



April 27, 2006

Non-Consolidated Financial Results for the Term Ended March 2006

Name of Listed Company: Kaneka Corporation
Code Number: 4118

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

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

Representative: Name: Masami Onishi
Contact: Name: Masami Kishine

Title: President, Representative Director
Title: General Manager - Financial & Accounting Department
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Date of directors' meeting for approval of accounts: April 27, 2006

Interim dividend system: Yes

Scheduled date of starting dividend payment: June 30, 2006

Date of regular general meeting of shareholders: June 29, 2006

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

(1) Business performance

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Term ended March 31, 2006	293,846	3.9	36,996	10.4	39,717	12.2
Term ended March 31, 2005	282,741	9.9	33,510	33.6	35,405	39.1

	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, 2006	24,482	12.0	70.40	—	11.3	11.2	13.5
Term ended March 31, 2005	21,853	56.8	62.40	61.27	11.3	10.7	12.5

Notes:

- Average number of shares during accounting term: Term ended March 2006: 346,050,680 Term ended March 2005: 348,275,463
- Changes to accounting policies: No
- 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, 2006	16.00	8.00	8.00	5,520	22.7	2.4
Term ended March 31, 2005	14.00	6.00	8.00	4,861	22.4	2.4

(3) Financial position

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥million	¥million	%	¥
Term ended March 31, 2006	376,416	232,181	61.7	674.08
Term ended March 31, 2005	330,713	201,500	60.9	579.97

Notes:

- Number of shares issued and outstanding at end of term: Term ended March 2006: 344,265,964 Term ended March 2005: 347,223,816
- Treasury stock at end of accounting term: Term ended March 2006: 13,346,454 Term ended March 2005: 10,388,602

2. Performance Forecasts for Term Ending March 2007 (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income	Annual dividend per share		
				Interim term	Year end	
Interim term	¥million	¥million	¥million	¥	¥	¥
Overall term	145,000	15,000	9,500	8.00	—	—
	300,000	36,500	23,000	—	8.00	16.00

(Reference) Projected net income per share (Overall term): ¥ 66.81

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, 2005	Term ended March 31, 2006	Increase (decrease)		Term ended March 31, 2005	Term ended March 31, 2006	Increase (decrease)
Item	¥million	¥million	¥million	Item	¥million	¥million	¥million
Assets				Liabilities			
I Current assets				I Current Liabilities			
Cash and deposits	16,190	15,648	(541)	Trade notes payable	987	674	(313)
Trade notes receivable	5,153	3,757	(1,396)	Accounts payable	36,965	38,224	1,258
Accounts receivable	75,638	78,174	2,536	Short-term borrowings	10,755	12,274	1,519
Marketable securities	6,222	1,536	(4,686)	Bonds payable redeemed within 1 year	5,000	—	(5,000)
Merchandise and finished goods	15,919	17,721	1,802	Long-term debts repaid within 1 year	1,137	6,537	5,399
Raw materials	4,874	5,913	1,038	Accrued amount payable	15,040	19,550	4,509
Work in process	5,239	5,315	75	Accrued expenses	4,399	4,506	107
Stores	2,405	2,935	529	Accrued corporate taxes	7,314	8,697	1,383
Prepaid expenses	618	750	131	Accrued consumption tax	437	414	(23)
Advance and accrued income	4,935	5,315	380	Deposit payable	349	420	71
Short-term loans to affiliated companies	9,235	9,770	534	Allowance for loss on debt guarantees	682	—	(682)
Deferred tax assets	2,691	2,632	(59)	Others	275	122	(153)
Others	2,864	2,418	(446)	Total current liabilities	83,346	91,422	8,076
Allowance for doubtful receivables	(167)	(92)	74	II Fixed liabilities			
Total current assets	151,823	151,797	(25)	Bonds payable	15,000	15,000	—
II Fixed assets				Long-term debts	13,450	9,459	(3,991)
Tangible fixed assets				Employees' severance and retirement benefits	16,357	15,724	(632)
Buildings	24,076	26,869	2,792	Retirement benefits for directors and statutory auditors	878	704	(174)
Structures	5,765	5,618	(147)	Deferred tax liabilities (current)	—	9,292	9,292
Machinery and equipment	36,952	41,154	4,201	Others	180	2,630	2,450
Vehicles and transporters	86	124	37	Total fixed liabilities	45,866	52,811	6,945
Tools and equipment	2,585	2,909	324	Total liability	129,212	144,234	15,022
Land	15,454	17,404	1,950	Shareholders' equity			
Construction in progress	3,670	5,336	1,666	I Common stock	33,046	33,046	—
Total tangible fixed assets	88,591	99,417	10,825	II Additional paid-in capital			
Intangible fixed assets				Capital surplus	34,821	34,821	—
Software	1,031	915	(116)	Other additional paid-in capital	18	19	1
Others	54	131	76	Profit on disposal of treasury stock	18	19	1
Total Intangible fixed assets	1,085	1,046	(39)	Total additional paid-in capital	34,839	34,841	1
Investments and other assets				III Retained earnings			
Investments in securities	47,335	75,816	28,480	Retained earnings reserve	5,863	5,863	—
Investments in subsidiaries	29,454	29,632	177	Voluntary reserve	88,663	105,801	17,138
Investments	74	95	20	Reserve for special depreciation	527	701	174
Investments in affiliated companies	1,462	2,015	552	Reserve for dividends	1,995	1,995	—
Long-term loans receivable	1,032	1,014	(18)	Reserve for retirement payments	525	525	—
Long-term loans to employees	407	347	(59)	Funds for technical promotion	500	500	—
Long-term loans to affiliated companies	7,146	10,802	3,655	Funds for employee welfare	300	300	—
Long-term prepaid expenses	397	1,645	1,248	Reserves for replaced property	598	598	—
Deferred tax assets	397	—	(397)	Reserves for advanced depreciation of replaced property	789	753	(36)
Guarantee money pledged	3,353	3,231	(121)	General reserve	83,427	100,427	17,000
Others	776	677	(98)	Unappropriated retained earnings	33,624	35,305	1,680
Allowance for doubtful receivables	(1,695)	(191)	1,503	Total retained earnings	128,151	146,970	18,818
Allowance for investment loss	(931)	(931)	—	IV Net unrealized gain on marketable securities	13,861	29,676	15,815
Total investments and other assets	89,211	124,154	34,942	V Treasury stock	(8,398)	(12,353)	(3,954)
Total Fixed assets	178,889	224,618	45,728	Total shareholders' equity	201,500	232,181	30,680
Total Assets	330,713	376,416	45,703	Total liabilities and shareholders' equity	330,713	376,416	45,703

