

Interim Consolidated Financial Results for the Term Ending March 2004

November 6, 2003

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

Stock Exchanges Listed:
Tokyo, Osaka, Nagoya
Headquarter location: Osaka

Representative: Masatoshi Takeda, President, Representative Director
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Date of board of directors meeting for closing of interim accounts: November 6, 2003
American accounting standards: No adopted

1. Consolidated business performance for the interim term ended September 2003 (from April 1, 2003 to September 30, 2003)

(1) Consolidated business performance

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

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Interim term ended September 2003	196,934	7.7	14,399	21.7	12,611	24.2
Interim term ended September 2002	182,772	1.9	11,832	9.6	10,153	5.1
Term ended March 2003	372,269		26,911		23,005	

	Net income		Net income per share	Fully diluted net income per share
	¥million	%	¥	¥
Interim term ended September 2003	6,974	30.2	19.72	19.13
Interim term ended September 2002	5,358	3.8	15.00	14.41
Term ended March 2003	13,373		37.24	35.63

- Notes: 1. Profit and loss based on equity-method investment balance: - ¥43 million in interim term ended September 2003, ¥14 million in interim term ended September 2002, - ¥73 million in term ended March 2003
2. Average number of shares (consolidated): 353,600,123 in interim term ended September 2003, 357,186,892 in interim term ended September 2002, 356,102,542 in term ended March 2003
3. Changes to accounting policies: None
4. The percentages in the net sales, operating income, ordinary income, and interim net income columns, represent increases (decreases) compared with interim results for the previous year

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Interim term ended September 2003	379,637	192,718	50.8	549.35
Interim term ended September 2002	376,620	182,661	48.5	513.83
Term ended March 2003	370,050	185,747	50.2	521.77

Note: Number of shares issued (consolidated) at end of the period: 350,813,079 as of September 30, 2003
355,487,477 as of September 30, 2002: 355,779,305 as of March 31, 2003

(3) Cash flow on a consolidated basis

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Outstanding balances of cash and cash equivalents as of the end of the term
	¥million	¥million	¥million	¥million
Interim term ended September 2003	18,518	(11,186)	(6,820)	31,550
Interim term ended September 2002	25,424	(15,108)	(2,012)	39,743
Term ended March 2003	40,040	(27,899)	(13,364)	31,051

(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

Newly consolidated companies: 0 Excluded: 0
Newly included in equity method companies: 0 Excluded: 0

2. Forecast for consolidated business performance in the term ending March 2004 (from April 1, 2003 to March 31, 2004)

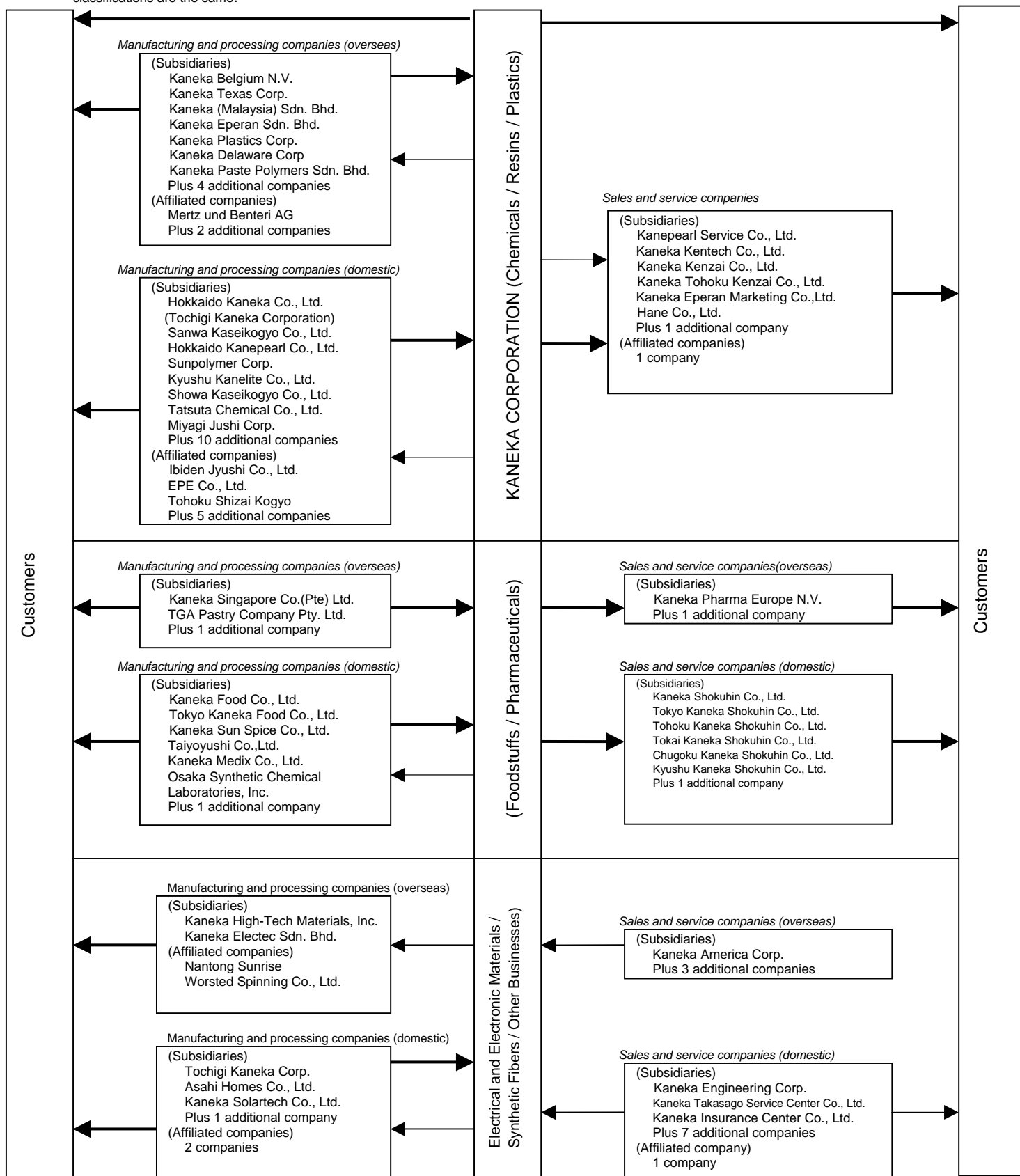
	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Overall term	395,000	27,000	14,500

