assets		-	2,845
Payment for purchase of intangible fixed assets		(1,051)	(648)
Payment for purchase of investment securities		(6,223)	(1,339)
Proceeds from investment securities		2,448	3,419
Purchase of consolidated subsidiaries' stock		(1,211)	(32)
Increase in loans receivable		(426)	(282)
Decrease in loans receivable		586	712
Others		(222)	151
Net cash used in investing activities		(27,899)	(22,706)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowings		(4,088)	(1,606)
Proceeds from long-term debts		5,250	660
Repayment of long-term debts		(1,442)	(5,761)
Redemption of convertible bonds		(7,598)	(9,893)
Dividends paid		(2,852)	(2,860)
Dividends paid to minority interests		(142)	(116)
Proceeds from minority interests		62	-
Purchase of treasury stock		(2,552)	(34)
Net cash used in financing activities		(13,364)	(19,613)
<b>IV. Effect of exchange rate changes on cash and equivalents</b>			
		61	(24)
<b>V. Net increase (decrease) in cash and equivalents</b>			
		(1,161)	(9,226)
<b>VI. Cash and equivalents at beginning of term</b>			
		31,567	40,793
<b>VII. Effect of changes in consolidated subsidiaries</b>			
		646	-
<b>VIII. Cash and equivalents at term end</b>			
		31,051	31,567

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

	Year ended March 31, 2003	Year ended March 31, 2002
Cash and deposit	27,848	12,679
Time deposits (period of deposit greater than 3 months)	(356)	(126)
Marketable securities	8,428	20,418
Stocks and bonds (redemption period exceeds 3 months)	(4,869)	(1,404)
Cash and equivalents	31,051	31,567

## Notes to Consolidated Financial Statements

### 1. Scope of Consolidation

- (1) Number of consolidated subsidiaries: 41 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 36 other companies
- (3) Consolidated subsidiaries newly included:  
Osaka Synthetic Chemical Laboratories, Ltd. became a subsidiary upon purchase of its stock and was therefore included in the scope of the consolidation.  
Hane Co., Ltd. became a subsidiary upon equity-swap and was therefore 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 consolidated financial statements.

### 2. Application of equity method

Of non-consolidated subsidiaries and affiliated companies, the equity method is applied to investments in Ibiden Jyushi Co., Ltd. and another company. Hane Co., Ltd. became a fully-owned subsidiary through equity-swap, and was therefore excluded from the scope of application of equity method and was included in the scope of the consolidation.

### 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
      - Securities 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.)
      - 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 method.
    - C. Derivatives
      - Market value 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. Reserve for Losses on Debts Guaranteed

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

C. Employee's severance and retirement benefits

The amount required to provide for employees' severance and retirement benefits has been provided on the basis of estimated amount of projected benefit obligations and the fair value of pension assets at the end of the current fiscal year. Past service 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 service period of employees.

For the actuarial 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 service period of the employees are posted as expenses in the following fiscal year.

D. Retirement benefit for director and statutory auditors

Provision has been made for Retirement benefit for director and statutory on the basis of the amount required as of the end of the current fiscal year in accordance with internal rules.

(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 closing date, and revenues and expenses are translated into yen at average rates of exchange during the year. Translation adjustments are included in shareholders' equity.

(5) Treatment of major lease transactions

Finance leases transactions which do not transfer ownership are accounted for in the same manner as operating leases in accordance with accounting methods for regular lease transaction.

(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. 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.

**6. Changes in accounting principles**

(1) Accounting Standard 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 period. It has had a minor effect on gain or loss for the current period.

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

(2) Per-share information

The Accounting Standard for Earnings per Share (Corporate Accounting Standard 2) and the Implementation Guidance for Accounting Standard for Earnings per Share (Financial Accounting Standards Implementation Guidance No.4) have been applied from this accounting year onwards, as required in consolidated financial statements for the accounting year starting on or after April 1, 2002. It has had a minor effect. Also, the consolidated financial statements for the previous accounting period have been prepared in accordance with the revised rules for consolidated financial statements.

