



April 27, 2005

Consolidated Financial Results for the Term Ended March 2005

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

Stock Exchanges Listed: Tokyo, Osaka, Nagoya
 Headquarters Location: Osaka Prefecture

Representative: Name: Masatoshi Takeda
 Contact: Name: Masami Kishine

Title: President, Representative Director
 Title: General Manager - Financial & Accounting Department
 Phone: +81-6-6226-5169

Date of board of directors' meeting for closing of accounts: April 27, 2005 Parent company's shareholding : %
 Name of parent company (Code number:)
 US accounting standards: Not adopted

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

1. Consolidated Business Performance for the Term Ended March 2005 (from April 1, 2004 to March 31, 2005)

(1) Consolidated business performance

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Term ended March 31, 2005	438,000	9.4	43,130	34.3	41,355	41.0
Term ended March 31, 2004	400,256	7.5	32,107	19.3	29,322	27.5

	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	%	¥	¥	%	%	%
Term ended March 31, 2005	24,745	58.4	70.65	-	11.5	10.5	9.4
Term ended March 31, 2004	15,622	16.8	43.99	42.59	8.0	7.7	7.3

Notes:

- Profit and loss based on equity-method investment balance: ¥24 million in term ended March 2005, ¥(74) million in term ended March 2004
- Average number of shares (consolidated): 348,275,463 in term ended March 2005, 352,173,618 in term ended March 2004
- Changes to accounting policies: Yes
- The percentages in the net sales, operating income, ordinary income, and net income columns, represent increases (decreases) compared with results for the previous year.

(2) Consolidated financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Term ended March 31, 2005	397,123	224,142	56.4	645.13
Term ended March 31, 2004	392,512	204,779	52.2	583.55

Notes:

Number of shares issued and outstanding (consolidated) at end of the period: 347,223,816 in term of ended March 2005, 350,698,353 in term of ended March 2004

(3) Cash flow on a consolidated basis

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Outstanding balance of cash and cash equivalents as of the end of term
	¥million	¥million	¥million	¥million
Term ended March 31, 2005	43,242	(24,791)	(25,930)	25,521
Term ended March 31, 2004	39,773	(23,526)	(14,270)	32,884

(4) Scope of subsidiary consolidation and equity method

Consolidated subsidiaries: 39, 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: 2, Newly included in equity method companies: 0, Excluded: 0

2. Consolidated performance Forecasts for Term Ending March 2006 (from April 1, 2005 to March 31, 2006)

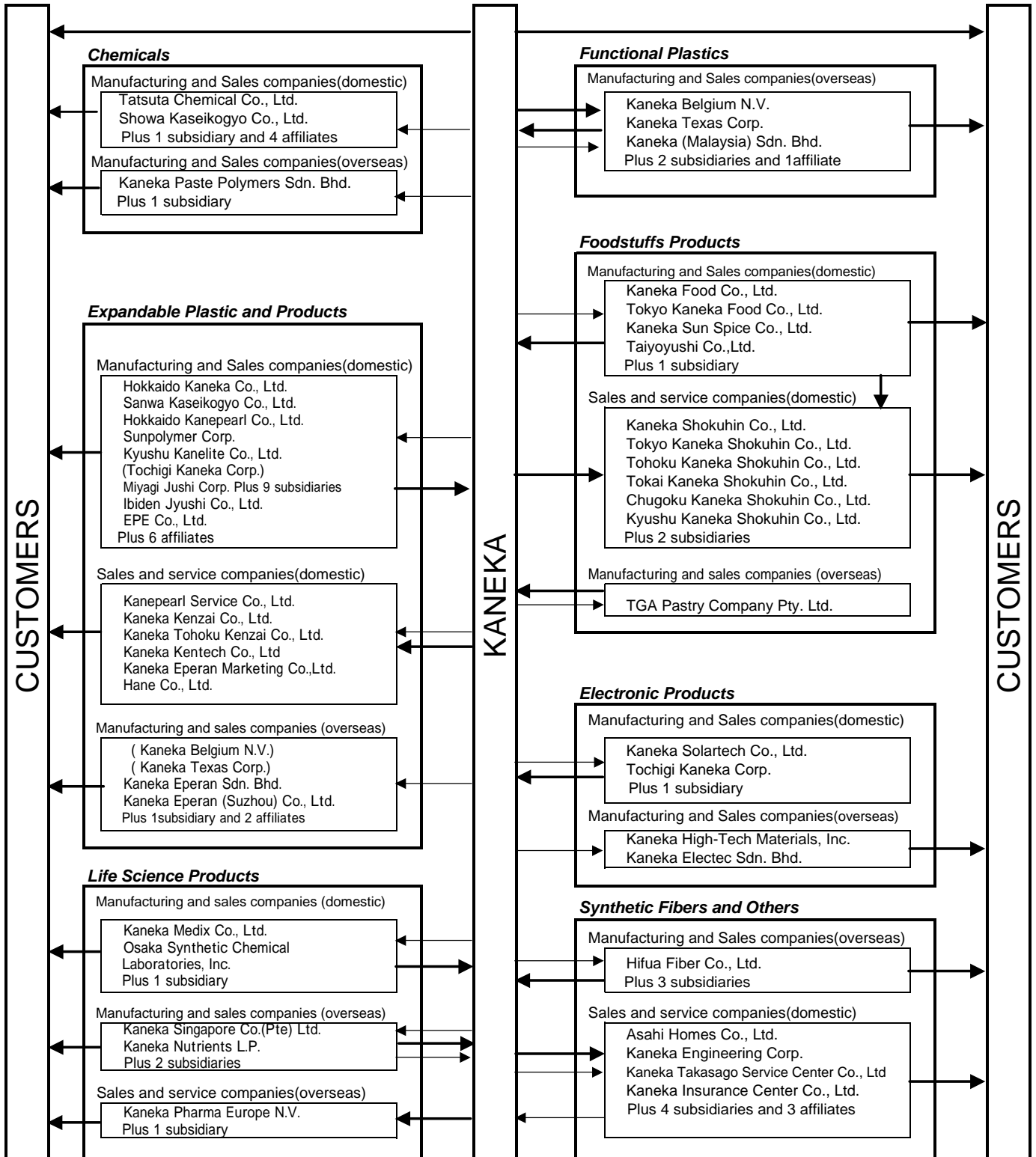
	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Interim term	225,000	20,500	12,500
Overall term	465,000	46,000	28,500

(Reference) Projected net income per share (Overall term): ¥81.68

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 74 subsidiaries and 18 affiliated companies is to manufacture and sell chemicals, functional plastics, expandable plastics and products, foodstuffs products, life science products, electronic products, and synthetic fibers and others. 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.