(Reference) Projected net income per share (whole year): ¥41.33

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

The Corporate Group Situation

The major business of the company, its 75 subsidiaries and 16 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. is a subsidiary that overlaps in several segments.
 5. Asahi Homes Co., Ltd. is registered on the over-the-counter market of the Japan Securities Dealers Association

1. Management Policy

The Kaneka Group aims to engage in activities fairly and squarely in the 21st century, by steadily implementing and realizing management measures in accordance with five key factors, in consideration of changes in business environment.

(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 a sustained high growth and high profitability and, at the same time, on 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 midterm 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.

The medium-term plan is now in its second year. We are overcoming the challenges we have defined step by step, and we are positively fulfilling the profit targets as planned.

(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 stance on profit distribution is to basically continue paying stable dividends

based on forecasts of medium-term earnings trends, and in conjunction with this, to execute the acquisition of treasury stock. For the interim period, we acquired 4,989,000 treasury stock 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) Policies on Cutting Investment Units Trailing Volume

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

(d) Target Management Indexes

The Kaneka Group aims to post ¥500 billion in sales and ¥50 billion in ordinary income in the early 21st century, assuming that growth potential and profitability are top priority indexes for management control. We are also promoting efficient management with respect to each business, based on the view that return on assets (ROA) is a crucial index for Management control.

(e) Medium-Range Management Strategies

Kaneka is characterized by diversified businesses. We are focusing on specified global markets where we are competitive as well as offering added values that satisfy our customers' needs in terms of products, services and information. We aim to be a leading company in the specified markets among chemical companies.

To fulfill such an aim, we will concentrate our management resources in five priority strategic fields, namely: high performance resins, information & communications, functional foodstuffs, pharmaceuticals & medical products, and solar cells, which are expected to undergo significant growth in the future.

(f) Our Tasks

We are working on realizing the medium-term plan launched in April 2002, in which the restructuring of business aimed at further growth, the development of a robust corporate constitution, and the strict implementation of the code of conduct with respect to compliance with laws and ordinances were specified as priority tasks. The key points in the plan are as follows:

(1) Change of Business Structure

We will aggressively seize business opportunities and proactively expand our business, with the aim to increase the weight of high value-added products based on highly specialized technologies. To achieve this, we have decided during this interim period to expand our production capacity in ultra heat resistance polyimide film and functional foodstuffs on a large scale, and completion of FC-free extruded polystyrene form boards. In overseas, we have decided to expand modified silicone polymers in Europe and make serious capital investments in synthetic fibers and expanded polyolefin businesses in China.

(2) Developing a Robust Corporate Constitution

We will go back to the basics as a manufacturing company; we will vigorously enhance our capabilities in terms of production technologies and promote cost reduction, and on a Group-wide scale, work on operation reforms and realize a low-cost management constitution. Also, we will make efforts in developing human resources and bolstering our organizational strength, through a merit-oriented personnel system, and create a highly competitive enterprise group that can survive the global competition. To achieve this, we will refine the internal framework and promote efforts in “manufacturing reform” in the manufacturing division, including both Japanese and foreign affiliates.

(3) Spreading the Code of Conduct for Compliance with Laws and Ordinances

We will reconfirm the fact that compliance with laws and ordinances is a basic requirement for the company’s survival. The top management will demonstrate leadership in strengthening the internal framework, identifying issues, and making efforts in solving them, and at the same time, refine regulations and rules and thoroughly implement training and education related to the code of conduct, including affiliates.

(g) Basic Approach to Corporate Governance and Implementation Status of Measures

Kaneka's basic strategy is to run diverse businesses. In terms of organization, we have adopted a division system, based on which businesses are implemented according to the type and nature of business. While division managers are given extensive authority with respect to business operations, senior officers take charge of multiple divisions to ensure operational consistency on a company-wide scale. Every month, a meeting is convened in which the head of each division is required to report the execution status of each division directly to all directors and auditors. For important topics with significant company-wide effects, a management conference consists of senior executive directors and higher directors is convened whenever necessary to further accelerate the decision-making process and ensure swift action.

