



October 26, 2006

Non-Consolidated Interim Financial Results for the Term Ending March 2007

Name of Listed Company: **Kaneka Corporation**
Code Number: **4118**

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

(U R L: <http://www.kaneka.co.jp>)

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

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

Date of directors' meeting for approval of accounts: October 26, 2006

Date of dividend: December 5, 2006

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

1. For the Interim Term Ended September 2006 (from April 1, 2006 to September 30, 2006)

(1) Business performance Note: Figures have been rounded down to the nearest million yen.

	Net sales		Operating income		Ordinary income	
	¥million	%	¥million	%	¥million	%
Interim term ended September 2006	146,429	2.7	13,008	(20.0)	16,328	(10.1)
Interim term ended September 2005	142,557	3.8	16,267	8.4	18,156	9.6
Term ended March 2006	293,846		36,996		39,717	

	Net income		Net income per share
	¥million	%	¥
Interim term ended September 2006	11,309	8.3	32.89
Interim term ended September 2005	10,438	11.9	30.09
Term ended March 2006	24,482		70.40

Notes: 1. Average number of shares during accounting term: Interim term ended September 2006: 343,891,676
Interim term ended September 2005: 346,966,153, Term ended March 2006: 346,050,680

2. Changes to accounting policies: No

3. Percentage figures under net sales, operating income, ordinary income and net income represent increases (decreases) relative to the previous accounting term.

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥million	¥million	%	¥
Interim term ended September 2006	378,306	235,236	62.2	685.34
Interim term ended September 2005	348,863	214,761	61.6	621.15
Term ended March 2006	376,416	232,181	61.7	674.08

Notes: 1. Number of shares issued at end of term: September 30, 2006: 343,239,372 September 30, 2005: 345,748,752 March 31, 2006: 344,265,964

2. Treasury stock at end of accounting term: September 30, 2006: 14,373,046 September 30, 2005: 11,863,666 March 31, 2006: 13,346,454

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

	Net sales	Ordinary income	Net income
	¥million	¥million	¥million
Overall term	303,000	33,500	22,000

(Reference) Projected net income per share (Overall term): ¥ 64.10

3. Dividends

· Cash dividends

	Dividend per share (¥)		
	End of Interim term	End of term	Annual
Term ended March 2006	8.00	8.00	16.00
Term ended March 2007 (Results)	8.00	-	16.00
Term ended March 2007 (Forecasts)	-	8.00	

Note: The above forecasts were compiled on the basis of information available as of the date of publication.

Actual results may vary from the forecasts due to a variety of factors.

Please see interim consolidated financial result on pages 7 to 8 for the performance forecasts.

Interim Balance Sheets

	Interim term ended September 30, 2005	Interim term ended September 30, 2006	B/S for term ended March 31, 2006
Item	¥million	¥million	¥million
(Assets)			
Current assets			
Cash and deposits	23,401	16,089	15,648
Notes receivable	4,053	4,634	3,757
Accounts receivable	74,103	80,851	78,174
Marketable securities	1,027	1,506	1,536
Inventories	29,047	33,717	31,885
Deferred tax assets	2,630	2,406	2,632
Others	16,834	21,043	18,254
Allowance for doubtful receivables	(156)	(74)	(92)
Total current assets	150,941	160,173	151,797
Fixed assets			
Tangible fixed assets			
Buildings	25,931	28,081	26,869
Machinery and equipment	36,850	42,574	41,154
Land	15,500	17,477	17,404
Others	15,033	11,230	13,989
Total tangible fixed assets	93,316	99,364	99,417
Intangible fixed assets	1,061	1,014	1,046
Investments and other assets			
Investments in securities	89,086	97,749	105,448
Long-term loans receivable	10,376	12,668	12,164
Others	6,674	8,037	7,664
Allowance for doubtful receivables	(1,660)	(180)	(191)
Allowance for investment loss	(931)	(521)	(931)
Total investments and other assets	103,545	117,753	124,154
Total fixed assets	197,922	218,132	224,618
Total Assets	348,863	378,306	376,416