## Notes to the Consolidated Balance Sheet

	Term ended <u>March 31, 2003</u>	Term ended <u>March 31, 2002</u>
	(Unit: ¥million)	(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed	371,242	352,760
2. Discount on notes receivable	992	1,264
Notes payable endorsed for payment	1,249	645
3. Contingent liabilities	982	623
Guarantees	--	100
Commitments to guarantee	95	165
Letter of awareness		

## 1. Segment Information

## 1. Segment information by business

(1) Term from April 1, 2002 to March 31, 2003

(Unit: ¥million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
<b>I. Sales and Operating Profit/Loss</b>						
<b>Sales</b>						
(1) Customers	182,437	139,350	50,481	372,269	-	372,269
(2) Intersegment	1,632	7	4,342	5,982	( 5,982 )	-
<b>Total</b>	184,069	139,358	54,824	378,252	( 5,982 )	372,269
<b>Operating expenses</b>	173,660	119,609	52,268	345,538	( 180 )	345,358
<b>Operating income</b>	10,409	19,748	2,555	32,713	( 5,802 )	26,911
<b>II. Assets, depreciation and amortization and capital expenditures</b>						
<b>Assets</b>	165,070	94,421	46,795	306,287	63,762	370,050
<b>Depreciation &amp; amortization</b>	11,960	4,815	5,266	22,043	1,317	23,361
<b>Capital expenditures</b>	9,147	3,497	3,398	16,043	1,767	17,810

(2) 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
<b>I. Sales and Operating Profit / Loss</b>						
<b>Sales</b>						
(1) Customers	176,966	133,850	44,763	355,580	-	355,580
(2) Intersegment	1,547	2	3,640	5,189	( 5,189 )	-
<b>Total</b>	178,513	133,852	48,404	360,770	( 5,189 )	355,580
<b>Operating expenses</b>	172,685	114,359	48,385	335,430	( 307 )	335,123
<b>Operating income</b>	5,827	19,493	19	23,339	( 4,881 )	20,457
<b>II. Assets, depreciation and amortization and capital expenditures</b>						
<b>Assets</b>	171,208	93,899	46,973	312,081	67,863	379,944
<b>Depreciation &amp; amortization</b>	13,283	5,022	5,315	23,621	1,291	24,913
<b>Capital expenditures</b>	10,175	5,174	7,173	22,524	1,656	24,180

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 polysthylene foam boards, Polysthylene foam sheets, Polyolefin foam by beads method, Expandable polysthylene, 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, Bonded magnetic materials
	Synthetic Fibers	Modacrylic fibers (Kanecaron)
	Other businesses	Engineering operations, Housing construction

3. Operating expenses included in the 'corporate and eliminations' column of ¥5,696 million for the term ended March 31, 2003 and ¥4,918 million for the term ended March 31, 2002, respectively, consist principally of fundamental research and development expenses of the Company.

4. Corporate and eliminations includes corporate assets of ¥64,009 million for the term ended March 31, 2003, and ¥68,289 for the term ended March 31, 2002, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

5. 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 result of the previous term (consolidated) is indicated by the new absorption method and the business segments

## 2. Segment Information by Geographic Area

(1) Term from April 1, 2002 to March 31, 2003

(Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	317,921	54,348	372,269	-	372,269
(2) Internal sales between segments	7,810	4,757	12,568	( 12,568 )	-
Total	325,732	59,105	384,838	( 12,568 )	372,269
Operating expenses	299,192	52,864	352,056	( 6,698 )	345,358
Operating income	26,539	6,241	32,781	( 5,869 )	26,911
II. Assets	270,019	41,837	311,856	58,193	370,050

(2) Term from April 1, 2001 to 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	293,107	48,837	341,944	( 6,821 )	335,123
Operating income	22,557	3,037	25,594	( 5,136 )	20,457
II. Assets	273,299	43,946	317,246	62,698	379,944

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 ¥5,696 million for the term ended March 31, 2003 and ¥4,918 million for the term ended March 31, 2002, respectively, consist principally of fundamental research expenses of the company.