On the other hand, we have established an internal audit department within the company under the direct control of 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.

Of note, we adopt an auditors system, consisting of four auditors. Among them, three auditors satisfy the requirements of an outside auditor.

(h) Other Significant Matters Relating to Company's Management

Our company and our subsidiaries are under investigation by Japanese, United States and European authorities on suspicion of violating antitrust laws in the modifiers business. While no decision has been made by any of the authorities as of this stage, a class action has been brought against us in relation to this under the law in the state of Ohio in the United States, and we were served with the complaint in August 2003. We believe that the claim has no ground.

2. Business Performance and Financial Position

(a) Business Performance

(1) Overview of Interim Results

In the interim period, the global economy was characterized by a slowdown of the European economy, counteracted by signs of recovery in the U.S. economy, and an expansionary trend in the Asian economy led by China, despite the impact of Severe Acute Respiratory Syndrome (SARS).

The Japanese economy seems to bottom out as industrial activities picked up, driven by exports, and stock prices recovered. However, the future of the economy remains uncertain, due to persistent deflation and a rapid appreciation of the yen at the end of the period.

The chemical industry suffered from the sluggish domestic market, and in particular, raw materials and fuel prices, which remained high even after the end of the Iraq war, undermined profits generated by the petrochemical business.

In such a tough business environment, the Kaneka Group worked on restructuring its business and enhancing its competitiveness at an accelerated pace.

As a result, our interim consolidated business performance improved over the previous year in terms of revenues and profits; we posted ¥196,934 million in sales (up 7.7% year-on-year), ¥14,399 million in operating income (up 21.7%), ¥12,611 million in ordinary income (up 24.2%) and ¥6,974 million in interim net income (up 30.2%).

Non-consolidated business performance also improved over the previous year in terms of revenues and profits; we posted ¥126,397 million in sales (up 6.0% year-on-year), ¥11,117 million in operating income (up 46.6%), ¥11,100 million in ordinary income (up 53.7%) and ¥6,861 million in interim net income (up 59.6%).

On the basis of these achievements, the interim dividend will be ¥4 per share.

(2) Segment Trends

(Chemicals, Resins and Plastics)

For polyvinyl chloride and caustic soda, exports increased while domestic demand stagnated. We made efforts to improve profitability through restructuring and cost-cutting, as raw material prices remained high. As a result, sales were greater than in the previous year and the amount of losses decreased.

For specialty resins, sales were solid, partly due to an increase in the sales volume of modified silicone polymers in Europe and the United States. However, profits were much lower than in the previous year, owing to the heavy impact of a rise in raw materials and fuel prices, especially for MBS resins.

For plastic products, sales outstripped the figure posted in the previous year, due to the solid performance of expanded polyolefin resins and an increase in sales of FC-free extruded expanded polystyrene boards. However, profits were almost the same as in the previous year, due to an increase in costs associated with the steep rise in the price of raw materials.

As a result, the segment posted higher revenues but lower profits, compared to the previous year.

(Foodstuffs and Pharmaceuticals)

For foodstuffs, we posted sales and profits comparable to the previous year by enhancing the production and sales framework, even though the business environment remained tough due to a diversification of consumers' needs, the established trend toward lower prices, and the high price of edible oils as raw materials.

For pharmaceuticals, both sales and profits were dramatically higher than in the previous year, owing to the good performance of pharmaceutical bulk and intermediates as well as medical devices, attributable to an increase in sales of existing products and contributions made by the release of newly-developed products, in addition to an increase in sales of functional foodstuffs overseas.

As a result, the segment posted higher revenues and profits compared to the previous year.

(Electrical and Electronic Materials, Synthetic Fibers and Others)

For electronic materials and electronic components, both sales and profits were substantially higher than in the previous year, owing to an increase in sales of ultra-heat-resistant polyimide films and optical films, driven by a strong demand for mobile phones and digital home electric appliances. Further, the sales volume of solar cells dramatically increased, especially exports.

For synthetic fibers, both sales and profits fell short of the level posted in the previous year, due to the weak market, in addition to the impact of the strong yen and the hike in raw material prices.

As a result, the segment posted higher revenues and profits than in the previous year, thanks to contributions made by electrical and electronic materials.

(Overseas Sales)

Overseas sales in the interim period amounted to ¥63.6 billion, due to an increase in exports and sales generated by overseas subsidiaries. However, overseas sales accounted for 32.3% of total sales, slightly less than in the previous year (33.3%), due to a relative increase in the sales of electrical and electronic materials and plastic products driven by domestic demand.

(3) Full-year Performance Forecasts

The U.S. economy is on the road to recovery, assisted by an economic stimulation package. However, there have been no improvements in employment, and there are structural problems in that the “twin deficits” (budget deficit and current account deficit) are increasing. The future prospects of the global economy are expected to depend on these trends.