Kaneka Corporation (Non-consolidated)

	Interim term ended September 30, 2005	Interim term ended September 30, 2006	B/S for term ended March 31, 2006
Item	¥million	¥million	¥million
(Liabilities)			
Current liabilities			
Notes payable	1,026	464	674
Accounts payable	36,692	44,253	38,224
Short-term borrowings	12,539	17,519	18,811
Account liabilities	18,958	20,032	19,550
Accrued corporate taxes	6,613	5,635	8,697
Allowance for loss on debt guarantees	664	155	-
Others	5,457	5,435	5,463
Total current liabilities	81,952	93,495	91,422
Fixed liabilities			
Bonds payable	15,000	15,000	15,000
Long-term debts	14,203	9,516	9,459
Employees' severance and retirement benefits	16,084	15,102	15,724
Retirement benefits for directors and statutory auditors	638	628	704
Deferred tax liabilities (current)	3,655	6,706	9,292
Others	2,568	2,621	2,630
Total fixed liabilities	52,150	49,574	52,811
Total liabilities	134,102	143,069	144,234
(Shareholders' equity)			
Common stock	33,046	-	33,046
Additional paid in capital			
Capital surplus	34,821	-	34,821
Other additional paid-in capital	18	-	19
Total additional paid-in capital	34,840	-	34,841
Retained earnings			
Retained earnings reserve	5,863	-	5,863
Voluntary reserve	105,801	-	105,801
Unappropriated retained earnings	24,027	-	35,305
Total retained earnings	135,693	-	146,970
Net unrealized gain on available-for-sales securities	21,411	-	29,676
Treasury stock	(10,230)	-	(12,353)
Total shareholders' equity	214,761	-	232,181
Total liabilities, shareholders' equity	348,863	-	376,416

Kaneka Corporation (Non-consolidated)

	Interim term ended September 30, 2005	Interim term ended September 30, 2006	B/S for term ended March 31, 2006
Item	¥million	¥million	¥million
(Net assets)			
Shareholders' equity			
Common stock	-	33,046	-
Additional paid-in capital			
Capital surplus	-	34,821	-
Other additional paid-in capital	-	20	-
Total additional paid in capital	-	34,841	-
Retained earnings			
Retained earnings reserve	-	5,863	-
Other retained earnings			
Transfer to reserve for special depreciation	-	634	-
Reserve for dividends	-	1,995	-
Reserve for retirement payments	-	525	-
Funds for technical promotion	-	500	-
Funds for employee welfare	-	300	-
Reserves for replaced property	-	598	-
Reserves for advanced depreciation of replaced property	-	690	-
General reserve	-	118,427	-
Unappropriated retained earnings	-	25,870	-
Total retained earnings	-	155,406	-
Treasury stock	-	(13,405)	-
Total shareholders' equity	-	209,889	-
Valuation and translation adjustments, etc			
Net unrealized gain on available-for-sales securities	-	25,348	-
Loss on deferred hedge	-	(1)	-
Total valuation and translation adjustments	-	25,347	-
Total net assets	-	235,236	-
Total liabilities and net assets	-	378,306	-

