



## Quarterly Financial Results for the First Quarter, Ended June 2007

July 26, 2007

**Name of Listed Company:** Kaneka Corporation

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

**Code Number:** 4118URL: <http://www.kaneka.co.jp>

Representative: Name: Masami Onishi Title: President, Representative Director

Contact Person: Name: Masami Kishine Title: General Manager - Financial &amp; Accounting Department

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

## 1. Consolidated Business Performance for the First Quarter, Ended June 30, 2007

(from April 1, 2007, to June 30, 2007)

## (1) Consolidated business performance

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net Income	
	¥million	%	¥million	%	¥million	%	¥million	%
First quarter, ended June 30, 2007	123,746	7.5	8,609	(10.1)	9,227	(8.0)	5,868	0.7
First quarter, ended June 30, 2006	115,083	3.1	9,573	(13.6)	10,033	(11.4)	5,828	(18.8)
Term ended March 2007	473,170	-	36,666	-	36,939	-	18,363	-

	Net income per share	Fully diluted net income per share
First quarter, ended June 30, 2007	¥ 17.15	¥ -
First quarter, ended June 30, 2006	16.93	-
Term ended March 2007	53.48	-

## (2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
First quarter, ended June 30, 2007	¥million 477,903	¥million 277,254	% 56.7	¥ 791.72
First quarter, ended June 30, 2006	442,527	263,237	58.2	748.45
Term ended March 2007	467,109	271,280	56.8	774.71

## (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
First quarter, ended June 30, 2007	¥million 8,999	¥million (8,113)	¥million (3,328)	¥million 20,331
First quarter, ended June 30, 2006	5,547	(11,433)	(1,377)	18,357
Term ended March 2007	32,742	(33,894)	(2,081)	22,635

2. Dividends

	Dividends per share
(Record date)	June 30
First quarter, ended June 30, 2006	¥ -
First quarter, ended June 30, 2007	-

3. Forecast for consolidated business performance in the term Ending March 31, 2008 (from April 1, 2007, to March 31, 2008)

No revisions have been made to the interim and full-term performance forecasts announced on April 26, 2007.

4. Other

(1) Changes in principal subsidiaries during the term (Changes in the scope of consolidation of specific subsidiaries) None

(2) Use of the simplified accounting method: Yes

Note: For details, please refer to the "4. Other" section under "Overview of Financial Statements" on page 3.

(3) Changes in accounting policies since the most recent consolidated fiscal year: None

Note: Explanations or other items pertaining to appropriate use of operating result forecasts

(Cautionary note concerning forward-looking statements)

The operating results forecasts and certain other statements contained in this document are forward-looking statements, which are rationally determined based on information currently available to the company. For a variety of reasons, actual performance may differ substantially from these projections. For cautionary items used in operating results forecasts, please refer to the section "3. Forecast for Consolidated Business Performance in the Term Ending March 31, 2008" under "Overview of Financial Statements" on page 3.

## Overview of Financial Statements

### 1. Consolidated Business Performance

Compared with the same period of the preceding fiscal year, the Kaneka Group posted higher consolidated net sales, which rose 7.5% to ¥123,746 million, but income was lower. Operating income was ¥8,609 million (down 10.1%), and ordinary income was ¥9,227 million (down 8.0%) for the first quarter of the fiscal year ending March 31, 2008 (from April 1, 2007, to June 30, 2007).

The Company posted year-on-year sales increases in all segments except life sciences and electronic products; sales rose in the chemicals, functional plastics, expandable plastics and products, foodstuffs products, and synthetic fibers and others segments.

Operating income rose year-on-year in the chemicals, functional plastics, synthetic fibers and others segments. However, operating income declined in the life sciences and electronic products segments, owing to shifts in the operating environment, and sharply higher prices of such raw materials as edible oils caused income to decrease in the foodstuffs products segment.

### 2. Consolidated Financial Position

#### (1) Status of Assets, Liabilities and Equity

Total assets were ¥477,903 million on June 30, 2007, up ¥10,793 million from March 31, 2007. Interest-bearing debts totaled ¥52,340 million, a decrease of ¥122 million. Net assets amounted to ¥277,254 million, up ¥5,974 million, mainly due to the increase in retained earnings.

#### (2) Consolidated Cash Flows

Net cash provided by operating activities during the first quarter was ¥8,999 million, while net cash used in investing activities amounted to ¥8,113 million. Net cash used in financing activities was ¥3,328 million. As a result, cash and cash equivalents on June 30, 2007, totaled ¥20,331 million, down ¥2,304 million from March 31, 2007.

### 3. Forecast for Consolidated Business Performance in the Term Ending March 31, 2008 (from April 1, 2007, to March 31, 2008)

Net sales and operating income in the first quarter of the year ending March 31, 2008, were higher than during the fourth quarter of the fiscal year ended March 31, 2007 (from January 1, 2007, to March 31, 2007). As a result, we expect operating performance to be within the scope of the previously announced expectations, and no revisions have been made to the interim and full-term performance forecasts announced on April 26, 2007.