Further, there are concerns that the rapid appreciation of the yen might undermine the export-led recovery of the Japanese economy.

In the chemicals industry, the business environment is expected to remain tough, owing to risk factors attributable to the high price of crude oil, naphtha and petrochemical raw materials.

Based on such forecasts, the Kaneka Group intends to make the utmost efforts to solve various issues to fulfill its performance targets and achieve continual growth.

Thus, the performance forecasts for the year ending March 31, 2004 are as follows:

1. Consolidated Forecasts

Sales	¥395 billion (6.1% increase from year ended March 2003)
Ordinary income	¥ 27 billion (17.4% increase from year ended March 2003)
Net income	¥14.5billion (8.4% increase from year ended March 2003)

2. Non-Consolidated Forecasts

Sales	¥255 billion (4.7% increase from year ended March 2003)
Ordinary income	¥22.5billion (26.6% increase from year ended March 2003)
Net income	¥13 billion (31.3% 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 ¥112 to the U.S. dollar, which is our main currency to be used, and ¥128 to the Euro.

(b) Financial Conditions

(1) Consolidated Cash Flows

The cash flow provided by operating activities in the interim period was ¥18,518 million, including interim net income before income tax of ¥12,611 million, depreciation and amortization of ¥10,842 million, and payment of income taxes of ¥3,550 million.

Cash flows used for investing activities amounted to ¥11,186 million, primarily due to the acquisition of tangible fixed assets in the amount of ¥7,748 million, such as modified silicone polymer manufacturing facilities.

Cash flows used for financial activities amounted to ¥6,820 million, as a result of share buy back, the repayment of short-term borrowings and other financial activities.

Consequently, cash and cash equivalents increased ¥498 million to ¥31,550 million at the end of the current interim period.

(2) Status of Assets, Liabilities and Shareholders' Equity

As at the end of the interim period, total assets increased by ¥9.5 billion year-on-year to ¥379.6 billion, owing to an increase in investment securities attributable to the recovery of market value, in addition to an increase in marketable securities generated by profit. On the other hand, return on assets (ROA) (annual rate) was 6.7%, exceeding the rate in the previous year 6.1% and in the previous interim period 5.4%.

The balance of interest-bearing liabilities at the end of the interim period decreased by ¥2.2 billion over the previous year-end, to ¥72.9 billion. Shareholders' equity amounted to ¥192.7 billion, up ¥6.9 billion, owing to an increase in the unrealized gains on available-for-sale securities and retained earnings, notwithstanding a decrease attributable to the purchase of treasury stock.

Consequently, the ratio of shareholders' equity to assets was 50.8% (previous year: 50.2%) and the debt-to-equity ratio (D/E ratio) was 0.38 (previous year: 0.40), both of which improved. Our financial soundness has been substantially enhanced as a result.

(3) Trends in Financial Indexes*

	Term ended March 2000	Term ended March 2001	Term ended March 2002	Term ended March 2003	Interim term ended September 2003
Shareholder's equity ratio	43.2%	44.2%	47.6%	50.2%	50.8%
Shareholder's equity ratio based on market value	120.6%	87.6%	80.9%	53.6%	75.1%
Years of debt redemption	2.7	3.5	2.5	1.9	-
Interest coverage ratio	15.3	14.4	17.5	23.9	24.5

(Note)

Shareholder's equity ratio: Shareholders' equity / Total assets

Shareholder's equity ratio based on market value: Total market value of stock / Total assets

Years of debt redemption: Interest-bearing liabilities / Operating cash flow

Interest coverage ratio: Operating cash flow / Amount of interest paid

* All indexes are calculated on the basis of consolidated figures.

*The scope of cash flow is based on operating cash flow. The scope of interest-bearing liabilities refer to all liabilities in the consolidated balance sheet for which interest is paid. The amount of interest paid is based on the amount of interest paid stated in the consolidated cash-flow statements.

Interim Balance Sheets (Consolidated)

(Unit: ¥million)

