



July 27, 2006

Consolidated Quarterly Financial Results for the First Quarter Ended June 2006

Name of Listed Company: Kaneka Corporation

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

Code Number: 4118

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

Representative: Name: Masami Onishi

Title: President, Representative Director

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1. Notes to Preparation of Quarterly Financial Statements, etc

(1) Adopted the simplified accounting method : Yes

Simplified accounting method has been adopted in cases where the impact is insignificant in amount.

(2) Changes in accounting policies since latest consolidated fiscal year : None

(3) Changes in scope of consolidation or application of the equity method: Yes

Newly consolidated companies : 5, Excluded: 0

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

2. Financial and Operating Results for the First Quarter Ended June 30, 2006 (from April 1, 2006 to June 30, 2006)

(1) Consolidated Business Performance

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

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
First quarter ended June 2006	115,083	3.1	9,573	(13.6)	10,033	(11.4)	5,828	(18.8)
First quarter ended June 2005	111,571	5.2	11,082	5.5	11,322	9.4	7,176	8.4
Term ended March 2006 (reference)	464,310		47,606		47,718		28,099	

	Net income per share	Fully diluted net income per share
	¥	¥
First quarter ended June 2006	16.93	—
First quarter ended June 2005	20.67	—
Term ended March 2006 (reference)	80.80	—

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

[Qualitative Information on Progress in Consolidated Business Performance]

The Kaneka Group posted ¥115,083 million (up 3.1% year-on-year) in consolidated sales, ¥9,573 million (down 13.6% year-on-year) in operating income, and ¥10,033 million (down 11.4% year-on-year) in ordinary income for the first quarter of the current fiscal year (April 1, 2006 to June 30, 2006).

Sales increased year-on-year partly assisted by the increase in the sales volume of the functional plastics products and the electronic products.

Operating income decreased year-on-year despite the increase in earnings in the functional plastics and electronic products segments, partly due to the hike in the price of petrochemical raw materials in line with the surge in crude oil prices which squeezed earnings, as well as the fall in the sales price of functional foodstuffs attributable to the impact of intensified competition and other factors.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	¥million	¥million	%	¥
As of June 30, 2006	442,527	263,237	58.2	748.45
As of June 30, 2005	403,994	229,130	56.7	659.92
As of March 31, 2006 (reference)	453,158	260,735	57.5	756.96

Notes: Data for the term ended June 30, 2005 and the term ended March 31, 2006 which used to be presented in the form of "shareholders' equity", "shareholders' equity ratio" and "shareholders' equity per share" are shown in the "net assets" column, "equity capital ratio" column and "net assets per share" column, respectively.

(3) Consolidated Cash Flows

	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
First quarter ended June 2006	5,547	(11,433)	(1,377)	18,357
First quarter ended June 2005	13,318	(3,296)	(2,905)	32,763
Term ended March 2006 (reference)	47,402	(35,105)	(14,198)	25,044

[Qualitative Information on Consolidated financial position]

Total assets at the end of the first quarter decreased by ¥10,631 million compared to those at the end of March 2006 to ¥442,527 million.

Net cash provided by operating activities was ¥5,547 million including the payment of income taxes in the amount of ¥10,887 million. Net cash used in investing activities was ¥11,433 million partly due to the expenditure associated with the acquisition of property, plant and equipment in the amount of ¥11,428 million. Net cash used in financing activities was ¥1,377 million including the payment of dividends in the amount of ¥2,754 million. As a result, the outstanding balance of cash and cash equivalents at the end of the first quarter decreased by ¥6,686 million compared to the balance at the end of March 2006, to ¥18,357 million.

3. Forecast for Consolidated Business Performance in the Term Ending March 2007 (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Interim term	235,000	19,500	11,500
Overall term	485,000	45,000	27,000

(Reference) Projected net income per share (Overall term): ¥ 78.48

[Qualitative Information on Performance Forecasts]

No revisions have been made to the forecasts of performance for Interim term and Overall term announced on April 27, 2006.

