



February 8, 2005

## Consolidated Quarterly Financial Results for the Third Quarter Ended December 2004

Name of Listed Company: Kaneka Corporation

Code Number: 4118

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

Stock Exchange Listed: Tokyo, Osaka, Nagoya (First section)

Representative: Masatoshi Takeda, President, Representative Director

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### 1. Notes to Consolidated Quarterly Financial Statements

(1) Standards adopted in financial statements : (same as the interim consolidated financial statements)

Changes in accounting policies : Yes (see page 7)

Changes in accounting method from interim financial statements : None

(2) Changes in scope of consolidation or application of the equity method : None

(3) Auditing by certified public accountant or auditing companies : None

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

### 2. Consolidated Business Performance for the Third Quarter Ended December 31, 2004

(from April 1, 2004 to December 31, 2004)

#### (1) Consolidated Business Performance

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
Nine months ended December 2004	327,787	9.5	32,774	32.4	31,862	42.3	18,683	54.7
Nine months ended December 2003	299,272	6.8	24,751	19.4	22,397	22.6	12,077	35.0
Term ended March 2003 (reference)	400,256	7.5	32,107	19.3	29,322	27.5	15,622	16.8

	Net income per share	Fully diluted net income per share
	¥	¥
Nine months ended December 2004	53.59	—
Nine months ended December 2003	34.25	33.14
Term ended March 2003 (reference)	43.99	42.59

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

#### (2) Consolidated Financial Position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
As of December 2004	394,557	217,142	55.0	625.31
As of December 2003	387,793	197,389	50.9	562.81
As of March 2003 (reference)	392,512	204,779	52.2	583.55

#### (Consolidated Cash Flows)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Outstanding balances of cash and cash equivalents as of the end of term
	¥million	¥million	¥million	¥million
Nine months ended December 2004	27,921	(16,851)	(27,533)	16,616
Nine months ended December 2003	25,477	(18,617)	(12,867)	24,956
Term ended March 2003 (reference)	39,773	(23,526)	(14,270)	32,884

### 3. Forecast for Consolidated Business Performance in the Term Ending March 2005

(from April 1, 2004 to March 31, 2005)

Forecast has been revised since the announcement of interim financial statements on October 28, 2004. (See page 3.)

	Net sales	Ordinary income	Net income	Net income per share
	¥million	¥million	¥million	¥
Overall term	437,000	41,000	24,000	68.53

Note: Projected net income per share is based on the estimated average number of issued shares during the term ending March 2005.

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

## 1 . Business Performance

The Kaneka Group posted ¥327,787 million (up 9.5% year-on-year) in consolidated sales, ¥32,774 million (up 32.4% year-on-year) in operating income, and ¥31,862 million (up 42.3% year-on-year) in ordinary income up to the third quarter of the current fiscal year (from April 1,2004 to December 31,2004). Our consolidated business performance advanced over the corresponding period of the previous year both in sales and profits. Both sales and profits trended slightly above the earnings forecasts released at the interim business results announcement.

Sales both in Japan and overseas expanded and international sales to total sales rose to 34.0% from 31.2% in the corresponding period of the previous year, thanks to an increase in exports to Asian and European regions, and sales increase at overseas subsidiaries. By business segment, the chemicals business and the electronic products business trended steadily and sales volume of ultra heat resistant polyimide films and solar cells in particular have advanced significantly. In addition, sales volume of functional plastics including MBS resins and modified silicone polymers also expanded.

Operating income increased by sales price rise and increased sales volume in spite of yen hike and high prices of petrochemical raw materials. The chemicals business and electronic products business in particular contributed considerably to profit growth.

## 2. Financial Conditions

### a. Cash flows

Cash flow from operating activities was ¥27,921 million, while cash flow used in investing activities was ¥16,851 million and cash flow used in financing activities was ¥27,533 million due to redemption of the 8<sup>th</sup> convertible bonds of ¥18,593 million. As a result, the outstanding balance of cash and cash equivalents at the end of the third quarter declined by ¥16,268 million compared to the balance at the end of March 2004, to ¥16,616 million.

### b. Assets, Liabilities and Shareholders' Equity

Total assets at the end of the third quarter increased by ¥2.0 billion compared to those at the end of March 2004 ¥394.5 billion. Interest bearing liabilities fell by ¥20.1 billion to ¥46.3 billion. Shareholders' equity increased by ¥12.3 billion to ¥217.1 billion owing to an increase in retained earnings.