\*Management considers the above performance forecasts to be reasonable on the basis of the information available at the time of announcement. However, readers should be aware that actual results could vary from these forecasts due to various uncertainties.

### 4. Other

#### Simplified Method of Accounting

The simplified method has been employed in the quarterly accounting for items judged to have a negligible impact on overall results.

## 5. Quarterly Consolidated Financial Statements (Summary)

## (1) Quarterly Consolidated Balance Sheets (Summary)

(Millions of yen, unless otherwise noted)

Account Items	As of June 30, 2006	As of June 30, 2007	Increase (Decrease) (Compared to June 30, 2006)		As of March 31, 2007 (Reference)	Increase (Decrease) (Compared to March 31, 2007)	
	Amount	Amount	Amount	Percentage	Amount	Amount	Percentage
(Assets)							
I. Current assets							
Cash and deposits	16,405	18,285	1,879	11.5	20,396	(2,110)	(10.3)
Notes receivable and accounts receivable	108,217	118,965	10,748	9.9	118,401	564	0.5
Marketable securities	4,163	2,359	(1,804)	(43.3)	2,358	1	0.0
Inventories	55,725	68,991	13,266	23.8	65,277	3,714	5.7
Others	12,378	13,197	819	6.6	12,786	411	3.2
Total current assets	196,889	221,799	24,910	12.7	219,219	2,580	1.2
II. Fixed assets							
Tangible fixed assets	158,009	164,552	6,542	4.1	159,403	5,148	3.2
Intangible fixed assets	2,915	3,100	184	6.3	3,030	69	2.3
Investments and other assets	84,712	88,450	3,738	4.4	85,456	2,994	3.5
Total fixed assets	245,637	256,103	10,465	4.3	247,890	8,213	3.3
Total Assets	442,527	477,903	35,375	8.0	467,109	10,793	2.3
(Liabilities)							
I. Current liabilities							
Notes payable and accounts payable	59,427	70,310	10,882	18.3	69,014	1,295	1.9
Short-term borrowings	21,405	20,256	(1,148)	(5.4)	20,266	(9)	(0.0)
Others	41,067	46,924	5,856	14.3	44,699	2,224	5.0
Total current liabilities	121,900	137,490	15,590	12.8	133,980	3,510	2.6
II. Fixed liabilities							
Bonds payable	15,000	15,000	—	—	15,000	—	—
Long-term debts	11,482	17,084	5,601	48.8	17,196	(112)	(0.7)
Employees' severance and retirement benefits	18,235	17,640	(595)	(3.3)	18,217	(577)	(3.2)
Others	12,670	13,433	762	6.0	11,434	1,998	17.5
Total fixed liabilities	57,389	63,157	5,768	10.1	61,849	1,308	2.1
Total liabilities	179,289	200,648	21,358	11.9	195,829	4,818	2.5
(Net assets)							
I. Shareholders' equity							
Common stocks	33,046	33,046	—	—	33,046	—	—
Additional paid-in capital	34,856	34,857	0	0.0	34,857	—	—
Retained earnings	178,757	191,548	12,790	7.2	188,417	3,131	1.7
Treasury stock	(12,610)	(14,508)	(1,898)	—	(14,479)	(29)	—
Total shareholders' equity	234,050	244,943	10,893	4.7	241,842	3,101	1.3
II. Valuation and translation adjustments, etc							
Net unrealized gain on available-for-sales securities	26,078	25,576	(502)	(1.9)	24,115	1,460	6.1
Loss on deferred hedge	(9)	2	12	—	0	2	—
Foreign currency translation adjustments	(2,634)	409	3,044	—	(827)	1,237	—
Total valuation and translation adjustments	23,434	25,988	2,554	10.9	23,288	2,699	11.6
III. Minority interests	5,752	6,322	569	9.9	6,148	173	2.8
Total net assets	263,237	277,254	14,017	5.3	271,280	5,974	2.2
Total liabilities and net assets	442,527	477,903	35,375	8.0	467,109	10,793	2.3

## (2) Quarterly Consolidated Statement of Income (summary)

(Millions of yen, unless otherwise noted)