Item	Interim term ended Sept. 30, 2002	Interim term ended Sept. 30, 2003	Term ended March 31, 2003	Item	Interim term ended Sept. 30, 2002	Interim term ended Sept. 30, 2003	Term ended March 31, 2003
Assets				Liabilities			
I. Current assets				I. Current liabilities			
Cash and deposits	35,073	28,609	27,848	Notes and accounts payable	45,752	51,252	50,850
Notes and accounts receivable	87,685	95,823	93,932	Short-term borrowings	21,065	18,260	20,848
Marketable securities	7,487	11,993	8,428	Convertible bonds redeemed within 1 year	7,598	18,593	—
Inventories	39,653	41,939	42,921	Accrued liabilities	17,564	18,825	17,217
Deferred tax assets	3,000	3,894	3,064	Accrued income taxes	3,929	5,791	3,537
Others	9,082	10,821	9,320	Accrued consumption taxes	676	546	546
Allowance for doubtful receivables	(413)	(619)	(635)	Accrued expenses	7,406	7,723	7,036
Total current assets	181,569	192,461	184,879	Deferred tax liabilities (current)	1	1	1
				Allowance for loss on debt guarantees	592	592	592
				Others	2,313	2,154	1,473
				Total current liabilities	106,899	123,741	102,102
II. Fixed assets				II. Fixed liabilities			
Tangible fixed assets				Bonds payable	38,593	20,000	38,593
Buildings and structures	45,610	45,297	46,335	Long-term loans payable	16,040	16,133	15,783
Machinery and equipment	56,892	53,088	55,181	Deferred tax liabilities (non-current)	464	487	420
Land	22,005	23,190	23,218	Employees' severance and retirement benefits	25,841	20,007	20,659
Construction in progress	5,406	4,284	3,597	Retirement benefits for directors and statutory auditors	817	826	883
Others	3,826	3,418	3,511	Others	528	812	974
Total tangible fixed assets	133,742	129,279	131,845	Total fixed liabilities	82,284	58,266	77,314
Intangible fixed assets	3,072	3,232	3,319				
Investments and other assets				Total liabilities	189,184	182,007	179,417
Investments in securities	41,847	40,356	31,458	Minority interests	4,774	4,910	4,885
Deferred tax assets (non-current)	5,712	3,489	7,835	Shareholders' equity			
Others	11,398	11,731	11,761	I. Common stock	33,046	33,046	33,046
Allowance for doubtful receivables	(722)	(914)	(1,048)	II. Capital surplus	34,647	34,837	34,826
Total investments and other assets	58,236	54,663	50,007	III. Retained earnings	114,492	126,524	121,084
Total fixed assets	195,051	187,175	185,171	IV. Unrealized gain on available-for-sale securities	6,618	7,883	2,049
				V. Foreign currency translation adjustments	(4,573)	(4,831)	(4,031)
				VI. Treasury stock	(1,569)	(4,742)	(1,228)
				Total common stock	182,661	192,718	185,747
Total assets	376,620	379,637	370,050	Total liabilities, minority interests and shareholders' equity	376,620	379,637	370,050

Interim Statements of Income (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2003 to Sept. 30, 2003	Increase (Decrease)	Term from April 1, 2002 to March 31, 2003
I. Net sales		182,772	196,934	14,161	372,269
II. Cost of sales		131,896	142,168	10,271	267,683
Gross profit		50,876	54,765	3,889	104,586
III. Selling, general and administrative expenses		39,043	40,366	1,322	77,674
Operating income		11,832	14,399	2,567	26,911
IV. Non-operating income		917	1,034	116	1,405
Interest		142	156	13	280
Dividends income		383	363	(20)	562
Equity in income of unconsolidated subsidiaries and affiliates		14	—	(14)	—
Others		377	515	137	561
V. Non-operating expenses		2,597	2,822	225	5,311
Interest expense		826	748	(77)	1,692
Loss on disposals of property, plant and equipment		581	661	80	1,630
Exchange loss		329	683	354	489
Equity in loss of unconsolidated subsidiaries and affiliates		—	43	43	73
Others		860	685	(174)	1,425
Ordinary income		10,153	12,611	2,458	23,005
VI. Extraordinary gain		—	—	—	4,592
Gain on the release from the substitutonal portion of the employee pension fund		—	—	—	4,592
VII. Extraordinary loss		530	—	(530)	4,897
Early retirement benefits		530	—	(530)	820
Write-down of investment securities		—	—	—	1,985
Expenses on pension plan amendment		—	—	—	1,286
Restructuring expenses		—	—	—	803
Income before income taxes		9,623	12,611	2,988	22,700
Corporate taxes, local taxes and business taxes		3,973	5,958	1,985	7,590
Income taxes deferred		56	(439)	(496)	1,446
Minority interests		235	118	(117)	290
Net income		5,358	6,974	1,616	13,373

Interim Consolidated Statements of Additional Paid in Capital and Retained Earnings

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to September 30, 2002	Interim term from April 1, 2003 to September 30, 2003	Increase (Decrease)	Term from April 1, 2002 to March 31, 2003
<Additional paid in capital>					
I. Beginning balance for capital surplus		34,647	34,826	179	34,647
Beginning balance for capital reserve		34,647	34,826	179	34,647
II. Increase in capital surplus		—	10	10	179
Increase in capital surplus associated with exchange of shares		—	—	—	179
Gain on disposal of treasury stock		—	10	10	—
III. Balance of capital surplus at term end		34,647	34,837	189	34,826
<Retained Earnings>					
I. Beginning balance for retained earnings		110,656	121,084	10,428	110,656
Beginning balance for consolidated retained earnings		110,656	121,084	10,428	110,656
II. Increase in retained earnings		5,358	6,974	1,616	13,373
Net income		5,358	6,974	1,616	13,373
III. Decrease in retained earnings		1,522	1,534	12	2,944
Cash dividends paid		1,430	1,423	(6)	2,852
Bonuses to directors and statutory auditors		92	111	19	92
IV. Outstanding balances of retained earnings at term end		114,492	126,524	12,032	121,084

Interim Statements of Cash Flows (Consolidated)

(Unit: ¥million)