### 3. Performance Forecasts

Adding performance forecasts for the fourth quarter on to the business results up to the third quarter, our performance forecasts for the year ending March 31, 2005 (Overall term) are revised upwardly as follows:

Forecasts for Consolidated Business Performance in the Overall Term Ending March 2005 (from April 1, 2004 to March 31, 2005)

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Forecast presented at the time of announcement of interim financial statements (A)	430,000	40,000	22,500
Revised forecast (B)	437,000	41,000	24,000
Increase (decrease) (B) - (A)	7,000	1,000	1,500
Percentage change (%)	1.6	2.5	6.7

Note: The above performance forecasts for the Kaneka Group are regarded as reasonable on the basis of information available at this stage. Readers should therefore be aware that actual results may vary from these forecasts because of the various uncertain factors involved.

**Balance Sheet (Consolidated)**

	As of December 31, 2003	As of December 31, 2004	As of March 31, 2004		As of December 31, 2003	As of December 31, 2004	As of March 31, 2004
Item	¥million	¥million	¥million	Item	¥million	¥million	¥million
<b>Assets</b>				<b>Liabilities</b>			
<b>I. Current Assets</b>				<b>I. Current Liabilities</b>			
Cash and deposit	22,051	13,655	30,007	Notes and accounts payable	60,317	69,098	54,191
Notes receivable and accounts receivable	106,018	116,281	99,271	Short-term borrowings	13,702	11,714	11,463
Marketable securities	11,009	8,812	10,718	Bonds redeemed within 1 year	18,593	5,000	18,593
Inventories	43,749	47,693	43,224	Others	35,719	35,435	40,127
Others	14,307	15,052	15,171	<b>Total current liabilities</b>	<b>128,331</b>	<b>121,249</b>	<b>124,375</b>
<b>Total current assets</b>	<b>197,135</b>	<b>201,493</b>	<b>198,393</b>				
<b>II. Fixed Assets</b>				<b>II. Long-term Liabilities</b>			
Tangible fixed assets	128,604	126,000	128,366	Bonds and convertible bonds	20,000	15,000	20,000
Intangible fixed assets	3,118	2,631	2,752	Long-term debts	15,605	14,643	16,450
Investments and other assets	58,933	64,432	63,000	Employees' severance and retirement benefits	19,697	19,064	19,594
				Others	1,845	2,235	2,238
<b>Total fixed assets</b>	<b>190,657</b>	<b>193,063</b>	<b>194,119</b>	<b>Total long term liabilities</b>	<b>57,148</b>	<b>50,943</b>	<b>58,283</b>
				<b>Total liabilities</b>	<b>185,480</b>	<b>172,192</b>	<b>182,659</b>
				Minority interests			
				Minority interests	4,923	5,222	5,073
				Shareholders' equity			
				I. Common stock	33,046	33,046	33,046
				II. Additional paid in capital	34,837	34,846	34,837
				III. Retained earnings	130,224	149,087	134,021
				IV. Unrealized gain on available-for-sale securities	9,085	13,237	13,304
				V. Foreign currency translation adjustments	(4,990)	(4,714)	(5,598)
				VI. Treasury stock	(4,813)	(8,361)	(4,831)
				<b>Total shareholders' equity</b>	<b>197,389</b>	<b>217,142</b>	<b>204,779</b>
<b>Total assets</b>	<b>387,793</b>	<b>394,557</b>	<b>392,512</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>387,793</b>	<b>394,557</b>	<b>392,512</b>

**Statements of Income (Consolidated)**

	Term from April 1, 2003 to December 31, 2003	Term from April 1, 2004 to December 31, 2004	Increase (Decrease)	Term from April 1, 2003 to March 31, 2004
Item	¥million	¥million	¥million	¥million
I. Net sales	299,272	327,787	28,515	400,256
II. Cost of sales	214,039	231,208	17,169	286,782
Gross profit	85,232	96,578	11,346	113,474
III. Selling, general and administrative expenses	60,480	63,804	3,323	81,366
Operating income	24,751	32,774	8,022	32,107
IV. Non-operating income	<b>1,374</b>	<b>2,054</b>	<b>680</b>	<b>2,204</b>
Interest and dividends income	666	697	30	830
Others	707	1,356	649	1,374
V. Non-operating expenses	<b>3,728</b>	<b>2,966</b>	<b>(762)</b>	<b>4,989</b>
Interest expense	1,111	974	(137)	1,469
Others	2,616	1,991	(624)	3,520
Ordinary income	22,397	31,862	9,465	29,322
VI. Extraordinary loss	465	2,817	2,351	2,248
Income before income taxes	21,931	29,045	7,113	27,074
Income taxes (current and deferred)	9,687	10,115	428	11,175
Minority interests	166	246	79	276
Net income	12,077	18,683	6,605	15,622