Account Items	Term from April 1, 2006 to June 30, 2006	Term from April 1, 2007 to June 30, 2007	Increase (Decrease)		Term from April 1, 2006 to March 31, 2007 (Reference)
	Amount	Amount	Amount	Percentage	Amount
I. Net sales	115,083	123,746	8,663	7.5	473,170
II. Cost of sales	82,368	92,109	9,740	11.8	344,519
Gross profit	32,714	31,637	(1,076)	(3.3)	128,651
III. Selling, general and administrative expenses	23,141	23,028	(112)	(0.5)	91,985
Operating income	9,573	8,609	(963)	(10.1)	36,666
IV. Non-operating income	<b>1,377</b>	<b>1,696</b>	<b>318</b>	23.1	<b>4,482</b>
Interest and dividends income	434	869	434	100.0	1,163
Others	942	826	(115)	(12.3)	3,318
V. Non-operating expenses	<b>917</b>	<b>1,078</b>	<b>160</b>	17.5	<b>4,209</b>
Interest expense	324	484	159	49.0	1,719
Others	592	593	1	0.2	2,490
Ordinary income	10,033	9,227	(805)	(8.0)	36,939
VI. Extraordinary gain	—	—	—	—	2,725
VII. Extraordinary loss	—	—	—	—	7,008
Income before income taxes	10,033	9,227	(805)	(8.0)	32,656
Tax expense	4,061	3,241	(820)	(20.2)	13,656
Minority interests	142	117	(25)	(17.9)	636
Net income	5,828	5,868	40	0.7	18,363

## (3) Quarterly Consolidated Statement of Cash Flows (summary)

	Term from April 1, 2006 to June 30, 2006	Term from April 1, 2007 to June 30, 2007	Term from April 1, 2006 to March 31, 2007 (Reference)
Item	¥million	¥million	¥million
<b>I. Cash flows from operating activities</b>			
Net income before income taxes	10,033	9,227	32,656
Depreciation and amortization	5,574	5,868	24,584
Extraordinary gain	-	-	(2,725)
Impairment losses	-	-	7,008
(Increase) decrease in trade receivables	220	185	(9,219)
(Increase) decrease in inventories	(900)	(3,055)	(9,324)
Increase (decrease) in trade payables	(1,193)	879	8,316
Others	(8,185)	(4,105)	(18,553)
Net cash provided by operating activities	5,547	8,999	32,742
<b>II. Cash flows from investing activities</b>			
Proceeds from marketable securities	-	-	1,600
Payment for purchase of tangible fixed assets	(11,428)	(7,971)	(34,879)
Payment for purchase of intangible assets	(164)	(205)	(769)
Purchase of investment securities	(1,030)	(468)	(4,885)
Proceeds from investment securities	831	88	2,893
Others	358	443	2,146
Net cash used in investing activities	(11,433)	(8,113)	(33,894)
<b>III. Cash flows from financing activities</b>			
Increase (decrease) in short-term borrowing	1,681	(381)	6,652
Proceeds from long-term debt	304	8	6,914
Repayment of long-term debt	(330)	(166)	(7,821)
Dividends paid	(2,754)	(2,737)	(5,500)
Purchase of treasury stock	(257)	(31)	(2,130)
Others	(21)	(20)	(197)
Net cash used in financing activities	(1,377)	(3,328)	(2,081)
IV. Effect of exchange rate changes on cash and cash equivalents	45	137	301
V. Net decrease in cash and cash equivalents	(7,217)	(2,304)	(2,932)
VI. Cash and cash equivalents at beginning of term	25,044	22,635	25,044
VII. Effect of changes in consolidated subsidiaries	530	0	523
VIII. Cash and cash equivalents at term end	18,357	20,331	22,635

## (4) Segment Information

[ Segment Information by Business Category ]

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, 2007 to June 30, 2007

(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	25,223	22,555	17,916	28,755	8,455	12,727	8,112	123,746	—	123,746
(2) Intersegment	692	97	253	2	—	—	1,595	2,641	( 2,641 )	—
Total	25,915	22,653	18,169	28,757	8,455	12,727	9,707	126,388	( 2,641 )	123,746
Operating expenses	24,594	19,110	18,473	28,166	7,238	11,155	7,863	116,601	( 1,464 )	115,137
Operating income	1,321	3,542	(303)	591	1,216	1,572	1,844	9,786	( 1,176 )	8,609

Term from April 1, 2006 to March 31, 2007 (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	93,120	81,082	71,531	110,795	40,332	51,488	24,819	473,170	—	473,170
(2) Intersegment	2,305	313	1,142	11	—	—	6,659	10,432	( 10,432 )	—
Total	95,426	81,395	72,673	110,807	40,332	51,488	31,479	483,603	( 10,432 )	473,170
Operating expenses	89,743	67,807	73,172	107,255	34,607	42,184	27,365	442,136	( 5,631 )	436,504
Operating income	5,683	13,587	(499)	3,552	5,724	9,303	4,114	41,467	( 4,800 )	36,666

[ International Sales ]

Term from April 1, 2006 to June 30, 2006 (Unit: ¥million)

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

Term from April 1, 2007 to June 30, 2007 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I International sales	19,951	10,378	13,977	3,427	47,735
II Consolidated net sales					123,746
III Ratio of international sales to consolidated net sales (%)	16.1	8.4	11.3	2.8	38.6

Term from April 1, 2006 to March 31, 2007 (Reference) (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I International sales	68,600	42,088	50,060	11,019	171,769
II Consolidated net sales					473,170
III Ratio of international sales to consolidated net sales (%)	14.5	8.9	10.6	2.3	36.3