Item	Term	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2003 to Sept. 30, 2003	Term from April 1, 2002 to March 31, 2003
I. Cash flows from operating activities				
Net income before income taxes		9,623	12,611	22,700
Depreciation and amortization		11,486	10,842	23,526
Provision for severance and retirement benefits		(793)	(631)	(1,414)
Increase (decrease) in allowance for doubtful receivables		(77)	(149)	331
Interest and dividend income		(526)	(519)	(843)
Interest expense		826	748	1,692
Loss on disposals of property, plant and equipment		332	482	916
Write down of investment securities		—	—	1,985
Restructuring expenses		—	—	803
Gain on the release from the substitutional portion of the employees pension fund		—	—	(4,592)
Earnings on investments in equity-method affiliates		(14)	43	73
(Increase) decrease in trade receivables		5,360	(2,293)	1,230
(Increase) decrease in inventories		2,295	560	(618)
Increase (decrease) in trade payables		(2,397)	631	928
Others		3,083	(21)	1,783
Subtotal		29,200	22,305	48,503
Interest and dividends received		542	517	857
Interest paid		(807)	(754)	(1,673)
Income taxes paid		(3,510)	(3,550)	(7,647)
Net cash provided by operating activities		25,424	18,518	40,040
II. Cash flows from investing activities				
Payment for purchase of marketable securities		(1,233)	(2,955)	(2,380)
Proceeds from marketable securities		200	2,595	397
Payments for purchase of property, plant and equipment		(11,293)	(7,748)	(19,815)
Payment for purchase of intangible assets		(599)	(387)	(1,051)
Purchase of investments		(3,603)	(2,342)	(6,223)
Proceeds from sales and maturities of investments		2,269	688	2,448
Purchases of consolidated subsidiaries' stock		(1,057)	(1)	(1,211)
Increase in loans receivable		(204)	(262)	(426)
Decrease in loans receivable		173	190	586
Others		241	(962)	(222)
Net cash used in investing activities		(15,108)	(11,186)	(27,899)
III. Cash flows from financing activities				
Decrease in short-term borrowing		(3,197)	(1,953)	(4,088)
Proceeds from long-term debt		5,000	870	5,250
Repayment of long-term debt		(795)	(723)	(1,442)
Repayment of convertible bonds		—	—	(7,598)
Dividends paid		(1,430)	(1,423)	(2,852)
Dividends paid to minority shareholders		(66)	(93)	(142)
Proceeds from call of minority shareholders		—	—	62
Purchase of treasury stock		(1,522)	(3,537)	(2,552)
Proceeds of treasury stock		—	40	—
Net cash used in financing activities		(2,012)	(6,820)	(13,364)
IV. Effect of exchange rate changes on cash and cash equivalents				
		(127)	(13)	61
V. Net increase (decrease) in cash and cash equivalents				
		8,176	498	(1,161)
VI. Cash and cash equivalents at beginning of term				
		31,567	31,051	31,567
VII. Effect of changes in scope of consolidation				
		—	—	646
VIII. Cash and cash equivalents at term end				
		39,743	31,550	31,051

The relation between the outstanding balances of cash and equivalents at the term end and the respective amounts in items listed on the interim consolidated balance sheet (consolidated balance sheet)

(¥million)

	Interim term ended Sept. 2002	Interim term ended Sept. 2003	Term ended March 2003
Cash and cash deposits	35,073	28,609	27,848
Time deposits (period of deposit greater than 3 months)	(288)	(117)	(356)
Accounts of marketable securities	7,487	11,993	8,428
Stocks and bonds (redemption period exceeds 3 months)	(2,529)	(8,935)	(4,869)
Cash and cash equivalents	39,743	31,550	31,051

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:
None
- (4) Consolidated subsidiaries excluded:
None
- (5) Other subsidiaries have been excluded from the scope of consolidation because they do not have significant influence on interim consolidated financial statements.

2. Application of equity method

Of unconsolidated subsidiaries and affiliated companies, the equity method is applied to investments in Ibiden Co, Ltd. and one other companies.

3. Date of interim account closing for consolidated subsidiaries

Interim accounts close for Kaneka Singapore Co. (Pte.) Ltd., Kaneka Plastics Corp., Kaneka Delaware Corp., Taiyoyushi K.K. on June 30. Interim consolidated financial statements are prepared using the interim financial statements at the close date for these companies. Necessary adjustments for consolidation are applied to major transactions occurring between the closing date of these companies and the interim consolidation date.

4. Standards for account settlement

- (1) Valuation methods and criteria for important assets

A. Securities

Securities with market value:

Market value accounting based on market price at the date of interim account closing (Net unrealized gains or losses on the securities are reported in the shareholders' equity. Cost of securities sold is calculated by the moving average cost accounting method.)

Securities without market value:

Valuation at cost based on moving average cost method.

B. Derivatives

Market value method

C. Valuation of inventories

Manufactured goods / merchandise: Primarily, valuation at cost based on the periodic(monthly) average method.

Raw materials / work in progress: Primarily, valuation at cost based on the moving average cost method.

- (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 experienced rate of uncollected debt method for general debts and by individually reviewing the possibility of collection for special debts including doubtful debts.

B. Allowance for loss on debt guarantees

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 interim term.

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 interim term 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 interim closing date. The resulting translation adjustments are reported as profit or loss.