## Statements of Cash Flows (Consolidated)

Item	Term from April 1, 2003 to December 31, 2003	Term from April 1, 2004 to December 31, 2004	Term from April 1, 2003 to March 31, 2004
	¥million	¥million	¥million
<b>I. Cash flows from operating activities</b>			
Net income before income taxes	21,931	29,045	27,074
Depreciation and amortization	16,444	16,409	22,337
Impairment losses	—	2,817	—
Increase (decrease) in trade receivables	(12,557)	(16,744)	(6,018)
Increase (decrease) in inventories	(1,393)	(4,300)	(1,489)
Increase (decrease) in trade payables	9,776	14,810	3,759
Others	(8,724)	(14,116)	(5,890)
Net cash provided by operating activities	25,477	27,921	39,773
<b>II. Cash flows from investing activities</b>			
Payment for purchase of marketable securities	(3,885)	(3,522)	(3,956)
Proceeds from marketable securities	3,377	4,679	3,508
Payments for purchase of property, plant and equipment	(10,925)	(18,807)	(16,253)
Payment for purchase of intangible assets	(490)	(387)	(659)
Purchase of investments	(6,339)	(3,174)	(7,731)
Proceeds from sales and maturities of investments	1,434	3,876	2,787
Others	(1,787)	483	(1,221)
Net cash used in investing activities	(18,617)	(16,851)	(23,526)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowings	(6,183)	(558)	(8,173)
Proceeds from long-term debt	870	50	1,770
Repayment of long-term debt	(981)	(1,267)	(1,276)
Redemption of convertible bonds	—	(18,575)	—
Dividends paid	(2,826)	(3,486)	(2,826)
Purchase of treasury stock	(3,610)	(3,569)	(3,629)
Others	(136)	(125)	(135)
Net cash used in financing activities	(12,867)	(27,533)	(14,270)
IV. Effect of exchange rate changes on cash and cash equivalents	(87)	195	(143)
V. Net increase (decrease) in cash and cash equivalents	(6,095)	(16,268)	1,832
VI. Cash and cash equivalents at beginning of term	31,051	32,884	31,051
VII. Cash and cash equivalents at term end	24,956	16,616	32,884

## Segment Information

## 1. Segment Information by Business Category

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

(Unit: ¥million)

	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss										
Net sales										
(1) Customers	55,400	41,062	48,733	76,418	30,995	27,584	19,076	299,272	-	299,272
(2) Intersegment	1,296	205	1,350	5	-	-	3,362	6,220	( 6,220 )	-
Total	56,696	41,268	50,084	76,424	30,995	27,584	22,439	305,492	( 6,220 )	299,272
Operating expenses	57,453	35,300	48,037	72,242	17,972	26,389	20,367	277,764	( 3,244 )	274,520
Operating income	(756)	5,967	2,046	4,181	13,022	1,195	2,071	27,728	( 2,976 )	24,751

(2) Term from April 1, 2004 to December 31, 2004

(Unit: ¥million)

	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss										
Net sales										
(1) Customers	61,000	46,299	50,872	78,977	33,910	35,827	20,900	327,787	-	327,787
(2) Intersegment	1,404	190	1,341	6	-	-	3,379	6,322	( 6,322 )	-
Total	62,404	46,489	52,213	78,983	33,910	35,827	24,279	334,110	( 6,322 )	327,787
Operating expenses	57,938	40,105	51,116	75,646	21,308	30,280	21,574	297,969	( 2,956 )	295,012
Operating income	4,466	6,384	1,097	3,337	12,601	5,547	2,705	36,140	( 3,365 )	32,774

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

(Unit: ¥million)