Statements of Income

	Term from April 1, 2004 to March 31, 2005	Term from April 1, 2005 to March 31, 2006	Increase (Decrease)
Item	¥million	¥million	¥million
I. Net sales	282,741	293,846	11,105
II. Cost of sales	194,529	202,267	7,737
Gross profit	88,212	91,579	3,367
III. Selling, general and administrative expenses	54,701	54,582	(118)
Operating income	33,510	36,996	3,486
IV. Non-operating income	5,205	6,126	921
Interest received	144	167	22
interest on securities	11	4	(6)
Dividends received	3,482	3,372	(110)
Gain on sales of marketable securities	440	663	223
Exchange gain	866	1,391	525
Others	261	528	267
V. Non-operating expenses	3,310	3,405	94
Interest and discounts paid	319	320	0
interest on corporate bonds	633	404	(228)
Loss on disposals property, plant and equipment	1,226	1,277	51
Others	1,131	1,402	271
Ordinary income	35,405	39,717	4,312
VI. Extraordinary loss	2,525	2,403	(122)
Environmental expenditures	—	2,403	2,403
Impairment losses	2,525	—	(2,525)
Income before income taxes	32,880	37,314	4,434
Corporate taxes, local taxes and business taxes	11,100	13,910	2,810
Income taxes deferred	(73)	(1,077)	(1,004)
Net profit	21,853	24,482	2,629
Balance carried forward from the previous term	13,855	13,589	(266)
Interim dividends paid	2,083	2,765	682
Unappropriated retained earnings	33,624	35,305	1,680

**Statement of Retained Earnings
(Proposed)**

	Term ended March 31, 2005	Term ended March 31, 2006	Increase (Decrease)
Item	¥million	¥million	
Balance at year-end	33,624	35,305	1,680
Reversal of reserve for special depreciation	132	207	75
Reversal of reserve for advanced depreciation of replaced property	36	47	11
Total	33,792	35,559	1,766
Appropriations:			
Cash dividends	2,777	2,754	(23)
	(¥8.00 per share)	(¥8.00 per share)	
Directors' and statutory auditors bonuses	120	120	—
[Statutory auditors bonuses]	[6]	[6]	
Transfer to reserve for special depreciation	306	276	(30)
Transfer to general reserve	17,000	18,000	1,000
Total appropriation	20,203	21,150	946
Balance to be carried forward	13,589	14,409	820

Significant Accounting Policies

1. Valuation standards and methods of Securities:

Stock of subsidiaries and stock of affiliated companies: Valuation is at cost based on the moving average cost method.

