



April 27, 2005

## Non-Consolidated Financial Results for the Term Ended March 2005

Name of Listed Company: Kaneka Corporation

Stock Exchanges Listed: Tokyo, Osaka, Nagoya

Code Number: 4118

Headquarters Location: Osaka Prefecture

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

Representative: Name: Masatoshi Takeda

Title: President, Representative Director

Contact: Name: Masami Kishine

Title: General Manager - Financial &amp; Accounting Department

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Date of directors' meeting for approval of accounts: April 27, 2005

Interim dividend system: Yes

Scheduled date of starting dividend payment: June 30, 2005

Date of regular general meeting of shareholders: June 29, 2005

Minimum trading unit system: Yes Minimum trading unit: 1,000 shares

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

### 1. Results for the Term Ended March 2005 (from April 1, 2004 to March 31, 2005)

#### (1) Business performance

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Term ended March 31, 2005	282,741	9.9	33,510	33.6	35,405	39.1
Term ended March 31, 2004	257,337	5.7	25,087	31.7	25,455	43.2

	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	21,853	56.8	62.40	-	11.3	10.7	12.5
Term ended March 31, 2004	13,940	40.8	39.24	38.05	7.9	8.0	9.9

#### Notes:

1. Average number of shares during accounting term: Term ended March 2005: 348,275,463 Term ended March 2004: 352,190,075
2. Changes to accounting policies: Yes
3. Percentage figures under net sales, operating income, ordinary income and net income represent increases (decreases) relative to the previous accounting term.

#### (2) Dividends

	Dividend per share			Total dividend per share (Whole year)	Dividend net income ratio	Dividend-equity ratio
	¥	Interim term	Year end			
Term ended March 31, 2005	14.00	6.00	8.00	4,861	22.4	2.4
Term ended March 31, 2004	8.00	4.00	4.00	2,806	20.4	1.5

#### Notes:

Breakdown of dividend term ended March 2005 Commemorative dividend: 1.00 yen Special dividend: 0.00 yen

#### (3) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Term ended March 31, 2005	330,713	201,500	60.9	579.97
Term ended March 31, 2004	332,319	186,086	56.0	530.28

#### Notes:

1. Number of shares issued and outstanding at end of term: Term ended March 2005: 347,223,816 Term ended March 2004: 350,698,353
2. Treasury stock at end of accounting term: Term ended March 2005: 10,388,602 Term ended March 2004: 6,914,065

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

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim term	Year end	
	¥million	¥million	¥million	¥	¥	¥
Interim term	142,000	16,500	10,500	8.00	-	-
Overall term	296,000	37,500	24,000	-	8.00	16.00

(Reference) Projected net income per share (Overall term): ¥68.77

#### Note:

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.

