



July 29, 2004

## Consolidated Quarterly Financial Results for the First Quarter Ended June 2004

Name of Listed Company: Kaneka Corporation

Code Number: 4118

( U R L <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 : 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 First Quarter Ended June 30, 2004

(from April 1, 2004 to June 30, 2004)

#### (1) Consolidated Business Performance

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
First quarter ended June 2004	106,016	8.6	10,509	45.8	10,349	56.6	6,622	81.4
First quarter ended June 2003	97,618	8.6	7,206	10.3	6,608	19.9	3,650	17.3
Year 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
	¥	¥
First quarter ended June 2004	18.92	18.22
First quarter ended June 2003	10.28	9.96
Year 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 June 2004	396,306	207,668	52.4	595.77
As of June 2003	375,616	189,757	50.5	534.81
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
First quarter ended June 2004	10,368	(1,950)	(4,021)	37,313
First quarter ended June 2003	10,469	(4,664)	(2,499)	34,295
Year 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)

	Net sales	Ordinary income	Net income	Net income per share
	¥million	¥million	¥million	¥
Interim Term	210,000	18,500	10,500	30.12
Overall term	425,000	35,500	20,000	57.38

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

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

## 1 . Business Performance

The Kaneka Group posted ¥106,016 million (up 8.6% year-on-year) in consolidated sales, ¥10,509 million (up 45.8% year-on-year) in operating income, and ¥10,349 million (up 56.6% year-on-year) in ordinary income for the first quarter of the current fiscal year. Our consolidated business performance advanced over the corresponding period of the previous year both in sales and profits.

Sales in Japan and overseas expanded and international sales to total sales rose from 33.7% in the corresponding period of the previous year to 35.8%, thanks to an increase in exports to Asian regions and sales increase at overseas subsidiaries. By business segment, the electronic products business remained brisk. Sales volume of ultra heat resistant polyimide films, optical films, and solar cells have advanced significantly and the functional plastics business including MBS resins and modified silicon polymers, and the synthetic fibers business have also been on a recovering trend.

Operating income increased. While operating income was pressed down by the yen hike and surge in prices of petrochemical raw materials but the negative was absorbed by increased sales volume and raised sales prices. By business segment, the chemicals business and electronic business contributed to profit growth.

## 2 . Financial Conditions

### a. Cash flows

Net cash provided by operating activities was ¥10,368 million, while net cash used in investing activities was ¥1,950 million and net cash used in financing activities was ¥4,021 million. As a result, the outstanding balance of cash and cash equivalents at the end of the first quarter increased by ¥4,428 million compared to the balance at the end of the previous year, to ¥37,313 million.

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

Total assets at the end of the first quarter increased by ¥3.7 billion compared to those at the end of the previous fiscal year to ¥396.3 billion. Interest bearing liabilities fell by ¥0.4 billion to ¥66.0 billion. Shareholders' equity increased by ¥2.8 billion to ¥207.6 billion owing to an increase in retained earnings.

### 3. Performance Forecasts

Our performance forecasts for the year ending March 31, 2005 (Interim term/Overall term) are revised as follows:

(1) Forecasts for Consolidated Business Performance in the Interim Term Ending March 2005 ( from April 1, 2004 to September 30, 2004 )

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Forecast presented at the time of announcement of financial statements (A)	205,000	16,000	8,500
Revised forecast (B)	210,000	18,500	10,500
Increase (decrease) (B) - (A)	5,000	2,500	2,000
Percentage change (%)	2.4	15.6	23.5

(2) 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 financial statements (A)	420,000	33,000	18,000
Revised forecast (B)	425,000	35,500	20,000
Increase (decrease) (B) - (A)	5,000	2,500	2,000
Percentage change (%)	1.2	7.6	11.1