Non-consolidated Interim Statements of Income

	Interim term from April 1, 2005 to Sept. 30, 2005	Interim Term from April 1, 2006 to Sept. 30, 2006	Increase (Decrease)	Term from April 1, 2005 to March 31, 2006
Item	¥ million	¥ million	¥ million	¥ million
I. Net sales	142,557	146,429	3,871	293,846
II. Cost of sales	99,259	105,201	5,941	202,267
Gross profit	43,298	41,228	(2,070)	91,579
III. Selling, general and administrative expenses	27,030	28,219	1,188	54,582
Operating income	16,267	13,008	(3,258)	36,996
IV. Non-operating income	3,490	4,844	1,354	6,126
Interest received	79	108	29	171
Dividends received	2,270	2,685	414	3,372
Gain on sales of marketable securities	266	919	653	663
Others	874	1,131	256	1,919
V. Non-operating expenses	1,601	1,524	(76)	3,405
Interest and discounts paid	387	359	(27)	725
Others	1,214	1,165	(48)	2,680
Ordinary income	18,156	16,328	(1,828)	39,717
VI. Extraordinary gain	—	1,033	1,033	—
Income on sale of subsidiaries' stocks	—	1,033	1,033	—
VII. Extraordinary loss	2,403	—	(2,403)	2,403
Environmental expenditures	2,403	—	(2,403)	2,403
Income before income taxes	15,753	17,362	1,608	37,314
Corporate taxes, local taxes and business taxes	6,370	5,450	(920)	13,910
Income taxes deferred	(1,054)	602	1,657	(1,077)
Net profit	10,438	11,309	870	24,482
Balance carried forward from the previous term	13,589	—	—	13,589
Interim dividends paid	—	—	—	2,765
Unappropriated net income at the end of term	24,027	—	—	35,305

Non-consolidated Interim Statement of Changes in Shareholders' Equity

Current interim accounting period (April 1, 2006 to September 30, 2006)

(Unit: million yen)

	Shareholders' equity									
	Common stock	Additional paid-in capital			Retained earnings reserve	Retained earnings				
		Capital surplus	Other additional paid-in capital	Total additional paid-in capital		Other retained earnings				
						Reserve for special depreciation	Reserve for dividends	Reserve for retirement payment	Funds for technical promotion	Funds for employee welfare
Balance as of March 31, 2006	33,046	34,821	19	34,841	5,863	701	1,995	525	500	300
Changes during the interim accounting period										
Transfer to reserve for special depreciation (Note)						276				
Reversal of reserve for special depreciation (Note)						(343)				
Reversal of reserve for advanced depreciation of replaced property (Note)										
Transfer to general reserve (Note)										
Payment of dividends (Note)										
Payment of bonuses to directors and statutory auditors (Note)										
Interim net income										
Acquisition of treasury stock										
Disposal of treasury stock			0	0						
Changes (net amount) of items other than shareholders' equity during the interim accounting period										
Total change during the interim accounting period	-	-	0	0	-	(67)	-	-	-	-
Balance as of September 30, 2006	33,046	34,821	20	34,841	5,863	634	1,995	525	500	300

	Shareholders' equity							Valuation and translation adjustents, etc.			Total net assets
	Retained earnings					Treasury stock	Total shareholder's equity	Net unrealized gain on available-for-sales securities	Loss on deferred hedge	Total valuation and translation adjustments	
	Other retained earnings				Total retained earnings						
	Reserves for replaced property	Reserves for advanced depreciation of replaced property	General reserve	Unappropriated retained earnings							
Balance as of March 31, 2006	598	753	100,427	35,305	146,970	(12,353)	202,505	29,676	-	29,676	232,181
Changes during the interim accounting period											
Transfer to reserve for special depreciation (Note)				(276)	-		-				-
Reversal of reserve for special depreciation (Note)				343	-		-				-
Reversal of reserve for advanced depreciation of replaced property (Note)		(63)		63	-		-				-
Transfer to general reserve (Note)			18,000	(18,000)	-		-				-
Payment of dividends (Note)				(2,754)	(2,754)		(2,754)				(2,754)
Payment of bonuses to directors and statutory auditors (Note)				(120)	(120)		(120)				(120)
Interim net income				11,309	11,309		11,309				11,309
Acquisition of treasury stock						(1,053)	(1,053)				(1,053)
Disposal of treasury stock						2	2				2
Changes (net amount) of items other than shareholders' equity during the interim accounting period								(4,327)	(1)	(4,328)	(4,328)
Total change during the interim accounting period	-	(63)	18,000	(9,434)	8,435	(1,051)	7,384	(4,327)	(1)	(4,328)	3,055
Balance as of September 30, 2006	598	690	118,427	25,870	155,406	(13,405)	209,889	25,348	(1)	25,347	235,236

* The figures includes profit distributions decided at the general shareholders' meeting held in June 2006.