Other securities

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.)

Stock without market value: Valuation is at cost based on the moving average cost method.

2. Valuation standards and methods of Derivatives:

Market value method

3. Valuation standards and methods of Inventories:

Manufactured goods and merchandise: Valuation is at cost based on the periodic average method (monthly)

Raw materials, work in progress, and fuel out of stores: The valuation is at cost based on the moving average cost method.

Other stores: The "last in" cost method.

4. The method of depreciation of fixed assets:

A. Tangible fixed assets

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.

B. Intangible fixed assets

Based on the straight-line method.

5. Standards for appropriation of major allowances:

A. 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.

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. 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.

D. Retirement benefit for directors

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.

6. 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.

7. 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 method.

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.

8. Additional note regarding preparation of statements

Consumption taxes are not included in accounting treatments.

Notes:**(Balance Sheet)**

	Term ended March 31, 2005	Term ended March 31, 2006	(Difference)
1. Less accumulated depreciation of tangible fixed assets	¥292,783 million	¥300,715 million	¥7,932 million
2. Assets subject to lien Marketable securities	¥1,406 million	¥650 million	¥(756) million
3. Liabilities for guarantee Liabilities for guarantees	¥3,552 million	¥2,676 million	¥(875) million
Letter of Awareness	¥554 million	¥1,173 million	¥619 million

(Securities)

The stock of subsidiaries and affiliates with market value

Item	Term ended March 31, 2005			Term ended March 31, 2006		
	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	3,200	1,379	1,820	3,955	2,134
The stock of affiliates	—	—	—	—	—	—
Total	1,820	3,200	1,379	1,820	3,955	2,134

(Tax Effect Accounting)

1. Significant components of deferred tax assets and liabilities

	Term ended March 31, 2005	Term ended March 31, 2006
Deferred tax assets		
Employee's severance and retirement benefits	¥6,347 million	¥6,390 million
Retirement benefits for directors	¥421 million	¥344 million
Provision for losses on debts guaranteed	¥277 million	—
Allowance for doubtful receivables	¥574 million	¥47 million
Allowance for investment loss	¥378 million	¥378 million
Excess bonuses accrued	¥1,304 million	¥1,334 million
Accrued income tax	¥624 million	¥743 million
Write-down of affiliated companies' shares	¥111 million	¥1,060 million
Write-down of investment securities	¥1,809 million	¥1,759 million
Impairment losses	¥1,003 million	¥1,003 million
Depreciation and amortization	¥415 million	¥340 million
Others	¥735 million	¥1,682 million
Total deferred tax assets	<u>¥14,003 million</u>	<u>¥15,085 million</u>
Deferred tax liabilities		
Net unrealized holding gains on securities	¥(9,506) million	¥(20,323) million
Reserves for replacement of fixed assets	¥(926) million	¥(893) million
Others	¥(480) million	¥(528) million
Total deferred tax liabilities	<u>¥(10,913) million</u>	<u>¥(21,745) million</u>
Net deferred tax assets (liabilities)	<u>¥3,089 million</u>	<u>¥(6,660) 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, 2005	Term ended March 31, 2006
Statutory tax rates	40.64%	40.64%
Foreign tax credit	(6.61)%	(5.41)%
Non-deductible expenses such as entertainment expenses	0.38%	0.32%
Non-taxable income such as dividend received	(0.87)%	(1.10)%
Others	(0.00)%	(0.06)%
Effective tax rate	<u>33.54%</u>	<u>34.39%</u>

Sales by Business Sector

Business Sector	Term from April 1, 2004 to March 31, 2005		Term from April 1, 2005 to March 31, 2006		Increase (Decrease)	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Increase (Decrease) ratio
	¥million	%	¥million	%	¥million	%
Chemicals	65,628	23.2	68,835	23.4	3,207	4.9
Functional Plastics	28,345	10.0	30,231	10.3	1,886	6.7
Expandable Plastics and Products	34,172	12.1	35,466	12.1	1,294	3.8
Foodstuffs Products	52,617	18.6	50,579	17.2	(2,037)	(3.9)
Life Science Products	40,874	14.5	42,710	14.5	1,836	4.5
Electronic Products	39,798	14.1	41,602	14.2	1,803	4.5
Synthetic Fibers and Others	21,306	7.5	24,420	8.3	3,114	14.6
Total	282,741	100.0	293,846	100.0	11,105	3.9
Exports (out of total)	95,083	33.6	103,163	35.1	8,079	8.5