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

**Balance Sheet (Consolidated)**

	As of June 30, 2003	As of June 30, 2004	As of March 31, 2004		As of June 30, 2003	As of June 30, 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	31,063	34,489	30,007	Notes and accounts payable	50,510	55,377	54,191
Notes receivable and accounts receivable	94,383	100,153	99,271	Short-term borrowings	19,618	11,502	11,463
Marketable securities	9,125	8,855	10,718	Convertible bonds redeemed within 1 year	-	18,593	18,593
Inventories	42,441	44,449	43,224	Others	33,768	40,490	40,127
Others	13,553	14,580	15,171	<b>Total current liabilities</b>	<b>103,897</b>	<b>125,962</b>	<b>124,375</b>
<b>Total current assets</b>	<b>190,567</b>	<b>202,527</b>	<b>198,393</b>				
<b>II. Fixed Assets</b>				<b>II. Long-term Liabilities</b>			
Tangible fixed assets	131,066	128,202	128,366	Bonds and convertible bonds	38,593	20,000	20,000
Intangible fixed assets	3,259	2,771	2,752	Long-term borrowings	16,469	16,002	16,450
Investments and other assets	50,723	62,805	63,000	Employees' severance and retirement benefits	20,052	19,316	19,594
				Others	1,894	2,179	2,238
<b>Total fixed assets</b>	<b>185,048</b>	<b>193,779</b>	<b>194,119</b>	<b>Total long term liabilities</b>	<b>77,010</b>	<b>57,498</b>	<b>58,283</b>
				<b>Total liabilities</b>	<b>180,907</b>	<b>183,460</b>	<b>182,659</b>
				Minority interests			
				Minority interests	4,951	5,177	5,073
				Shareholders' equity			
				I. Common stock	33,046	33,046	33,046
				II. Additional paid in capital	34,826	34,837	34,837
				III. Retained earnings	123,200	139,110	134,021
				IV. Unrealized gain on available-for-sale securities	4,034	12,755	13,304
				V. Foreign currency translation adjustments	(3,584)	(5,220)	(5,598)
				VI. Treasury stock	(1,765)	(6,861)	(4,831)
				<b>Total shareholders' equity</b>	<b>189,757</b>	<b>207,668</b>	<b>204,779</b>
<b>Total assets</b>	<b>375,616</b>	<b>396,306</b>	<b>392,512</b>	<b>Total liabilities, minority interests and shareholders' equity</b>	<b>375,616</b>	<b>396,306</b>	<b>392,512</b>

**Statements of Income (Consolidated)**

	Term from April 1, 2003 to June 30, 2003	Term from April 1, 2004 to June 30, 2004	Increase (Decrease)	Term from April 1, 2003 to March 31, 2004
Item	¥million	¥million	¥million	¥million
I. Net sales	97,618	106,016	8,397	400,256
II. Cost of sales	69,760	73,689	3,929	286,782
Gross profit	27,858	32,326	4,467	113,474
III. Selling, general and administrative expenses	20,651	21,817	1,165	81,366
Operating income	7,206	10,509	3,302	32,107
IV. Non-operating income	<b>511</b>	<b>906</b>	<b>394</b>	<b>2,204</b>
Interest and dividends income	325	347	22	830
Others	186	558	372	1,374
V. Non-operating expenses	<b>1,109</b>	<b>1,065</b>	<b>(43)</b>	<b>4,989</b>
Interest expense	375	351	(23)	1,469
Others	734	713	(20)	3,520
Ordinary income	6,608	10,349	3,741	29,322
VI. Extraordinary loss	-	-	-	2,248
Income before income taxes	6,608	10,349	3,741	27,074
Income taxes (current and deferred)	2,929	3,633	703	11,175
Minority interests	28	93	65	276
Net income	3,650	6,622	2,972	15,622

Kaneka Corporation (Consolidated)