Notes to Non-consolidated Interim Financial Statements

1. Valuation standards and methods of Assets:

A. 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 net assets. 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.

B. Derivatives

Market value method

C. 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.

2. 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.

3. 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. Allowance for loss on debt guarantees

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

D. 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 interim term.

E. 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 interim term in accordance with internal rules.

4. 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.

5. 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.

6. Additional note regarding preparation of interim statements

Consumption taxes are not included in accounting treatments.

Changes to important items forming the basis of interim statements

(Accounting Standards for Presentation of Net Assets in the Balance Sheet)

From this interim accounting period, the "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No.5, December 9, 2005) and "Guidance on Accounting Standards for the Presentation of Net Assets in the Balance Sheet and Implementation" (ASBJ Guidance No.8, December 9, 2005) are being applied. The amount corresponding to the figure for the conventional total assets was 235,237 million yen.

Notes:**(Interim Balance Sheet)**

	Interim term ended September 30, 2005	Interim term ended September 30, 2006	Term ended March 31, 2006
1. Less accumulated depreciation of tangible fixed assets	¥296,392 million	¥305,358 million	¥300,715 million
2. Assets subject to lien Marketable securities	¥2,073 million	¥620 million	¥650 million
3. Contingent liabilities			
Liabilities for guarantees	¥1,925 million	¥2,279 million	¥2,676 million
Letter of awareness	¥486 million	¥1,850 million	¥1,173 million

(Securities)

The stock of subsidiaries and affiliates with market value

Item	Interim term ended September 30, 2005			Interim term ended September 30, 2006			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)	Amount on balance sheet (¥million)	Market Value (¥million)	Difference (¥million)
The stock of subsidiaries	1,820	4,423	2,602	-	-	-	1,820	3,955	2,134
The stock of affiliates	-	-	-	-	-	-	-	-	-
Total	1,820	4,423	2,602	-	-	-	1,820	3,955	2,134

(Statement of Changes in Shareholders' Equity)

Interim term from April 1, 2006 to September 30, 2006

Items concerning the type and number of treasury stocks

(Units: shares)

Type of shares	Number of shares at the end of the previous fiscal year	Increase in number of shares during this interim term	Decrease in number of shares during this interim term	Number of shares at the end of this interim term
Common stock	13,346,454	1,028,774	2,182	14,373,046

(Note) The increase in common stock shares was mainly the result of market buying and the decrease was the result of selling odd lot shares responding to the demand to further buy shares.

Sales by Business Sector

Business Sector	Interim term from April 1, 2005 to September 30, 2005		Interim term from April 1, 2006 to September 30, 2006		Increase (Decrease)		Term from April 1, 2005 to March 31, 2006	
	Amount	Composition ratio	Amount	Composition ratio	Amount	Increase (Decrease) ratio	Amount	Composition ratio
	¥million	%	¥million	%	¥million	%	¥million	%
Chemicals	32,909	23.1	34,897	23.9	1,988	6.0	68,835	23.4
Functional Plastics	14,722	10.3	16,656	11.4	1,933	13.1	30,231	10.3
Expandable Plastics and Products	17,693	12.4	18,921	12.9	1,228	6.9	35,466	12.1
Foodstuffs Products	25,026	17.5	24,474	16.7	(551)	(2.2)	50,579	17.2
Life Science Products	18,906	13.3	17,575	12.0	(1,330)	(7.0)	42,710	14.5
Electronic Products	20,908	14.7	22,743	15.5	1,835	8.8	41,602	14.2
Synthetic Fibers and Others	12,391	8.7	11,159	7.6	(1,231)	(9.9)	24,420	8.3
Total	142,557	100.0	146,429	100.0	3,871	2.7	293,846	100.0
Exports (out of total)	48,720	34.2	48,467	33.1	(253)	(0.5)	103,163	35.1