Assets and liabilities of overseas subsidiaries are translated into yen at spot rates on the interim closing date, and revenues and expenses are translated into yen at average rates of exchange during the interim period. Translation adjustments are included in minority interests and shareholders' equity.

(5) Treatment of major lease transactions

Finance lease transactions which do not transfer ownership are accounted for in the same manner as operating leases in accordance with 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 transfer accounting is applied to currency swap transactions that fulfill the requirements of transfer accounting.

B. Hedge methods and hedge items

Hedge methods: 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, interest rate movement risks, and cash flow movement risks are hedged.

D. Method for effectiveness evaluation

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

(7) Matters relating to tax effect accounting

The amount of taxes paid and income taxes deferred for the interim consolidated accounting period were calculated considering the scheduled increase and decrease of the reserves for replaced property and reserves for special depreciation as a result of profit distribution.

(8) Additional note regarding preparation of statements

Consumption taxes are not included in accounting treatments.

5. Scope of cash and cash equivalents in interim consolidated statements of cash flows

In preparing the interim consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturity not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Notes to the Interim Consolidated Balance Sheet

	Interim term ended Sept. <u>30, 2002</u>	Interim term ended Sept. <u>30, 2003</u>	Term ended March <u>31, 2003</u>
			(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed	360,085	376,324	371,242
2. Contingent liabilities			
Guarantees	705	798	982
Commitments to guarantee	100	—	—
Letter of awareness	134	62	95
3. Discount on notes receivable	921	800	992
Notes payable endorsed for payment	445	42	1,249

1. Segment Information

1. Segment information by business

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

(Unit: ¥million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and corporate	Consolidated
Sales						
(1)Customers	90,303	67,387	25,081	182,772	-	182,772
(2) Intersegment	861	3	2,342	3,207	(3,207)	-
Total	91,165	67,390	27,424	185,980	(3,207)	182,772
Operating expenses	86,313	59,597	26,513	172,424	(1,484)	170,939
Operating income	4,851	7,793	910	13,555	(1,723)	11,832

(2) Interim term from April 1, 2003 to Sept. 30, 2003

(Unit: ¥ million)

	Chemicals, Resins and Plastics	Foodstuffs and Pharmaceuticals	Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Total	Eliminations and Corporate	Consolidated
Sales						
(1)Customers	97,713	70,356	28,863	196,934	-	196,934
(2) Intersegment	831	3	1,883	2,719	(2,719)	-
Total	98,545	70,360	30,747	199,653	(2,719)	196,934
Operating expenses	94,886	59,318	29,092	183,296	(762)	182,534
Operating income	3,658	11,042	1,655	16,356	(1,956)	14,399

(3) 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
Sales						
(1)Customers	182,437	139,350	50,481	372,269	-	372,269
(2) Intersegment	1,632	7	4,342	5,982	(5,982)	-
Total	184,069	139,358	54,824	378,252	(5,982)	372,269
Operating expenses	174,114	120,246	53,442	347,803	(2,444)	345,358
Operating income	9,955	19,111	1,381	30,448	(3,537)	26,911

Notes: 1. The classification of businesses was determined based on comprehensive judgments on type, application, method of manufacturing, similarities in the market and mutual relation in the manufacturing process, and common features during development.

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, Chlorinated products
	Specialty Plastics	MBS resins, Specialty PVC resins, Modified silicone polymers
	Plastic Products	Extruded polystyrene foam boards, Polystyrene foam sheet, Polyolefin foam by beads method, Expandable polystyrene, PVC sash window
Foodstuffs and Pharmaceuticals	Foodstuffs and Pharmaceuticals	Margarine, Shortening, Quality fats for confectionery, Bakery yeast, Spices, Pharmaceutical bulk, Pharmaceutical intermediates, Functional foodstuffs, Medical devices
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	Electrical and Electronic Materials	Magnet wires, Ultra heat-resistant polyimide film, Bonded magnetic materials, Solar cells
	Synthetic Fibers	Modacrylic fibers (Kanecaron)
	Other businesses	Engineering operations, Housing construction

3. Operating expenses included in the 'corporate and eliminations' column of ¥1,995 million for the interim term ended September 30, 2003, ¥1,677 million for the interim term ended September 30, 2002 and ¥3,432million, the term ended March 31, 2003, respectively, consist principally of fundamental research of the Company.

4. In the current interim consolidated accounting period, we reviewed the relationship between the R&D themes and the R&D strategies of each business, for the purpose of achieving a higher level of implementation of the New Management and Control System, introduced with the aim to enhance Group management and improve the efficiency of asset management, and indicating the performance of each business more clearly. Based on those results, we decided to allocate, to each business category, some of our basic R&D expenses, which had previously been counted in unallocated operating expenses.

For the previous interim consolidated accounting period and the previous consolidated accounting year, the figures are indicated based on the revised allocation method.