**Statements of Cash Flows (Consolidated)**

	Term from April 1, 2003 to June 30, 2003	Term from April 1, 2004 to June 30, 2004	Term from April 1, 2003 to March 31, 2004
Item	¥million	¥million	¥million
<b>I. Cash flows from operating activities</b>			
Net income before income taxes	6,608	10,349	27,074
Depreciation and amortization	5,348	5,079	22,337
(Increase) decrease in trade receivables	(293)	(728)	(6,018)
(Increase) decrease in inventories	500	(1,085)	(1,489)
Increase (decrease) in trade payables	(414)	1,094	3,759
Others	(1,279)	(4,341)	(5,890)
Net cash provided by operating activities	10,469	10,368	39,773
<b>II. Cash flows from investing activities</b>			
Payment for purchase of marketable securities	(842)	(702)	(3,956)
Proceeds from marketable securities	1,149	1,856	3,508
Payment for purchase of fixed assets	(3,834)	(4,017)	(16,253)
Payment for purchase of intangible assets	(116)	(161)	(659)
Payment for purchase of investment securities	(250)	(524)	(7,731)
Proceeds from sales and maturities of investment securities	55	1,074	2,787
Others	(825)	523	(1,221)
Net cash used in investing activities	(4,664)	(1,950)	(23,526)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowings	(763)	(164)	(8,173)
Proceeds from long-term debt	633	-	1,770
Repayment of long-term debt	(396)	(411)	(1,276)
Dividends paid	(1,423)	(1,402)	(2,826)
Payments for purchase of treasury stock	(537)	(2,030)	(3,629)
Others	(12)	(12)	(135)
Net cash used in financing activities	(2,499)	(4,021)	(14,270)
IV. Effect of exchange rate changes on cash and cash equivalents	(62)	31	(143)
V. Net increase (decrease) in cash and cash equivalents	3,243	4,428	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	34,295	37,313	32,884

## Segment Information

## 1. Segment Information by Business Category

(1) Term from April 1, 2003 to June 30, 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	18,086	13,372	15,099	25,034	11,582	8,106	6,336	97,618	( - )	97,618
(2) Intersegment	417	68	447	1	-	-	694	1,631	( 1,631 )	-
Total	18,504	13,441	15,547	25,036	11,582	8,106	7,031	99,250	( 1,631 )	97,618
Operating expenses	19,309	11,635	15,444	23,647	6,507	8,064	6,420	91,029	( 617 )	90,412
Operating income	(805)	1,806	102	1,388	5,075	41	611	8,220	( 1,013 )	7,206

(2) Term from April 1, 2004 to June 30, 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	18,999	14,800	15,846	26,055	11,644	11,901	6,767	106,016	( - )	106,016
(2) Intersegment	467	60	445	1	-	-	1,315	2,291	( 2,291 )	-
Total	19,466	14,861	16,292	26,057	11,644	11,901	8,083	108,308	( 2,291 )	106,016
Operating expenses	18,096	12,875	16,027	24,908	7,000	10,538	7,298	96,745	( 1,238 )	95,506
Operating income	1,370	1,986	264	1,148	4,644	1,362	785	11,562	( 1,053 )	10,509

(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 June 30, 2003

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. Net sales	12,696	8,647	10,305	1,253	32,903
II. Consolidated net sales					97,618
III. The ratio of sales to consolidated sales (%)	13.0	8.9	10.5	1.3	33.7

(2) Term from April 1, 2004 to June 30, 2004

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. Net sales	15,475	8,494	12,573	1,411	37,954
II. Consolidated sales					106,016
III. The ratio of sales to consolidated sales (%)	14.6	8.0	11.9	1.3	35.8

(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

## 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	-	-	-
Gross profit	32,326	-	-	-
Operating income	10,509	-	-	-
Ordinary income	10,349	-	-	-
Income before income taxes	10,349	-	-	-
Net income	6,622	-	-	-
	¥	¥	¥	¥
Net income per share	18.92	-	-	-
Fully diluted net income per share	18.22	-	-	-
Total assets	396,306	-	-	-
Shareholders' equity	207,668	-	-	-
	¥	¥	¥	¥
Shareholders' equity per share	595.77	-	-	-
	¥million	¥million	¥million	¥million
Cash flows from operating activities	10,368	-	-	-
Cash flows from investing activities	(1,950)	-	-	-
Cash flows from financing activities	(4,021)	-	-	-
Cash and cash equivalents as of the end the term	37,313	-	-	-

## 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