- Notes: 1. The “ ” mark indicates a consolidated subsidiary, and the “ ” mark indicates a non-consolidated subsidiary
 “ ” mark indicates an equity method subsidiary.
 2. → indicates the flow of products.
 3. → indicates the flow of materials and services (including provisions for technologies).
 4. Kaneka Belgium N.V., Kaneka Texas Corp., and Tochigi Kaneka Corp. are subsidiaries that overlap in several segments. Their auxiliary business is noted in the parentheses.
 5. Asahi Homes Co., Ltd. is listed on the JASDAQ Securities Exchange.

2. Management Policy

(a) Basic Management Policies

The Kaneka Group maintains a corporate philosophy of “In harmony with people, society and environment we strive to create a broad spectrum of life-enhancing products and services by using innovative technologies.” Based on this philosophy, the Group is striving to become a globally recognized group by deploying diversified business in fields with full potential, building on differentiated, original technologies and constantly offering socially useful new values.

To fulfill these objectives, we will use three keywords, namely, “change,” “leap” and “challenge,” to work on continual improvement of corporate values, in line with the following basic policies:

- Achievement of high growth and high earnings by combining high-growth and high-added-value business with business that generates stable earnings, based on diversified management;
- Concentration of investment on management resources in growth sectors, making efforts to improve profitability through continual cost improvement activities; and
- Placement of “research and development targeting next-generation growth sectors,” “personnel who aggressively take on challenges towards high targets” and “globalization” as the management driving force.

The Company celebrated its 55th anniversary last September. At this juncture, we changed the Japanese company name from “Kanegafuchi Kagaku Kogyo Kabushiki Kaisha” to “Kabushiki Kaisha Kaneka” (English name: Kaneka Corporation), reflecting our commitment to making great strides. We will continue to make efforts to become a straightforward, approachable enterprise group with a global presence.

(b) Basic Policy on Profit Distribution

We believe that one of the most important tasks for Kaneka’s management is to improve earning potential and to maximize returns to shareholders while strengthening the company’s corporate foundation. Profits will basically be distributed by dividends, in combination with share buybacks. We focus on continually paying stable dividends based on forecasts of medium- to long-term earning trends and in view of our consolidated performance, investment plans, and financial position.

The dividend for the year ended March 31, 2005 is expected to be ¥8 per share, ¥2 higher than the interim dividend. As a result, the annual dividend will be ¥14 per share, including dividend of ¥2 per share in celebration of Kaneka’s 55th anniversary; this is a ¥6 per share increase from the previous year.

During the period, we acquired 3,309 thousand treasury stocks from the market, which amounted to ¥3,368 million.

(c) Concepts and Policies on Cutting Investment Units

In respect with cutting the investment units of our shares, we will continue to examine the issue so that proper actions can be taken in consideration of the current circumstances of the liquidity of our own stocks, demand situations, cost effectiveness and other factors, while comprehensively taking into account such things as our shareholders’ needs and the state of the stock market.

(d) Target Management Indexes

Growth of sales and profit is our target in order to become globally recognized enterprise group.

Our medium- and long-term target is to achieve ¥600 billion in consolidated net sales, ¥60 billion in consolidated ordinary income, and 12% in return on assets (ROA).

(e) Medium-Range Management Strategies

Under the medium-term plan started in April 2004 (for three years until the end of March 2007), the Company has been making an effort to achieve continual high growth and high earnings by concentrating on the following measures:

- Active enhancement of consolidated management, promotion of globalization, and execution of mergers and acquisitions (M&A), including business alliances and takeovers;
- Concentration of management resources in sectors of high-performance resins, electronics and life science, for which we can expect future growth and Kaneka 's superior technology can be applied; and
- Fortification of the organizational and personnel framework, including the nurturing of key staff who will bear Kaneka 's future and active recruitment of human resources from outside, and concurrent promotion of organizational operation efficiency based on the utilization of IT, outsourcing and so forth.

(f) Our Tasks

(1) Continual Efforts towards Business Restructuring Driven by Research and Development

We will direct our research and development efforts at industries relating to the environment, information technology, health and safety, the areas that are regarded as growth sectors in the 21st century, in order to create a series of highly specialized, differentiated products. These efforts are made with the aim of reforming the business structure and achieving high growth and high earnings.

In particular, we are accelerating the expansion of the production capacity of functional films such as ultra heat-resistant polyimide film and functional foodstuffs, for which we expect a rapid increase in demand, while reinforcing the development of markets adapted to market trends and circumstance changes.

(2) Enhancement of Company-wide Efforts to Improve Profitability

With the basics as a manufacturing company in mind, we at Kaneka are vigorously enhancing our capabilities in production technologies and improving our competitiveness in total cost on a group-wide basis.

In the manufacturing division, we will continue our efforts to refine the organizational framework to enhance the competitiveness of the Group as a whole in terms of facilities and costs, and to improve production management technologies. With respect to the improvement of our competitiveness in total cost, we will keep on vigorously promoting the total cost improvement plan started in 2004 in joint efforts of divisions and plants.

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

(1) Basic Approach to Corporate Governance

The Company believes that corporate governance is a framework to achieve its contribution to society and increase corporate values based on the corporate philosophy previously explained.

(2) Implementation of Our Policy on Corporate Governance

To ensure the effectiveness and efficiency of operations, important issues affecting the management of the Company are first discussed at a Management Conference comprised of the president and senior managing directors and then approved by the Board of Directors' meeting. The Company runs business suitable to each business type and category, based on its basic strategy of running diversified businesses. In terms of organization, we have adopted a division system. While divisional managers are given extensive authority with daily business operations, senior officers take charge of multiple divisions to ensure operational consistency on a company-wide scale. Divisional managers hold monthly meetings to report on the status of operations in the respective divisions directly to all directors and auditors.

To ensure the reliability of financial reports and protection of the Company's assets, we basically strive to enforce autonomous and rigorous management by each of divisional manager. At the same time, Finance and Accounting Department daily monitors the management of each division's operations, while Internal Audit Department under the direct control of the president conducts its monitoring activities independently of other divisions. Meanwhile, to ensure timely and appropriate disclosure of corporate information, we have assigned Finance and Accounting Department as executive coordinating section and established disclosure procedures and assigned departments and posts in charge by information type (such as decided information, occurred information and finance information).

To ensure compliance with relevant laws and regulations, the Company has established a Compliance Committee chaired by the president and made a Declaration of Compliance as a message of the management. We have also edited a Compliance Guidebook and, led by Legal Department under the direct control of the president, held briefings to officers, employees, and affiliates at all levels and workplaces to make the spirit fully known to people involved. Furthermore, as what is called an "internal report system," we have created a section to contact in case of necessity.