2. Segment Information by Geographic Area

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

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
Sales					
(1) Customers	155,331	27,441	182,772	-	182,772
(2) Intersegment	4,288	2,516	6,805	(6,805)	-
Total	159,620	29,957	189,577	(6,805)	182,772
Operating expenses	149,666	26,252	175,918	(4,978)	170,939
Operating income	9,953	3,705	13,659	(1,826)	11,832

(2) Interim term from April 1, 2003 to Sept. 30, 2003 (Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
Sales					
(1) Customers	168,054	28,879	196,934	-	196,934
(2) Intersegment	4,403	2,101	6,505	(6,505)	-
Total	172,458	30,981	203,439	(6,505)	196,934
Operating expenses	158,332	28,737	187,070	(4,535)	182,534
Operating income	14,126	2,243	16,369	(1,969)	14,399

(3) Term from April 1, 2002 to March 31, 2003 (Unit: ¥million)

	Japan	Other areas	Total	Elimination and corporate	Consolidated
Sales					
(1) Customers	317,921	54,348	372,269	-	372,269
(2) Intersegment	7,810	4,757	12,568	(12,568)	-
Total	325,732	59,105	384,838	(12,568)	372,269
Operating expenses	301,457	52,864	354,321	(8,963)	345,358
Operating income	24,275	6,241	30,516	(3,605)	26,911

Notes: 1. The regions falling under the 'Other Areas' category consist of North America, Europe and Asia. The sales 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 ¥1,995 million for the interim term ended September 30, 2003, ¥1,677 million for the interim term ended September 30, 2002, and 3,432 million for the term ended March 31, 2003, respectively, consist principally of fundamental research expenses of the Company.

3. Similarly to the segment information with respect to each business type, our basic R&D expenses, which had previously been treated as unallocated operating expenses, were allocated to the "Japan" segment. Segment information with respect to each location for the previous consolidated accounting period and the previous interim consolidated accounting year is based on the revised allocation method.

3. International Sales

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

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

(2) Interim term from April 1, 2003 to Sept. 30, 2003 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
Sales	24,991	17,522	18,510	2,623	63,647
Consolidated sales					196,934
The ratio of sales to consolidated sales (%)	12.7	8.9	9.4	1.3	32.3

(3) 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

Notes: 1. International sales are sales of the company and consolidated subsidiaries in countries and areas other than Japan.

2. Method of classifying countries or areas and the major countries or regions belonging to each classification.

(1) Method of classification of country or area: geographical proximity

(2) Major country or region belonging to each classification by location

Asia: China, Korea, Taiwan

North America: United States of America, Mexico

Europe: Belgium, United Kingdom

Other regions: Australia, Togo

2. Securities

1. Bonds held to maturity listed at market value
No corresponding bonds

2. Other securities with market value

(Unit: ¥million)

	Interim term ended September 30, 2002			Interim term ended September 30, 2003			Term ended March 31, 2003		
	Acquisition cost	Amount on interim balance sheet	Unrealized gain (loss)	Acquisition cost	Amount on interim balance sheet	Unrealized gain (loss)	Acquisition cost	Amount on balance sheet	Unrealized gain (loss)
(1) Stocks	15,517	26,909	11,392	13,373	26,694	13,321	13,512	16,961	3,449
(2) Bonds									
Government bonds, local government bonds, etc.	305	306	1	301	303	1	303	304	1
Corporate bonds	3,673	3,653	(20)	9,907	9,910	2	5,652	5,654	2
Others	239	243	3	35	35	0	239	242	2
(3) Others	1,000	1,027	27	62	58	(3)	1,062	1,091	29
Total	20,736	32,140	11,404	23,680	37,002	13,321	20,770	24,255	3,485

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

(Unit: ¥million)

	Interim term ended Sep. 30, 2002	Interim term ended Sep. 30, 2003	Term ended March 31, 2003
	Amount on interim balance sheet	Amount on interim balance sheet	Amount on balance sheet
(1) Bonds held to maturity	-	-	-
(2) Unconsolidated subsidiaries' stock and affiliates' stock	4,869	3,249	3,283
(3) Other securities			
Non-listed stock	7,223	9,031	8,774
Mutual funds			
invested in bonds	5,088	3,058	3,559
Others	13	8	13

Manufacturing, Orders and Sales

(1) Manufacturing Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2003 to Sept. 30, 2003	Increase (Decrease) Ratio (%)	Term from April 1, 2002 to March 31, 2003
Chemicals, Resins and Plastics	74,729	76,559	2.4	151,533
Foodstuffs and Pharmaceuticals	41,282	47,771	15.7	90,616
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	24,075	27,201	13.0	44,219
Total	140,087	151,532	8.2	286,369

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.

(2) Orders

Products are mainly manufactured based on sales estimations.

(3) Sales Results

(Unit: ¥million)

Business Segment	Interim term from April 1, 2002 to Sept. 30, 2002	Interim term from April 1, 2003 to Sept. 30, 2003	Increase (Decrease) Ratio (%)	Term from April 1, 2002 to March 31, 2003
Chemicals, Resins and Plastics	90,303	97,713	8.2	182,437
Foodstuffs and Pharmaceuticals	67,387	70,356	4.4	139,350
Electrical and Electronic Materials, Synthetic Fibers and Other Businesses	25,081	28,863	15.1	50,481
Total	182,772	196,934	7.7	372,269