## Balance Sheet

	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
<b>Assets</b>				<b>Liabilities</b>			
<b>I Current assets</b>				<b>I Current Liabilities</b>			
Cash and deposits	24,666	16,190	(8,475)	Trade notes payable	1,031	987	(43)
Trade notes receivable	5,157	5,153	(3)	Accounts payable	34,216	36,965	2,749
Accounts receivable	70,369	75,638	5,268	Short-term borrowings	9,141	10,755	1,613
Marketable securities	8,584	6,222	(2,362)	Bonds payable redeemed within 1 year	-	5,000	5,000
Merchandise and finished goods	14,726	15,919	1,192	Convertible bonds redeemed within 1 year	18,593	-	(18,593)
Raw materials	4,526	4,874	348	Long-term debts repaid within 1 year	88	1,137	1,049
Work in process	3,954	5,239	1,284	Accrued amount payable	18,785	15,040	(3,744)
Stores	2,330	2,405	75	Accrued expenses	4,314	4,399	85
Prepaid expenses	619	618	(0)	Accrued corporate taxes	6,410	7,314	903
Advance and accrued income	3,425	4,935	1,509	Accrued consumption tax	422	437	14
Short-term loans to affiliated companies	10,046	9,235	(811)	Deposit payable	336	349	12
Deferred tax assets	2,829	2,691	(137)	Allowance for loss on debt guarantees	852	682	(170)
Others	3,521	2,864	(656)	Others	216	275	59
Allowance for doubtful receivables	(167)	(167)	0	<b>Total current liabilities</b>	<b>94,408</b>	<b>83,346</b>	<b>(11,062)</b>
<b>Total current assets</b>	<b>154,591</b>	<b>151,823</b>	<b>(2,768)</b>	<b>II Fixed liabilities</b>	<b>20,000</b>	<b>15,000</b>	<b>(5,000)</b>
<b>II Fixed assets</b>				Bonds payable	13,693	13,450	(242)
<b>Tangible fixed assets</b>				Long-term debts	17,029	16,357	(671)
Buildings	23,951	24,076	124	Employees' severance and retirement benefits	894	878	(15)
Structures	6,075	5,765	(309)	Retirement benefits for directors and statutory auditors	207	180	(27)
Machinery and equipment	38,135	36,952	(1,182)	Others	51,824	45,866	(5,957)
Vehicles and transporters	102	86	(15)	<b>Total fixed liabilities</b>	<b>146,232</b>	<b>129,212</b>	<b>(17,020)</b>
Tools and equipment	2,259	2,585	325	<b>Total liability</b>			
Land	17,998	15,454	(2,544)	Shareholders' equity			
Construction in progress	2,292	3,670	1,378	I Common stock	33,046	33,046	-
<b>Total tangible fixed assets</b>	<b>90,815</b>	<b>88,591</b>	<b>(2,223)</b>	II Additional paid-in capital			
<b>Intangible fixed assets</b>				Capital surplus	34,821	34,821	-
Software	1,093	1,031	(61)	Other additional paid-in capital	0	18	17
Others	56	54	(2)	Profit on disposal of treasury stock	0	18	17
<b>Total Intangible fixed assets</b>	<b>1,149</b>	<b>1,085</b>	<b>(63)</b>	<b>Total additional paid-in capital</b>	<b>34,822</b>	<b>34,839</b>	<b>17</b>
<b>Investments and other assets</b>				<b>III Retained earnings</b>			
Investments in securities	47,541	47,335	(206)	Retained earnings reserve	5,863	5,863	-
Investments in subsidiaries	26,793	29,454	2,661	Voluntary reserve	78,208	88,663	10,455
Investments	791	74	(717)	Reserve for special depreciation	75	527	452
Investments in affiliated companies	1,078	1,462	383	Reserve for dividends	1,995	1,995	-
Long-term loans receivable	1,034	1,032	(1)	Reserve for retirement payments	525	525	-
Long-term loans to employees	475	407	(67)	Funds for technical promotion	500	500	-
Long-term loans to affiliated companies	4,433	7,146	2,712	Funds for employee welfare	300	300	-
Long-term prepaid expenses	579	397	(182)	Reserves for replaced property	588	598	10
Deferred tax assets	676	397	(279)	Reserves for advanced depreciation of replaced property	796	789	(7)
Guarantee money pledged	3,451	3,353	(98)	General reserve	73,427	83,427	10,000
Others	1,160	776	(384)	Unappropriated retained earnings	25,833	33,624	7,791
Allowance for doubtful receivables	(2,255)	(1,695)	560	<b>Total retained earnings</b>	<b>109,905</b>	<b>128,151</b>	<b>18,246</b>
Allowance for investment loss	-	(931)	(931)	<b>IV Unrealized gain on available-for-sale securities</b>	<b>13,144</b>	<b>13,861</b>	<b>716</b>
<b>Total investments and other assets</b>	<b>85,762</b>	<b>89,211</b>	<b>3,449</b>	<b>V Treasury stock</b>	<b>(4,831)</b>	<b>(8,398)</b>	<b>(3,566)</b>
<b>Total Fixed assets</b>	<b>177,727</b>	<b>178,889</b>	<b>1,161</b>	<b>Total shareholders' equity</b>	<b>186,086</b>	<b>201,500</b>	<b>15,413</b>
<b>Total Assets</b>	<b>332,319</b>	<b>330,713</b>	<b>(1,606)</b>	<b>Total liabilities and shareholders' equity</b>	<b>332,319</b>	<b>330,713</b>	<b>(1,606)</b>