The Company adopts an auditor system. There are four auditors, two of whom are external auditors. There is no information to be specified with respect to human, capital, or trade relationships or other interests that exist between the external auditors and the Company.

The board of auditors conducts audit in coordination with other parties concerned, for example, by asking Internal Audit Department for reports on the status of internal audit as necessary and asking the accounting auditors for explanations on accounting audit.

The certified public accountants who provided the Company with accounting audit service are Minoru Matsumoto (with 26 years of auditing experience), Masahiro Nishio, and Yoshitaka Yamaguchi, all belonging to Azusa & Co. Other personnel engaged in accounting audit tasks are comprised of nine certified public accountants, seven junior certified public accountants and one assistant.

(3) Remunerations of Officers and Auditors

a. Remuneration of officers

	Directors		Auditors		Total	
	Number of recipients	Amounts (¥million)	Number of recipients	Amounts (¥million)	Number of Recipients	Amounts (¥million)
Remuneration based on resolutions of the general meeting of shareholders	23	440	6	61	29	502
Bonus to officers pursuant to appropriation of earnings	21	114	4	6	25	120
Retirement allowance based on resolutions of the general meeting of shareholders	2	128	2	38	4	167
Total	-	683	-	106	-	790

In addition to the amounts quoted above, ¥159 million were paid as employees' salaries to directors who are employees of the Company.

b. Fees paid to Accounting Auditors

Fees paid to Azusa & Co., our accounting auditor, is as follows.

Category	Amounts
Fees related to audit certification based on an audit contract	¥43 million
Fees other than the above	-

(h) Other Important Matters Relating to Management

Concerning our modifiers business, investigations by antitrust authorities in the United States and Europe as well as a hearing at the Fair Trade Commission of Japan are under way. A civil lawsuit has been filed at a court in the United States in connection with this issue, but we believe that this action has no grounds.

3. Business Results**(a) Business Performance****(1) Overview of Results for the Year Ended March 31, 2005**

During the year, the global economy performed well as a whole, driven by active investments in China and robust consumption in the United States, despite signs of slowdown observed in some sectors in the latter half of the year.

The Japanese economy kept expanding with the help of the rapid recovery of material industries supported by an increase in Chinese demand, but there are concerns about the future of economy, as inventory adjustment moves of digital devices and appliances have intensified since the middle of the year while crude oil prices have surged.

In this economic environment, the Company accelerated its efforts to achieve its management targets.

Our consolidated business performance recorded an increase in both revenues and profits

for three successive years and was the best ever for two successive years. The Company recorded ¥438,000 million consolidated sales (9.4% increase from the previous year), ¥43,130 million in operating income (34.3% increase), ¥41,355 million in ordinary income (41.0% increase), and ¥24,745 million in net income (58.4% increase).

Our non-consolidated business performance for the year was ¥282,741 million in sales (9.9% increase from the previous year), ¥33,510 million in operating income (33.6% increase), ¥35,405 million in ordinary income (39.1% increase) and ¥21,853 million in net income (56.8% increase), all of which were record-breaking figures.

(2) Segment Trends

(Chemicals)

A steady increase in exports of polyvinyl chloride (PVC) was driven by the increased demand in China, while domestic demand remained steady. On the other hand, crude oil and naphtha prices surged to increase raw materials prices, which we countered by striving to improve profitability by restructuring, cost cutting and adjustments in selling prices. As a result, both sales and profits substantially exceeded the levels of the previous year.

(Functional Plastics)

The sales volume of MBS resins increased in Japan, Europe, the United States and Asia, but heavily influenced by the rise in raw materials and fuel prices. The sales volume of modified silicone polymers also increased in Japan, Europe and the United States. In Europe, in particular, reinforcement of capacity contributed to a large increase in sales volume. As a result, this segment recorded an increase both in sales and in profits from the previous year.

(Expandable Plastics and Products)

Among our expandable plastics and products, polyolefin foams increased sales volume due to favorable performance of automotive shock absorber, computer-related cushioning materials, and so forth. On the other hand, expandable polystyrene resins and other polystyrene foam resin products were heavily affected by the increase in costs led by the rise in raw materials prices, despite efforts to raise the selling prices to compensate for negative factors. As a result, this segment generated higher sales but lower profits as compared to the previous year.

(Foodstuffs Products)

For foodstuffs, we enhanced our production, research and sales frameworks amid the diversification of consumers' needs and the increasing awareness of food safety. As a result, we enjoyed sales increase from the previous year. However, profits decreased because of the high price of raw edible oils as well as increased expenses for improvement of production process and so forth.

(Life Science Products)

As for life science products, sales of pharmaceutical bulk and intermediates increased as we compensated for decrease in sales of existing products with an increase in sales of newly developed products, but profits decreased because of lower sales prices. On the other hand, among medical devices, both sales of blood purification systems and newly developed catheters remained steady, while both the sales and profits for functional foodstuffs largely increased owing to the enhancement of plant capacity of coenzyme Q10 completed in the middle of the year. As a result, the segment recorded higher sales and profits figures than in the previous year.

(Electronic Products)

The electronic products segment performed well to record sales higher than the previous year, despite the impact of inventory adjustment of cellular phones and digital home appliances. In particular, the new facility for ultra heat-resistant polyimide films, launched in the end of the previous year to meet the increased demand owing to expansion in applications, contributed to improved performance. Furthermore, the sales volume of solar cells dramatically increased, especially in exports to Europe, and, together with cost-cutting efforts, improved the business profitability. As a result, the segment generated significantly more favorable results both in sales and profits than in the previous year.

(Synthetic Fibers and Others)

In the synthetic fibers business,, sales and profit exceeded those in the previous year owing to sales of high value added products as well as cost cutting efforts in spite of the negative impact of the hike in raw materials prices. Other business segments such as engineering business also increased. As a result, the segment generated higher sales as well as higher profits than in the previous year.

(International Sales)

International sales for the year amounted to ¥151,100 million, thanks to the increases in exports and sales generated by overseas subsidiaries, especially an increase in sales of chemicals in Asia, functional plastics in Europe, and electronic products in Asia and Europe. As a result, the ratio of international sales increased to 34.5% from the previous year (31.5%).

(3) Performance Forecasts for Next Year

The global economy is expected to continue to grow steadily with the United States and China as the driving forces, despite signs of slight slowdown. However, there are concerns that the rapid hike in crude oil prices may depress consumer and investor confidence and accelerate the global economic slowdown.