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

1. Quarterly Consolidated Balance Sheets (summary)

	As of June 30, 2005	As of June 30, 2006	Increase (Decrease)	As of March 31, 2006 (Reference)	Increase (Decrease) (Compared to March 31, 2006)
Item	¥million	¥million	¥million	¥million	¥million
(Assets)					
I Current assets					
Cash and deposits	29,853	16,405	(13,447)	23,088	(6,683)
Notes and accounts receivable	103,335	108,217	4,882	110,634	(2,417)
Marketable securities	8,292	4,163	(4,128)	4,193	(30)
Inventories	49,859	55,725	5,865	54,553	1,171
Others	13,272	12,378	(894)	13,493	(1,115)
Total current assets	204,612	196,889	(7,723)	205,964	(9,074)
II Fixed assets					
Property, plant and equipment	130,353	158,009	27,656	144,144	13,865
Intangible fixed assets	2,632	2,915	282	2,977	(61)
Investments and other assets	66,395	84,712	18,316	100,073	(15,361)
Total fixed assets	199,381	245,637	46,256	247,194	(1,556)
Total Assets	403,994	442,527	38,533	453,158	(10,631)
(Liabilities)					
I Current liabilities					
Notes and accounts payable	57,381	59,427	2,046	60,734	(1,306)
Short-term borrowings	12,945	21,405	8,459	19,532	1,873
Bonds payable redeemed within 1 year	5,000	—	(5,000)	—	—
Others	42,586	41,067	(1,518)	46,322	(5,254)
Total current liabilities	117,912	121,900	3,987	126,588	(4,688)
II Fixed liabilities					
Bonds payable	15,000	15,000	—	15,000	—
Long-term debts	15,553	11,482	(4,070)	11,337	145
Employees' severance and retirement benefits	18,995	18,235	(759)	18,642	(406)
Others	2,020	12,670	10,650	15,188	(2,517)
Total fixed liabilities	51,568	57,389	5,820	60,168	(2,778)
Total liabilities	169,481	179,289	9,808	186,756	(7,466)
(Net assets)					
I Shareholders' equity					
Common stock	—	33,046	—	—	—
Capital surplus	—	34,856	—	—	—
Retained earnings	—	178,757	—	—	—
Treasury stock	—	(12,610)	—	—	—
Total shareholders' equity	—	234,050	—	—	—
II Valuation and translation adjustments, etc					
Net unrealized gain on available-for-sales securities	—	26,078	—	—	—
Loss on deferred hedge	—	(9)	—	—	—
Foreign currency translation adjustments	—	(2,634)	—	—	—
Total valuation and translation adjustments	—	23,434	—	—	—
III Minority interests					
Total net assets	—	263,237	—	—	—
Total liabilities and net assets	—	442,527	—	—	—

Kaneka Corporation (Consolidated)

	As of June 30, 2005	As of June 30, 2006	Increase (Decrease)	As of March 31, 2006 (Reference)	Increase (Decrease) (Compared to March 31, 2006)
Item	¥million	¥million	¥million	¥million	¥million
(Minority interests)					
Minority interests	5,381	—	—	5,667	
(Shareholders' equity)					
I Common stock	33,046	—	—	33,046	—
II Capital surplus	34,854	—	—	34,856	—
III Retained earnings	159,600	—	—	177,758	—
IV Net unrealized gain on available-for-sales securities	14,754	—	—	30,236	—
V Foreign currency translation adjustments	(4,713)	—	—	(2,809)	—
VI Treasury stock	(8,413)	—	—	(12,353)	—
Total shareholders' equity	229,130	—	—	260,735	—
Total liabilities, minority interests and shareholders' equity	403,994	—	—	453,158	—

2. Quarterly Consolidated Statement of Income (summary)

	Term from April 1, 2005 to June 30, 2005	Term from April 1, 2006 to June 30, 2006	Increase (Decrease)	Term from April 1, 2005 to March 31, 2006 (Reference)
Item	¥million	¥million	¥million	¥million
I. Net sales	111,571	115,083	3,511	464,310
II. Cost of sales	79,045	82,368	3,323	328,508
Gross profit	32,526	32,714	188	135,801
III. Selling, general and administrative expenses	21,444	23,141	1,696	88,195
Operating income	11,082	9,573	(1,508)	47,606
IV. Non-operating income	1,001	1,377	375	4,087
Interest and dividends income	343	434	91	907
Others	658	942	284	3,180
V. Non-operating expenses	761	917	156	3,976
Interest expense	279	324	45	1,070
Others	482	592	110	2,905
Ordinary income	11,322	10,033	(1,289)	47,718
VI. Extraordinary loss	—	—	—	2,451
Income before income taxes	11,322	10,033	(1,289)	45,266
Income taxes (current and deferred)	4,074	4,061	(13)	16,738
Minority interests	71	142	71	427
Net income	7,176	5,828	(1,347)	28,099