3. Corporate and eliminations includes corporate assets of ¥64,009 million for the term ended March 31, 2003 and ¥68,289 for term ended March 31, 2002, respectively. These consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

4. 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 term ended March 31, 2002 is indicated in accordance with the new allocation method.

## 3. International Sales

(1) Term from April 1, 2002 to March 31, 2003

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
Sales	49,088	29,611	37,103	5,214	121,018
Consolidated sales					372,269
The ratio of sales to consolidated sales (%)	13.1	7.9	9.9	1.4	32.5

(2) 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, Mexico

Europe: Belgium, United Kingdom

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 2003	Term ended March 2002
	<u>Tools and equipment, etc</u>	<u>Tools and equipment, etc</u>
Amount equivalent to acquisition	3,617	3,711
Amount equivalent to less accumulated depreciation	1,812	1,940
Amount equivalent to outstanding balances at the term end	1,804	1,770

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

Within one year	716	662
<u>Over one year</u>	<u>1,087</u>	<u>1,107</u>
Total	1,804	1,770

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

770	801
-----	-----

(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

Future lease fees payments

	Term ended March 2003	Term ended March 2002
Within one year	53	74
<u>Over one year</u>	<u>181</u>	<u>269</u>
Total	234	344

### 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 31, 2003	Term ended March 31, 2002
(Deferred tax assets)		
Retirement benefits	6,980	9,294
Loss carryforwards	4,060	4,051
Write-down of investment securities	1,924	1,259
Excess bonuses accrued	1,486	1,229
Net unrealized holding gains on securities	511	30
Others	6,222	5,933
Sub-total	<u>21,186</u>	<u>21,799</u>
Provisions for evaluation	<u>(6,242)</u>	<u>(5,799)</u>
Total deferred tax assets	<u>14,944</u>	<u>15,999</u>
(Deferred tax liabilities)		
Net unrealized holding gains on securities	1,933	4,493
Others	2,532	2,791
Total deferred tax liabilities	<u>4,466</u>	<u>7,284</u>
Net deferred tax assets	<u><u>10,478</u></u>	<u><u>8,714</u></u>

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

Unit: ¥million

	Term ended March 31, 2003	Term ended March 31, 2002
Statutory tax rates	42.00 %	42.00 %
Losses carryforwards of subsidiaries which do not apply tax effect accounting	1.70	5.12
Foreign tax credit	(2.89)	(2.44)
Non-deductible expenses such as entertainment expenses	0.82	1.16
Non-taxable income such as dividend received	(0.94)	(1.65)
Elimination of dividends on consolidation	3.45	4.22
Others	(4.33)	2.95
Effective tax rate	<u><u>39.81</u></u>	<u><u>45.46</u></u>

## 5. Securities

Term ended March 31, 2003

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) Stocks	4,029	8,773	4,743
(2) Bonds			
Government bonds, local government	303	304	1
Corporate bonds	2,836	2,844	8
Others	39	42	3
(3) Others	1,062	1,091	29
Sub total	8,271	13,057	4,785
(Securities that amount does not exceed acquisition cost on the consolidated balance sheet)			
(1) Stocks	9,482	8,188	(1,294)
(2) Bonds			
Government bonds, local government	-	-	-
Corporate bonds	2,815	2,810	(5)
Others	199	199	0
(3) Others	-	-	-
Sub total	12,498	11,198	(1,299)
Grand total	20,770	24,255	3,485

4. Other securities sold during the fiscal year (April 1, 2002 - March 31, 2003)

(Unit: ¥million)

Salles	Gains on sales	Losses on sales
59	0	31

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 stocks (excluding OTC stocks) 8,774
  - Mutual funds invested in bonds 3,559
  - 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	-	304
Corporate bonds	3,577	2,077
Others	199	-
(2) Others	-	-
Total	3,777	2,382

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	-	-	-
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	-	-	-
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)

Salles	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

## 6. Derivatives Transactions

Classification	Type	Term ended March 31, 2003			Term ended March 31, 2002		
		Contract amount	Market value	Valuation profit (loss)	Contract amount	Market value	Valuation profit or loss
Currency	Forward foreign exchange contracts	1,570	1,546	(23)	-	-	-
Total		1,570	1,546	(23)	-	-	-

- Notes: 1. Derivatives that are applicable to hedge accounting are excluded from disclosure.
2. Forward foreign exchange contracts are used within the scope of real business transaction. Forward foreign exchange contracts are mark to market at the end of the term, and the valuation increase or decrease is treated as profit or loss.