The Japanese economy has continued to recover, led by exports and investment in plants and equipment, and this may lead to expanded consumption as business sentiment improves. It may lose momentum for recovery, however, depending on the economic trends in the U.S. and China, as raw materials prices has surged and deflation has not completely been eradicated.

Based on such forecasts, the Kaneka Group intends to make its utmost efforts to achieve continual growth and further ensure the achievement of its medium- and long-term management targets.

1. Consolidated Forecasts

Sales	¥465.0 billion	(6.2% increase from year ended March 31, 2005)
Ordinary income	¥46.0 billion	(11.2% increase from year ended March 31, 2005)
Net income	¥28.5 billion	(15.2% increase from year ended March 31, 2005)

2. Non-consolidated Forecasts

Sales	¥296.0 billion	(4.7% increase from year ended March 31, 2005)
Ordinary income	¥37.5 billion	(5.9% increase from year ended March 31, 2005)
Net income	¥24.0 billion	(9.8% increase from year ended March 31, 2005)

As for the dividend of the coming year, we intend to make it ¥16 per share, transferring 55th anniversary dividend of ¥2 per share into the ordinary dividend in addition to a ¥2 increase per share from the previous year.

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 various uncertain factors involved. The forecasts are based on exchange rates of ¥105 to the U.S. dollar, which is our main currency to be used, and ¥135 to the Euro.

(b) Financial Position

(1) Consolidated Cash Flows

Cash flows from operating activities in the year was ¥43,242 million, including net income before income taxes in the amount of ¥38,244 million, depreciation and amortization of ¥22,427 million, and payment of income taxes of a ¥13,236 million.

Cash flows used for investing activities amounted to a ¥24,791 million due to expenditures including ¥25,482 million for the acquisition of tangible fixed assets including the expansion work of the production facilities such as capacity expansion of functional foodstuffs.

Cash flows used for financial activities amounted to a ¥25,930 million, as a result of the expenditure of ¥18,575 million due to the redemption of 8th unsecured convertible bonds, in addition to share buybacks, the repayment of long- and short-term borrowings and other financial activities.

Consequently, the closing balance of cash and cash equivalents at the end of the year decreased to ¥25,521 million, which is a ¥7,362 million decrease from the previous fiscal year.

(2) Status of Assets, Liabilities, and Equity

As of the end of the year, total assets have increased from the previous fiscal year by ¥4,611 million to ¥397,123 million. For the redemption of ¥18,575 million of 8th unsecured convertible bonds the amounts of cash, deposits and marketable securities decreased. On the other hand working capital increased owing to the sales increase. Return on assets (ROA) was 10.5%, substantially exceeding the rate in the previous year (7.7%).

The closing balance of interest-bearing debts as at the end of the year was ¥48,192 million, a ¥18,314 million decrease from the previous fiscal year. Shareholders' equity amounted to

¥224,142 million, ¥19,363 million increase from the previous fiscal year, mainly due to the increase in retained earnings.

Consequently, the shareholders' equity ratio was 56.4 % (previous term: 52.2%), and the D/E ratio (rate of interest-bearing debts to equity capital) was 0.22 (previous term: 0.32), both of which improved and led to a healthier financial structure.

(3) Trends in Financial Indexes

	Term ended March 31, 2001	Term ended March 31, 2002	Term ended March 31, 2003	Term ended March 31, 2004	Term ended March 31, 2005
Shareholders' equity ratio	44.2%	47.6%	50.2%	52.2%	56.4%
Shareholders' equity ratio based on market value	87.6%	80.9%	53.6%	93.3%	103.5%
Number of years of debt redemption	3.5	2.5	1.9	1.7	1.1
Interest coverage ratio	14.4	17.5	23.9	26.9	35.1

(Notes)

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: Interest-bearing liabilities/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 cash flows from operating activities. The scope of Interest-bearing debts is all liabilities in the balance sheet for which interest is payable. Paid interest is based on the amount of interest paid shown in the Consolidated Statements of Cash Flows.

(c) Business Risks and Uncertainties

Matters that may significantly affect the management performance and financial position of the Kaneka Group include those described below. Please note that the elements described here are only those that we considered as risks as of today; this is not an exhaustive list of risks borne by the Group.

(1) Risks associated with the globalization of our business (Fluctuations in foreign exchange rates, deployment of overseas business)

The Kaneka Group designates globalization as a key element of its management strategy, and overseas sales accounted for 34.5% of the total sales in the current fiscal year. Overseas business operations may face various risks including unexpected changes in laws, regulations and tax system, and social and political confusion owing to terrorism and warfare. If these risks materialize, it may adversely affect the Group's performance and financial position. Meanwhile, as fluctuations of foreign exchange rates significantly affect the Group's performance because of its revenue structure, we employ foreign exchange forward contracts or other hedges for foreign trade transactions as appropriate to minimize the foreign exchange risks, but sharp fluctuations in exchange rates beyond the coverage of hedge instruments may seriously affect the performance and financial position of the Group.

(2) Risks of price fluctuations in raw materials and fuels

The Kaneka Group has adopted a purchasing framework to achieve the most favorable purchasing cost for raw materials and fuels, through combinations of medium- to long-term forward contracts and spot market purchases. However, since most of these products are subject to price fluctuations in the international market, there are still some risks involved as there may be sharp fluctuations of the prices beyond our expectations, which cannot be offset by cost reductions or price revisions. In particular, the PVC/Caustic Soda, MBS resins and foodstuffs categories may cause a significant impact on the Group's performance depending on the price fluctuations of petrochemical materials, fuels as well as raw edible oils.

(3) Risks associated with products liabilities, industrial accidents and large-scale disasters

The Kaneka Group takes all possible measures to safely distribute and provide products used in security. Furthermore, we maintain liability insurances covering the whole Group, in order to be prepared should a product accident happen. There still remains, however, a possibility that unexpected problems with product quality will cause a large-scale product accident. We make best efforts to ensure safety and accident prevention by giving the highest priority to safety, but there are risks that main facilities will be destroyed and expenses are incurred beyond the coverage of property insurance due to unexpected industrial accidents and large-scale disasters including earthquakes. In such circumstances, it is possible that the Group's performance and financial position will be significantly affected.

(4) Risks associated with the protection of intellectual property rights

To maintain the advantage of its business, the Kaneka Group attaches strategic importance to the protection of newly developed technologies with patents. However, with globalization and development of IT technologies, it is not possible for us to completely avoid the risks of leaking our proprietary technologies and know-how outside and risks of having disputes with other parties in connection with the grant of our intellectual properties or the use of other companies' intellectual properties. In such circumstances, it is possible that the Group's performance and financial position will be significantly affected.