## Statements 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	257,337	282,741	25,404
II. Cost of sales	180,938	194,529	13,590
Gross profit	76,398	88,212	11,814
III. Selling, general and administrative expenses	51,311	54,701	3,390
Operating income	25,087	33,510	8,423
IV. Non-operating income	<b>3,932</b>	<b>5,205</b>	<b>1,272</b>
Interest received	151	144	(7)
interest on securities	44	11	(33)
Dividends received	2,778	3,482	703
Exchange gain	-	866	866
Others	957	701	(255)
V. Non-operating expenses	<b>3,564</b>	<b>3,310</b>	<b>(253)</b>
Interest and discounts paid	326	319	(6)
interest on corporate bonds	801	633	(167)
Loss on disposals property, plant and equipment	980	1,226	245
Exchange loss	647	-	(647)
Others	808	1,131	322
Ordinary income	25,455	35,405	9,949
VI. Extraordinary loss	<b>4,083</b>	<b>2,525</b>	<b>(1,558)</b>
Impairment losses	-	2,525	2,525
Loss on investments in affiliated companies	3,396	-	(3,396)
Restructuring costs of solar cell business	686	-	(686)
Income before income taxes	21,371	32,880	11,508
Corporate taxes, local taxes and business taxes	9,120	11,100	1,980
Income taxes deferred	(1,688)	(73)	1,615
Net profit	13,940	21,853	7,912
Balance carried forward from the previous term	13,296	13,855	559
Interim dividends paid	1,403	2,083	680
Unappropriated retained earnings	25,833	33,624	7,791

## Statement of Retained Earnings (Proposed)

	Term ended March 31, 2004	Term ended March 31, 2005	Increase (Decrease)
Item	¥million	¥million	
Balance at year-end	25,833	33,624	7,791
Reversal of reserve for special depreciation	22	132	110
Reversal of reserve for advanced depreciation of replaced property	40	36	(4)
Total	25,895	33,792	7,897
Appropriations:			
Cash dividends	1,402	2,777	1,374
	(¥4.00 per share)	(¥8.00 per share)	
Directors' and statutory auditors bonuses	120	120	-
[Statutory auditors bonuses]	[6]	[6]	
Transfer to reserve for special depreciation	474	306	(168)
Transfer to reserve for replaced property	10	-	(10)
Transfer to reserve for advanced depreciation of replaced property	33	-	(33)
Transfer to general reserve	10,000	17,000	7,000
Total appropriation	12,039	20,203	8,163
Balance to be carried forward	13,855	13,589	(266)

## Significant Accounting Policies

1. Valuation methods of negotiable securities are as follows:
  - (1) Stock of subsidiaries and stock of affiliated companies: Valuation is at cost based on the moving average cost method.
  - (2) Other securities
    - 1) Stock 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.)
    - 2) Stock without market value: Valuation is at cost based on the moving average cost method.
2. The valuation methods of inventories are as follows:
  - (1) Manufactured goods and merchandise: Valuation is at cost based on the periodic average method (monthly)
  - (2) Raw materials, work in progress, and fuel out of stores: The valuation is at cost based on the moving average cost method.
  - (3) Other stores: The "last in" cost method.
3. The method of depreciation of tangible fixed assets is based on the declining-balance method. However, buildings (excluding building fixtures) acquired after April 1, 1998 are depreciated based on the straight-line method.
4. Standards for appropriation of major allowances are as follows:
  - Allowance for Doubtful Receivables  
To prepare for losses arising from bad debts, the estimated amount of uncollected debts is recorded on the basis of calculations using the actual rate of uncollected debt with respect to general debts, and by individually reviewing the collectability with respect to special debts including doubtful debts.
  - 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.
  - Allowance for loss on debt guarantees  
The estimated amount required for the fulfillment of debt guarantees to affiliated companies has been provided.
  - Employees' 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.
  - 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.
5. 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. Consumption taxes are not included in accounting treatments.