3. Quarterly Consolidated Statement of Cash Flows (summary)

	Term from April 1, 2005 to June 30, 2005	Term from April 1, 2006 to June 30, 2006	Term from April 1, 2005 to March 31, 2006 (Reference)
Item	¥million	¥million	¥million
I. Cash flows from operating activities			
Net income before income taxes	11,322	10,033	45,266
Depreciation and amortization	5,030	5,574	22,435
Environmental expenditures	—	—	2,451
(Increase) decrease in trade receivables	3,365	220	(2,986)
Increase in inventories	(1,400)	(900)	(5,387)
Increase (decrease) in trade payables	(963)	(1,193)	1,795
Others	(4,035)	(8,185)	(16,171)
Net cash provided by operating activities	13,318	5,547	47,402
II. Cash flows from investing activities			
Purchases of marketable securities	(900)	0	(1,900)
Proceeds from sales of marketable securities	618	0	3,870
Purchases of property, plant and equipment	(3,007)	(11,428)	(30,236)
Purchases of intangible assets	(169)	(164)	(912)
Purchases of investments in securities	(27)	(1,030)	(2,958)
Proceeds from sales and maturities of investments	316	831	3,364
Others	(126)	358	(6,332)
Net cash used in investing activities	(3,296)	(11,433)	(35,105)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings	169	1,681	(43)
Proceeds from long-term debt	—	304	2,550
Repayment of long-term debt	(261)	(330)	(2,022)
Dividends paid	(2,777)	(2,754)	(5,543)
Purchases of treasury stock	(16)	(257)	(3,958)
Others	(19)	(21)	(5,180)
Net cash used in financing activities	(2,905)	(1,377)	(14,198)
IV. Effect of exchange rate changes on cash and cash equivalents	(15)	45	309
V. Net increase (decrease) in cash and cash equivalents	7,100	(7,217)	(1,591)
VI. Cash and cash equivalents at beginning of term	25,521	25,044	25,521
VII. Effect of changes in consolidated subsidiaries	141	530	1,115
VIII. Cash and cash equivalents at the end of term	32,763	18,357	25,044

4. Segment Information

[Segment Information by Business Category]

Term from April 1, 2005 to June 30, 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	21,320	17,295	16,095	26,796	10,846	11,978	7,238	111,571	—	111,571
(2) Intersegment	576	72	391	1	—	—	1,006	2,049	(2,049)	—
Total	21,897	17,367	16,487	26,798	10,846	11,978	8,244	113,621	(2,049)	111,571
Operating expenses	20,500	14,786	16,537	25,455	6,839	9,547	7,698	101,364	(875)	100,489
Operating income	1,397	2,581	(50)	1,342	4,007	2,431	546	12,256	(1,174)	11,082

Term from April 1, 2006 to June 30, 2006

(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	22,504	19,693	16,862	26,900	11,302	12,784	5,035	115,083	—	115,083
(2) Intersegment	437	59	305	3	—	—	1,795	2,601	(2,601)	—
Total	22,941	19,753	17,167	26,903	11,302	12,784	6,831	117,684	(2,601)	115,083
Operating expenses	21,863	16,370	17,472	25,700	8,548	10,156	6,801	106,913	(1,403)	105,509
Operating income	1,078	3,382	(304)	1,203	2,754	2,627	30	10,770	(1,197)	9,573

Term from April 1, 2005 to March 31, 2006 (Reference)

(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	87,922	73,190	68,304	107,567	49,147	47,159	31,016	464,310	—	464,310
(2) Intersegment	2,282	301	1,384	9	—	—	6,879	10,856	(10,856)	—
Total	90,205	73,492	69,689	107,576	49,147	47,159	37,895	475,167	(10,856)	464,310
Operating expenses	84,628	61,504	69,559	102,859	30,196	38,329	35,374	422,452	(5,748)	416,703
Operating income	5,577	11,987	129	4,717	18,951	8,830	2,521	52,715	(5,108)	47,606

[International Sales]

Term from April 1, 2005 to June 30, 2005

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I Net Sales	15,943	11,094	11,417	1,850	40,306
II Consolidated sales					111,571
III The ratio of sales to consolidated sales (%)	14.3	9.9	10.2	1.7	36.1

Term from April 1, 2006 to June 30, 2006

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I Net Sales	16,312	11,369	12,027	2,189	41,898
II Consolidated sales					115,083
III The ratio of sales to consolidated sales (%)	14.2	9.9	10.5	1.9	36.4

Term from April 1, 2005 to March 31, 2006 (Reference)

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I Net Sales	64,493	49,652	45,747	9,389	169,282
II Consolidated sales					464,310
III The ratio of sales to consolidated sales (%)	13.9	10.7	9.9	2.0	36.5