(5) Impact of environment-related regulations

To minimize the impact of business activities on the global environment and ecosystem, the Kaneka Group makes the best efforts to reduce environmental burden and save resources and energy throughout the life cycle of its products. Environmental regulations have been tightening every year, and expenses may be incurred in connection with the manufacture, storage, and disposal of its products depending on the nature of regulations, rendering a significant impact on the Group's performance and financial position.

(6) Risks associated with lawsuits

The Group attaches importance to management in compliance with laws and regulations, making efforts to enforce the practice at all levels of its organization. There are risks, however, that lawsuits and administrative measures may be taken against the Group in connection with its operations in Japan and abroad. If an important action is filed against the Group, it is possible that the Group's performance and financial position will be significantly affected.

(7) Other risks

The Group's performance and financial position may be significantly affected otherwise by such factors as fluctuations of products prices in markets, changes in laws and regulations, delay in specific areas of research and development, and technical innovations.

Consolidated Balance Sheets

	Term ended March 31, 2004	Term ended March 31, 2005	Increase (decrease)		Term ended March 31, 2004	Term ended March 31, 2005	Increase (decrease)
Item	¥million	¥million	¥million	Item	¥million	¥million	¥million
Assets				Liabilities			
I Current assets				I Current Liabilities			
Cash and deposits	30,007	22,556	(7,451)	Notes and accounts payable	54,191	60,181	5,989
Notes and accounts receivable	99,271	107,532	8,261	Short-term borrowings	11,463	12,407	944
Marketable securities	10,718	8,297	2,420	Bonds payable redeemed within 1 year	18,593	5,000	(13,593)
Inventories	43,224	47,814	4,589	Account liabilities	21,295	18,152	(3,142)
Deferred tax assets	4,065	3,826	(239)	Accrued expenses	7,796	8,124	328
Others	11,488	13,248	1,759	Accrued corporate taxes	7,999	8,872	873
Allowance for doubtful receivables	(383)	(411)	(28)	Accrued consumption taxes	704	764	60
Total current assets	198,393	202,863	4,470	Deferred tax liabilities (current)	0	0	0
II Fixed assets				Allowance for loss on debt guarantees	502	-	(502)
Tangible fixed assets				Others	1,829	2,315	485
Buildings and structures	44,726	44,265	(460)	Total current liabilities	124,375	115,819	(8,556)
Machinery and equipment	52,933	51,800	(1,132)	II Fixed liabilities			
Land	23,284	20,433	(2,850)	Bonds payable	20,000	15,000	(5,000)
Construction in progress	3,915	4,717	802	Long-term debts	16,450	15,785	(665)
Others	3,506	3,826	319	Deferred tax liabilities (non- current)	594	531	(62)
Total tangible fixed assets	128,366	125,044	(3,321)	Employees' severance and retirement benefits	19,594	18,945	(648)
Intangible fixed assets	2,752	2,610	(141)	Retirement benefits for directors and statutory auditors	1,045	1,048	3
Investments and other assets				Others	599	606	7
Investments in securities	51,958	54,724	2,766	Total fixed liabilities	58,283	51,917	(6,366)
Investments	1,927	1,595	(331)	Total liabilities	182,659	167,737	(14,922)
Long-term loans receivable	2,962	4,971	2,009				
Long-term prepaid expenses	679	471	(207)	Minority interests	5,073	5,243	170
Deferred tax assets (non-current)	136	678	541				
Others	6,084	5,568	(515)	Shareholders' equity			
Allowance for doubtful receivables	(748)	(884)	(136)	I Common stock	33,046	33,046	-
Allowance for investment loss	-	(521)	(521)	II Additional paid-in capital	34,837	34,854	17
Total investments and other assets	63,000	66,604	3,603	III Retained earnings	134,021	155,149	21,127
Total fixed assets	194,119	194,260	140	IV Net unrealized gain on marketable securities	13,304	14,211	907
				V Foreign currency translation adjustments	(5,598)	(4,721)	877
				VI Treasury stock	(4,831)	(8,398)	(3,566)
				Total common stock	204,779	224,142	19,363
Total Assets	392,512	397,123	4,611	Total liabilities, minority interests and shareholders' equity	392,512	397,123	4,611

Consolidated Statement of Income

(Unit: ¥ million)

Title	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005	Increase (Decrease)
I. Net sales	400,256	438,000	37,744
II. Cost of sales	286,782	309,197	22,415
Gross profit	113,474	128,803	15,328
III. Selling, general and administrative expenses	81,366	85,673	4,306
Operating income	32,107	43,130	11,022
IV. Non-operating income	2,204	2,733	528
Interest	271	179	(92)
Dividends income	558	606	47
Gain on sales of marketable securities	453	483	29
Exchange gains	—	777	777
Equity in gains of unconsolidated subsidiaries and affiliates	—	24	24
Others	920	661	(259)
V. Non-operating expenses	4,989	4,507	(482)
Interest expense	1,469	1,218	(250)
Loss on disposals property, plant and equipment	1,662	1,902	240
Exchange loss	744	—	(744)
Equity in losses of unconsolidated subsidiaries and affiliates	74	—	(74)
Others	1,039	1,386	347
Ordinary income	29,322	41,355	12,032
VI. Extraordinary loss	2,248	3,111	863
Impairment losses	—	3,111	3,111
Restructuring costs of solar cell business	863	—	(863)
Loss on investments in affiliated companies	758	—	(758)
Restructuring expenses	626	—	(626)
Income before income taxes	27,074	38,244	11,169
Corporate taxes, local taxes and business taxes	11,815	14,141	2,325
Income taxes deferred	(639)	(1,011)	(371)
Minority interests	276	369	92
Net income	15,622	24,745	9,123

Consolidated Statements of Additional Paid in Capital and Retained Earnings

(Unit:¥million)

Item	Term	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005	Increase(Decrease)
<Additional paid in capital>				
I. Beginning balance for capital surplus		34,826	34,837	10
II. Increase in capital surplus		10	17	6
Gain on disposal of treasury stock		10	17	6
III. Balance of capital surplus at term end		34,837	34,854	17
<Retained Earnings>				
I. Beginning balance for retained earnings		121,084	134,021	12,936
II. Increase in retained earnings		15,874	24,745	8,870
Net income		15,622	24,745	9,123
Deferred tax adjustment in foreign subsidiaries		252	—	(252)
III. Decrease in retained earnings		2,938	3,617	679
Cash dividends paid		2,826	3,486	660
Bonuses to directors and statutory auditors		111	131	19
IV. Outstanding balances of retained earnings at term end		134,021	155,149	21,127

Consolidated Statements of Cash Flows

(Unit: ¥million)