1. Outline of the System for Severance and Retirement Benefits

Defined benefit plans established by Kaneka and its domestic consolidated subsidiaries are: the employees' pension fund plans; tax exempted retirement pension scheme; and the retirement allowance plan. Pursuant to the enforcement of the new law concerning defined benefit corporate pension plans, Kaneka was granted, on January 30, 2003, by the Minister of Health, Labour and Welfare exemption from the obligation to pay benefits for future employee services related to the substitutional portion of the employees' pension fund. Further, certain overseas consolidated subsidiaries have defined contribution

2. Benefit obligation

	Term ended March 2003	Term ended March 2002
Projected benefit obligation	(61,752)	(78,970)
Fair valued of pension assets	30,026	40,233
Unfunded benefit obligation ( + )	(31,725)	(38,736)
Unrecognized actuarial differences	12,173	13,549
Unrecognized prior service cost	(1,107)	(1,445)
Severance and retirement benefits ( + + )	(20,659)	(26,631)

(Notes)

1. The substitutional portion of the employees' pension fund is processed by applying the temporary measures set forth in Item 47-2 of "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Report No.13 of the Accounting Committee of the Japanese Institute of Certified Public Accountants (JICPA)): Kaneka is deemed to have reduced the retirement benefit liabilities relating to the substitutional portion of the employees' pension fund and the amount corresponding to returned pension assets, on the date on which it was granted, by the Minister of Health, Labour and Welfare, exemption from the obligation to pay benefits for future employee services.

Of note, pension assets to be returned amounted to ¥9,542 million calculated as of March 31, 2003.

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

3. Components of net pension and severance costs

	Term from April 1, 2002 to March 31, 2003	Term from April 1, 2001 to March 31, 2002
Service costs (see Notes 1 and 2)	3,306	3,646
Interest costs	2,093	2,322
Expected return on plan assets	(1,280)	(1,292)
Amortization of actuarial difference	1,300	577
Amortization of prior service cost	(639)	(361)
Early retirement encouragement plan cost	820	-
Severance and retirement benefit expenses ( + + + + + )	5,599	4,891
Gain on return of substitutional portion of the employee pension fund	(4,592)	-
Total ( + )	1,007	4,891

(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 projected benefit obligation and others

	Term from April 1, 2002 to March 31, 2003	Term from April 1, 2001 to March 31, 2002
Allocation method for projected benefits	Straight-line standard	Straight-line standard
Discount rate	3.0%	3.0%
Expected rate of return on plan assets	3.5%	3.5%
Period of amortizing prior service cost	5 years	5 years
Period of amortizing actuarial differences	10 years	10 years

Kaneka Corporation (Consolidated)

## Manufacturing, Orders and Sales

### (1) Manufacturing Results

(Unit: ¥million)

Business Segment	Term from April 1, 2002 to March 31, 2003	Term from April 1, 2001 to March 31, 2002	Year on year rate(%)
Chemicals, Resins and Plastics	151,533	148,272	102.2
Foodstuffs and Pharmaceuticals	90,616	87,449	103.6
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	44,219	40,024	110.5
<b>Total</b>	<b>286,369</b>	<b>275,746</b>	<b>103.9</b>

- 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 term 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	Term from April 1, 2002 to March 31, 2003	Term from April 1, 2001 to March 31, 2002	Year on year rate(%)
Chemicals, Resins and Plastics	182,437	176,966	103.1
Foodstuffs and Pharmaceuticals	139,350	133,850	104.1
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	50,481	44,763	112.8
<b>Total</b>	<b>372,269</b>	<b>355,580</b>	<b>104.7</b>