## Changes in Accounting Policies

### (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 ¥2,525 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 March 31, 2004	Term ended March 31, 2005	(Difference)
1. Less accumulated depreciation of tangible fixed assets	¥285,321 million	¥292,783 million	¥7,461 million
2. Assets subject to lien Marketable securities	¥1,492 million	¥1,406 million	¥(85) million
3. Liabilities for guarantee Liabilities for guarantees	¥2,251million	¥3,552 million	¥1,300 million
Letter of Awareness	-	¥554 million	¥554 million

**(Statements of Income)****Impairment Losses**

Impairment losses in the following asset category were accounted for in the fiscal year.

Location	Purpose	Type	Impairment Loss
Ikoma City, Nara Prefecture, etc.	Idle land	Land	¥2,525 million

The Kaneka categorizes assets primarily on a division-by-division basis, and 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 a research laboratory and Company-subsidized houses, 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.

**(Securities)**

The stock of subsidiaries and affiliates with market value

Item	Term ended March 31, 2004			Term ended March 31, 2005		
	Amount on balance sheet (¥million)	Market Value (¥million)	Difference (¥million)	Amount on balance sheet (¥million)	Market Value (¥million)	Difference (¥million)
The stock of subsidiaries	1,820	2,419	599	1,820	3,200	1,379
The stock of affiliates	-	-	-	-	-	-
Total	1,820	2,419	599	1,820	3,200	1,379

**(Tax Effect Accounting)**

## 1. Significant components of deferred tax assets and liabilities

	Term ended March 31, 2004	Term ended March 31, 2005
Deferred tax assets		
Employee's severance and retirement benefits	¥6,321 million	¥6,347 million
Retirement benefits for directors	¥434 million	¥421 million
Provision for losses on debts guaranteed	¥346 million	¥277 million
Allowance for doubtful receivables	¥860 million	¥574 million
Allowance for investment loss	-	¥378 million
Excess bonuses accrued	¥1,291 million	¥1,304 million
Accrued income tax	¥704 million	¥624 million
Write-down of affiliated companies' shares	¥938 million	¥111 million
Write-down of investment securities	¥1,835 million	¥1,809 million
Impairment losses	-	¥1,003 million
Depreciation and amortization	¥432 million	¥415 million
Others	¥701 million	¥735 million
Total deferred tax assets	<u>¥13,865 million</u>	<u>¥14,003 million</u>
Deferred tax liabilities		
Net unrealized holding gains on securities	¥9,046 million	¥9,506 million
Reserves for replacement of fixed assets	¥920 million	¥926 million
Others	¥391 million	¥480 million
Total deferred tax liabilities	<u>¥10,358 million</u>	<u>¥10,913 million</u>
Net deferred tax assets	<u>¥3,506 million</u>	<u>¥3,089 million</u>

## 2. Breakdown by main item, which caused differences between the statutory effective tax rates and the corporate tax rates, etc. after the application of the tax effect accounting.

	Term ended March 31, 2004	Term ended March 31, 2005
Statutory tax rates	42.00%	40.64%
Foreign tax credit	(9.33)%	(6.61)%
Non-deductible expenses such as entertainment expenses	0.63%	0.38%
Non-taxable income such as dividend received	(1.01)%	(0.87)%
Others	2.48%	(0.00)%
Effective tax rate	<u>34.77%</u>	<u>33.54%</u>

## Sales by Business Sector

Business Sector	Term from April 1, 2003 to March 31, 2004		Term from April 1, 2004 to March 31, 2005		Increase (Decrease)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Increase (Decrease) ratio
	¥million	%	¥million	%	¥million	%
Chemicals	54,048	21.0	65,628	23.2	11,580	21.4
Functional Plastics	25,976	10.1	28,345	10.0	2,369	9.1
Expandable Plastics and Products	34,755	13.5	34,172	12.1	(583)	(1.7)
Foodstuffs Products	53,016	20.6	52,617	18.6	(399)	(0.8)
Life Science Products	37,421	14.5	40,874	14.5	3,452	9.2
Electronic Products	31,845	12.4	39,798	14.1	7,952	25.0
Synthetic Fibers and Others	20,273	7.9	21,306	7.5	1,032	5.1
Total	257,337	100.0	282,741	100.0	25,404	9.9
Exports (out of total)	77,933	30.3	95,083	33.6	17,150	22.0