	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005
I. Cash flows from operating activities		
Net income before income taxes	27,074	38,244
Depreciation and amortization	22,337	22,427
Provision for severance and retirement benefits	(1,028)	(653)
Increase (decrease) in allowance for doubtful receivables	(550)	(245)
Interest and dividend income	(830)	(785)
Interest expense	1,469	1,218
Loss on sales and disposals of property, plant and equipment	1,260	1,842
Restructuring costs for solar cell business	863	
Loss on investments in affiliated companies	758	
Restructuring expenses	626	
Impairment losses		3,111
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	74	(24)
(Increase) decrease in trade receivables	(6,018)	(7,914)
(Increase) decrease in inventories	(1,489)	(4,344)
Increase (decrease) in trade payables	3,759	5,812
Others	(682)	(1,782)
Subtotal	47,625	56,906
Interest and dividends received	826	806
Interest paid	(1,479)	(1,233)
Income taxes paid	(7,199)	(13,236)
Net cash provided by operating activities	39,773	43,242
II. Cash flows from investing activities		
Payment for purchase of marketable securities	(3,956)	(3,622)
Proceeds from marketable securities	3,508	4,685
Payments for purchase of tangible fixed assets	(16,253)	(25,482)
Payment for purchase of intangible assets	(659)	(524)
Purchase of investments	(7,731)	(4,699)
Proceeds from investment securities	2,787	6,044
Purchases of consolidated subsidiaries' stock	(5)	(17)
Increase in loans receivable	(151)	(2,700)
Decrease in loans receivable	230	529
Others	(1,295)	996
Net cash used in investing activities	(23,526)	(24,791)
III. Cash flows from financing activities		
Increase (Decrease) in short-term borrowing	(8,173)	444
Proceeds from long-term debt	1,770	1,500
Repayment of long-term debt	(1,276)	(2,009)
Redemption of convertible bonds		(18,575)
Dividends paid	(2,826)	(3,486)
Dividends paid to minority interests	(171)	(236)
Purchase of treasury stock	(3,629)	(3,608)
Proceeds of treasury stock	36	40
Net cash used in financing activities	(14,270)	(25,930)
IV. Effect of exchange rate changes on cash and cash equivalents	(143)	117
V. Net increase (decrease) in cash and cash equivalents	1,832	(7,362)
VI. Cash and cash equivalents at beginning of term	31,051	32,884
VII. Cash and cash equivalents at term end	32,884	25,521

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

	(¥million)	
	Term ended March 31, 2004	Term ended March 31, 2005
Cash and deposit	30,007	22,556
Time deposits (period of deposit greater than 3 months)	(63)	(49)
Marketable securities	10,718	8,297
Stocks and bonds (redemption period exceeds 3 months)	(7,778)	(5,282)
Cash and cash equivalents	<u>32,884</u>	<u>25,521</u>

Notes to Consolidated Financial Statements

1. Scope of Consolidation

- (1) Number of consolidated subsidiaries: 39 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 34 other companies
- (3) Consolidated subsidiaries newly included:
None
- (4) Consolidated subsidiaries excluded:
Kaneka Plastics Corp., Kaneka Delaware Corp.
: Excluded from scope of consolidation by liquidation.
- (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 one other company.

3. Date of Account Closing for Consolidated Subsidiaries

Accounts close for Kaneka Singapore Co. (Pte.) Ltd. and Taiyo Yushi Co., Ltd. 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. Securities

Securities with market value:

Market value accounting based on market price at the date of 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 investment loss

In order to provide for the loss of investment value in affiliated companies, an appropriate amount is allocated, taking into consideration the financial status of the affiliated companies.

C. Allowance for loss on debt guarantees

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

D. 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.

E. 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 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 instruments

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 allocation accounting methods.

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, interest rate 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) Additional note regarding preparation of statements

Consumption taxes are not included in accounting treatments.

5. Valuation of Assets and Liabilities of Consolidated Subsidiaries

Assets and liabilities of consolidated subsidiaries are valued on the basis of the full fair value accounting method.

6. Amortization of Consolidated Translation Adjustments

Consolidated translation adjustments are amortized over a five-year period based on the straight-line method. Those, which are insignificant, are written off in the consolidated fiscal year in which they accrued.

7. Treatment of Profit Appropriation Items, etc.

The Consolidated Statements of Retained Earnings were prepared on the basis of the appropriation of profits of consolidated companies decided in the consolidated fiscal year.

8. Scope of Funds in Consolidated Statements of Cash Flows

Funds referred to in the Consolidated Statements of Cash Flows (cash and cash equivalents) consist of cash on hand, readily available deposits and short-term highly liquid investments, which mature within three months of the acquisition date and are exposed to limited price fluctuation risks.

Significant Changes in Accounting Policies for Preparation of Consolidated Financial Statements

<Accounting Standard for Impairment of Fixed Assets>

Effective from the business year that ended on March 31, 2004, financial statements can apply the Accounting Standard for Impairment of Fixed Assets (based on the "Opinion concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002 and the "Guidance for Accounting Standard for Impairment of Fixed Assets" (Financial Accounting Standards Implementation Guidance No. 6) issued by Accounting Standards Board of Japan on October 31, 2003). Accordingly, the Company has applied the Accounting Standard and the Guidance from this business year.

This resulted in ¥3,111 million decrease in net income before taxes for this term.

As for the accumulated amount of impairment loss, the Company has directly deducted the amount from each of the assets based on the revised rules and regulations of financial statements, etc.

Notes:**<Balance Sheet>**

	Term ended <u>March 31, 2004</u>	Term ended <u>March 31, 2005</u>
		(Unit: ¥million)
1. Less accumulated depreciation of tangible fixed assets	376,312	388,401
2. Contingent liabilities		
Guarantees	481	1,234
Letter of awareness	—	554
3. Discount on notes receivable	962	975
Notes payable endorsed for payment	35	56

<Income Statement>**Impairment Losses**

Impairment losses in the following asset category were accounted for in the accounting term.

Location	Purpose	Type	Impairment Loss (Unit: ¥million)
Ikoma City, Nara Prefecture, etc.	Idle land	Land	2,580
Kodaira City, Tokyo	Lease land and building	Land, Building	377

The Kaneka Group categorizes assets primarily on a division-by-division basis; it puts idle assets in an independent category.

Land owned by the Company in Ikoma City, Nara Prefecture, etc. was acquired for the purpose of building research laboratories, but is currently an idle asset and its price has plummeted. Therefore, its book value was written down to the recoverable value, and the write-down was accounted for as impairment losses in the extraordinary loss section. The recoverable value of the land was appraised according to the net selling price based primarily on the road rating evaluated by National Tax Agency.