	Chemicals	Functional Plastics	Expandable Plastics and Products	Foodstuffs Products	Life Science Products	Electronic Products	Synthetic Fibers and Others	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss										
Net sales										
(1) Customers	74,822	54,619	63,610	102,014	42,211	37,792	25,185	400,256	-	400,256
(2) Intersegment	1,651	263	1,647	7	-	-	5,330	8,900	( 8,900 )	-
Total	76,473	54,883	65,258	102,022	42,211	37,792	30,515	409,157	( 8,900 )	400,256
Operating expenses	76,403	47,210	63,227	96,678	25,488	35,909	28,062	372,980	( 4,832 )	368,148
Operating income	70	7,673	2,030	5,344	16,722	1,883	2,452	36,176	( 4,068 )	32,107

(Note) 1. In order to reflect earnings performance of each segment more clearly, we have increased business categories from three to seven. In addition, the previous first quarter results and the consolidated results for the previous fiscal year are also presented according to the new business categories.

## 2. International Sales

(1) Term from April 1, 2003 to December 31, 2003 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. Net sales	37,183	24,355	27,795	4,011	93,345
II. Consolidated net sales					299,272
III. The ratio of sales to consolidated sales (%)	12.4	8.1	9.3	1.4	31.2

(2) Term from April 1, 2004 to December 31, 2004 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. Net sales	46,734	26,676	33,392	4,789	111,592
II. Consolidated sales					327,787
III. The ratio of sales to consolidated sales (%)	14.2	8.1	10.2	1.5	34.0

(3) Term from April 1, 2003 to March 31, 2004 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. Net sales	50,862	31,243	38,743	5,254	126,103
II. Consolidated sales					400,256
III. The ratio of sales to consolidated sales (%)	12.7	7.8	9.7	1.3	31.5

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

## Recent Trends in Quarterly Business Performance (Reference)

## Term ending March 2005 ( Consolidated )

	First quarter from April 1, 2004 to June 30, 2004	Second quarter from July 1, 2004 to September 30, 2004	Third quarter from October 1, 2004 to December 31, 2004	Fourth quarter from January 1, 2005 to March 31, 2005
	¥million	¥million	¥million	¥million
Net sales	106,016	107,531	114,239	-
Gross profit	32,326	30,443	33,809	-
Operating income	10,509	9,643	12,621	-
Ordinary income	10,349	9,261	12,251	-
Income before income taxes	10,349	6,444	12,251	-
Net income	6,622	4,365	7,694	-
	¥	¥	¥	¥
Net income per share	18.92	12.54	22.13	-
Fully diluted net income per share	18.22	12.12	-	-
Total assets	396,306	379,562	394,557	-
Shareholders' equity	207,668	209,859	217,142	-
	¥	¥	¥	¥
Shareholders' equity per share	595.77	604.22	625.31	-
	¥million	¥million	¥million	¥million
Cash flows from operating activities	10,368	15,098	2,453	-
Cash flows from investing activities	(1,950)	(6,048)	(8,853)	-
Cash flows from financing activities	(4,021)	(21,038)	(2,473)	-
Cash and cash equivalents as of the end the term	37,313	25,443	16,616	-

## Term ended March 2004 ( Consolidated )

	First quarter from April 1, 2003 to June 30, 2003	Second quarter from July 1, 2003 to September 30, 2003	Third quarter from October 1, 2003 to December 31, 2003	Fourth quarter from January 1, 2004 to March 31, 2004
	¥million	¥million	¥million	¥million
Net sales	97,618	99,315	102,337	100,984
Gross profit	27,858	26,907	30,466	28,242
Operating income	7,206	7,193	10,351	7,356
Ordinary income	6,608	6,002	9,785	6,925
Income before income taxes	6,608	6,002	9,319	5,142
Net income	3,650	3,324	5,103	3,544
	¥	¥	¥	¥
Net income per share	10.28	9.44	14.53	9.74
Fully diluted net income per share	9.96	9.17	14.01	9.45
Total assets	375,616	379,637	387,793	392,512
Shareholders' equity	189,757	192,718	197,389	204,779
	¥	¥	¥	¥
Shareholders' equity per share	534.81	549.35	562.81	583.55
	¥million	¥million	¥million	¥million
Cash flows from operating activities	10,469	8,048	6,959	14,295
Cash flows from investing activities	(4,664)	(6,522)	(7,431)	(4,908)
Cash flows from financing activities	(2,499)	(4,320)	(6,047)	(1,403)
Cash and cash equivalents as of the end the term	34,295	31,550	24,956	32,884