As for lease land and buildings, the book value was written down to the recoverable value for those whose value of property fell owing to the significant fall in the land price and fall in their profitability, and the write-down was accounted for as impairment losses in the extraordinary loss section, which consisted of ¥277 million in land, ¥99 million in buildings. The recoverable value was measured on the basis of the utility value.

In addition to the above, ¥153 million was written down as impairment loss of machinery and equipment.

1. Segment Information

1. Segment information by business

(1) 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										
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
II. Assets, depreciation and amortization and capital expenditures										
Assets	63,138	39,027	56,229	57,361	39,481	42,412	15,782	313,433	79,079	392,512
Depreciation and amortization	4,636	3,057	3,804	2,143	2,455	4,269	1,417	21,783	1,076	22,859
Capital expenditures	3,101	3,769	4,334	2,127	1,837	5,760	1,604	22,535	436	22,971

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

(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										
Sales										
(1) Customers	82,199	61,970	66,579	105,228	46,861	46,387	28,773	438,000	-	438,000
(2) Intersegment	1,857	252	1,595	9	-	-	4,334	8,049	(8,049)	-
Total	84,057	62,222	68,175	105,238	46,861	46,387	33,107	446,050	(8,049)	438,000
Operating expenses	77,446	53,706	67,403	100,885	29,320	39,688	29,873	398,325	(3,454)	394,870
Operating income	6,610	8,515	772	4,352	17,541	6,698	3,233	47,725	(4,595)	43,130
II. Assets, depreciation and amortization, impairment losses and capital expenditures										
Assets	67,743	44,373	57,666	59,279	43,601	41,007	16,686	330,359	66,764	397,123
Depreciation and amortization	4,052	3,056	3,582	2,120	2,908	4,280	1,363	21,363	832	22,196
Impairment losses	-	-	153	140	-	-	291	585	2,525	3,111
Capital expenditures	2,931	3,108	2,820	2,755	5,041	4,484	866	22,008	1,141	23,150

Notes: 1. The classification of businesses was determined based on comprehensive judgments on type, application, method of manufacturing, similarities 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	Major products, etc
Chemicals	PVC resins, PVC compounds (flexible applications), PVC compounds (rigid applications), Caustic soda, Chlorinated products, Specialty PVC resins
Functional Plastics	MBS resins, Modified silicone polymers, Weather-resistant acrylic film
Expandable Plastics and Products	Extruded polystyrene foam boards, Expandable polystyrene, Polyolefin foam by beads method, Polystyrene foam sheet, PVC sash window
Foodstuffs Products	Margarine, Shortening, Quality fats for confectionery, Bakery yeast, Spices
Life Science Products	Pharmaceutical bulk, Pharmaceutical intermediates, Functional foodstuffs, Medical devices
Electronic Products	Ultra heat-resistant polyimide film, Optical films, Bonded magnetic materials, Magnet wires, Solar cell
Synthetic Fibers and Others	Modacrylic fibers (Kanecaron), Engineering operations, Housing construction

3. Operating expenses included in the 'Eliminations and Corporate' column of ¥4,147 million for the term ended March 31, 2004, and ¥4,545 million for the term ended March 31, 2005, respectively, consist principally of fundamental research and development expenses of the Company.

4. 'Eliminations and Corporate' includes corporate assets of ¥79,496 for the term ended March 31, 2004 and ¥67,055 million for the term ended March 31, 2005, respectively, these consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the Company.

5. We have indicated our business categories as "chemicals, resins and plastics," "foodstuffs and pharmaceuticals" "electronics and electronic materials, synthetic fibers other businesses" until previous term. From this term, we changed categories into seven such as "chemicals" "functional plastics" "expandable plastics and products" "foodstuffs products" "life science products" "electronic products" and "synthetic fibers and others".

In order to reflect earnings of each segment more clearly, we revised our business segment and improved our segment information in with enhancement of "functional plastics" "life science" and "electronic products" business. In addition, the previous term results and the consolidated results for the previous fiscal year are also stated according to the new business categories.

2. Segment Information by Geographic Area

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

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	344,570	55,686	400,256	-	400,256
(2) Intersegment	8,275	4,012	12,287	(12,287)	-
Total	352,846	59,698	412,544	(12,287)	400,256
Operating expenses	320,933	55,353	376,286	(8,137)	368,148
Operating income	31,913	4,344	36,257	(4,150)	32,107
II. Assets	281,583	37,376	318,960	73,551	392,512

(2) Term from April 1, 2004 to March 31, 2005 (Unit: ¥million)

	Japan	Other areas	Total	Eliminations and corporate	Consolidated
I. Sales and Operating Profit/Loss					
Sales					
(1) Customers	374,066	63,934	438,000	-	438,000
(2) Intersegment	11,645	3,654	15,299	(15,299)	-
Total	385,711	67,589	453,300	(15,299)	438,000
Operating expenses	342,472	62,943	405,416	(10,545)	394,870
Operating income	43,238	4,645	47,884	(4,754)	43,130
II. Assets	294,053	42,067	336,120	61,003	397,123

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 'Eliminations and corporate' column of ¥4,147 million for the term ended March 31, 2004 and ¥4,545 million for the term ended March 31, 2005, respectively, consist principally of fundamental research and development of the Company.

3. Eliminations and corporate includes corporate assets of ¥79,496 for the term ended March 31, 2004 and ¥67,055 million for the term ended March 31, 2005, respectively, these consist principally of cash and marketable securities, investments in securities, administrative facilities and fundamental research and development facilities of the company.

3. International Sales

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

(Unit: ¥million)

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

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

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
Sales	63,618	35,011	45,421	7,135	151,187
Consolidated sales					438,000
The ratio of sales to consolidated sales (%)	14.5	8.0	10.4	1.6	34.5

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. Lease Transactions

The details are disclosed through EDINET(Electronic Disclosure for Investor's Network provided by Financial Agency, The Japanese Government) and thus are not presented here.

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, 2004	Term ended March 31, 2005
(Deferred tax assets)		
Retirement benefits	7,071	7,141
Loss carryforwards	4,342	2,987
Write-down of investment securities	1,835	1,809
Excess bonuses accrued	1,809	1,849
Impairment losses	-	1,233
Net unrealized holding gains on securities	50	18
Others	5,949	6,564
Sub-total	21,059	21,604
Provisions for evaluation	(5,847)	(5,265)
Total deferred tax assets	<u>15,211</u>	<u>16,339</u>
(Deferred tax liabilities)		
Net unrealized holding gains on securities	9,184	9,806
Others	2,419	2,560
Total deferred tax liabilities	<u>11,603</u>	<u>12,367</u>
Net deferred tax assets	<u><u>3,608</u></u>	<u><u>3,971</u></u>

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

	Term ended March 31, 2004	Term ended March 31, 2005
	%	%
Statutory tax rates	42.00	40.64
Loss carryforwards	1.58	(1.09)
Foreign tax credit	(7.38)	(5.96)
Non-deductible expenses such as entertainment expenses	0.73	0.49
Non-taxable income such as dividend received	(0.86)	(0.76)
Elimination of dividends on consolidation	3.49	3.09
Others	1.72	(2.08)
Effective tax rate	<u><u>41.28</u></u>	<u><u>34.33</u></u>

5. Securities

Term ended March 31, 2004

1. 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	14,264	36,864	22,600
(2) Bonds			
Government bonds and local government bonds, etc.	945	947	1
Corporate bonds	4,798	4,808	9
Others	442	442	0
(3) Others	-	-	-
Subtotal	20,450	43,062	22,611
(Securities that amount does not exceed acquisition cost on the consolidated balance sheet)			
(1) Stocks	743	618	(125)
(2) Bonds			
Government bonds and local government bonds, etc.	75	75	(0)
Corporate bonds	2,605	2,604	(0)
Others	1,514	1,512	(2)
(3) Others	-	-	-
Subtotal	4,939	4,810	(128)
Total	25,389	47,873	22,483

2. Other Securities Sold during the Fiscal Year (April 1, 2003 - March 31, 2004)

(Unit: ¥million)

Sales	Gain on Sales	Loss on Sales
1,126	453	-

3. Non-marketable Securities and their Amount on the Consolidated Balance Sheet

Other securities	(Unit: ¥million)
Non-listed stocks (excluding OTC stocks)	8,873
Mutual funds invested in bonds	2,939
Others	11

4. 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 and local government bonds, etc.	276	645
Corporate bonds	5,580	1,832
Others	1,921	-
(2) Others	-	-
Total	7,778	2,478

Term ended March 31, 2005

1. 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	16,610	40,741	24,131
(2) Bonds			
Government bonds and local government bonds, etc.	1,143	1,145	2
Corporate bonds	1,820	1,828	7
Others	-	-	-
(3) Others	-	-	-
Subtotal	19,574	43,715	24,141
(Securities that amount does not exceed acquisition cost on the consolidated balance sheet)			
(1) Stocks	313	277	(35)
(2) Bonds			
Government bonds and local government bonds, etc.	600	600	(0)
Corporate bonds	100	100	(0)
Others	2,241	2,240	(1)
(3) Others	-	-	-
Subtotal	3,255	3,218	(37)
Total	22,830	46,933	24,103

2. Other Securities Sold during the Fiscal Year (April 1, 2004 - March 31, 2005)

(Unit: ¥million)

Sales	Gain on Sales	Loss on Sales
2,232	459	(1)

3. Non-marketable Securities and their Amount on the Consolidated Balance Sheet

Other securities	(Unit: ¥million)
Non-listed stocks (excluding OTC stocks)	7,231
Mutual funds invested in bonds	3,014
Others	638

4. 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 and local government bonds, etc.	1,143	602
Corporate bonds	1,928	-
Others	2,210	29
(2) Others	-	-
Total	5,282	632

6. Derivatives Transactions

The details are disclosed through EDINET and thus are not presented here.

7. Severance and Retirement Benefits

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. A premium severance payment system is being adopted in certain cases. Further, certain overseas consolidated subsidiaries have defined contribution plan.

2. Benefit Obligation

	(Unit: ¥million)	
	Term ended March 31, 2004	Term ended March 31, 2005
(1) Projected benefit obligation	(66,170)	(67,553)
(2) Fair value of pension assets	35,857	39,164
(3) Unfunded benefit obligation ([1] + [2])	(30,312)	(28,389)
(4) Unrecognized actuarial differences	12,912	11,128
(5) Unrecognized prior service cost	(2,194)	(1,684)
(6) Severance and retirement benefits ([3] + [4] + [5])	(19,594)	(18,945)

(Note) 1. The subsidiaries use the simplified method in calculating the retirement benefit obligation.

3. Components of Pension and Severance Costs

	(Unit: ¥million)	
	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005
(1) Service costs (see Note 1)	2,890	2,872
(2) Interest costs	1,683	1,551
(3) Expected return on plan assets	(719)	(864)
(4) Amortization of actuarial difference	1,351	1,560
(5) Amortization of prior service cost	(729)	(784)
(6) Severance and retirement benefit expenses ([1] + [2] + [3] + [4] + [5])	4,477	4,334

(Note) 1. 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, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005
(1) Allocation method for projected benefits	Straight-line standard	Straight-line standard
(2) Discount rate	2.5 %	2.5 %
(3) Expected rate of return on plan assets	2.5 %	2.5 %
(4) Period of amortizing prior service cost	5 years	5 years
(5) Period of amortizing actuarial differences	10 years	10 years

Manufacturing, Orders and Sales

(1) Manufacturing Results

(Unit: ¥million)

Business Segment	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005	Year on year rate (%)
Chemicals	57,385	65,362	13.9
Functional Plastics	54,675	63,039	15.3
Expandable Plastics and Products	45,772	51,101	11.6
Foodstuffs Products	52,818	51,563	(2.4)
Life Science Products	40,749	41,550	2.0
Electronic Products	33,065	46,345	40.2
Synthetic Fibers and Others	20,231	24,128	19.3
Total	304,699	343,091	12.6

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. We have indicated our business categories as "chemicals, resins and plastics" "foodstuffs and pharmaceuticals" and "electronics and electronic materials, synthetic fibers other businesses". From this term, we changed our business categories into seven such as "chemicals" "functional plastics," "expandable plastics and products" "foodstuffs products" "life science products" "electronic products" and "synthetic fibers and others".

In addition, the previous term results and the consolidated results for the previous fiscal year are also presented according to the new business categories.

(2) Orders

Products are mainly manufactured based on sales estimations.

(3) Sales Results

(Unit: ¥million)

Business Segment	Term from April 1, 2003 to March 31, 2004	Term from April 1, 2004 to March 31, 2005	Year on year rate (%)
Chemicals	74,822	82,199	9.9
Functional Plastics	54,619	61,970	13.5
Expandable Plastics and Products	63,610	66,579	4.7
Foodstuffs Products	102,014	105,228	3.2
Life Science Products	42,211	46,861	11.0
Electronic Products	37,792	46,387	22.7
Synthetic Fibers and Others	25,185	28,773	14.2
Total	400,256	438,000	9.4