



February 8, 2007

Consolidated Quarterly Financial Results for the Third Quarter Ended December 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: 3

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

2. Financial and Operating Results for the Third Quarter Ended December 31, 2006 (from April 1, 2006 to December 31, 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	%
Third quarter ended December 2006	355,224	2.7	28,801	(18.3)	29,675	(18.0)	18,592	(10.3)
Third quarter ended December 2005	345,931	5.5	35,268	7.6	36,188	13.6	20,726	10.9
Term ended March 2006 (reference)	464,310		47,606		47,718		28,099	

	Net income per share		Fully diluted net income per share	
	¥		¥	
Third quarter ended December 2006	54.10		—	
Third quarter ended December 2005	59.82		—	
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 results for corresponding period of the previous year.

[Qualitative Information on Progress in Consolidated Business Performance]

The Kaneka Group posted ¥355,224 million (up 2.7% year-on-year) in consolidated sales, ¥28,801 million (down 18.3% year-on-year) in operating income, and ¥29,675 million (down 18% year-on-year) in ordinary income for the third quarter of the current fiscal year (April 1, 2006 to December 31, 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, electronic products, synthetic fibers and other segments, partly due to the hike in the price of petrochemical raw materials in line with the surge in crude oil prices, in addition to the intensified competition in functional foodstuffs and the decrease in sales of newly developed products among pharmaceutical bulks and intermediates, which squeezed earnings.

Following the US Department of Justice, the European Commission had closed their investigation in relation to the impact modifier business recently, clearing the suspects upon Kaneka and its subsidiaries. The federal class action in the United States and the hearing at the Japan Fair Trade Commission are still pending.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥million	¥million	%	¥
Third quarter ended December 2006	468,148	272,494	56.9	777.51
Third quarter ended December 2005	446,345	252,123	56.5	730.49
As of March 31, 2006 (reference)	453,158	260,735	57.5	756.96

(3) Cash flow on a consolidated basis

	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
Third quarter ended December 2006	21,841	(22,143)	(1,420)	24,154
Third quarter ended December 2005	33,033	(17,664)	(14,650)	27,529
Term ended March 2006 (reference)	47,402	(35,105)	(14,198)	25,044

[Qualitative Information on Consolidated financial position]

(1) Status of Assets, Liabilities and Equity

Total assets at the end of the third quarter increased by ¥14,989 million from the end of March 2006 to ¥468,148 million. The closing balance of interest-bearing debts was ¥52,572 million, an increase of ¥6,703 million. Net assets amounted to ¥272,494 million, mainly due to the increase in retained earnings.

(2) Consolidated Cash Flows

Cash flows from operating activities was ¥21,841 million. Cash flows used for investing activities amounted to ¥22,143 million. Cash flows used for financial activities amounted to ¥1,420 million. As a result, the closing balance of cash and cash equivalents at the end of the third quarter decreased by ¥890 million compared to the balance at the end of March 2006, to ¥24,154 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
Overall term	475,000	37,000	19,000

(Reference) Projected net income per share (Overall term): ¥ 55.33

Note: Projected net income per share is calculated in accordance with average number of shares.

Revisions have been made to the forecasts of performance for Overall term announced on October 26, 2006. Please refer to the revisions to the non-consolidated operating performance forecasts, as well as to today's announcement entitled "Notice of Changes to Operating Performance Forecasts for the Full Fiscal Year."

*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 December 31, 2005	As of December 31, 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	24,576	21,901	(2,675)	23,088	(1,187)
Notes and accounts receivable	117,873	121,457	3,583	110,634	10,822
Marketable securities	5,096	2,457	(2,638)	4,193	(1,736)
Inventories	53,152	63,920	10,767	54,553	9,366
Others	10,554	12,026	1,471	13,493	(1,467)
Total current assets	211,254	221,762	10,507	205,964	15,797
II. Fixed assets					
Property, plant and equipment	141,605	159,547	17,941	144,144	15,403
Intangible fixed assets	2,687	2,971	284	2,977	(5)
Investments and other assets	90,798	83,866	(6,931)	100,073	(16,206)
Total fixed assets	235,090	246,385	11,294	247,194	(808)
Total Assets	446,345	468,148	21,802	453,158	14,989
(Liabilities)					
I. Current liabilities					
Notes and accounts payable	68,391	74,264	5,873	60,734	13,530
Short-term borrowings	17,725	20,445	2,719	19,532	913
Others	44,738	39,298	(5,439)	46,322	(7,023)
Total current liabilities	130,855	134,009	3,153	126,588	7,420
II. Fixed liabilities					
Bonds payable	15,000	15,000	—	15,000	—
Long-term debts	11,150	17,127	5,977	11,337	5,789
Employees' severance and retirement benefits	18,773	17,437	(1,336)	18,642	(1,205)
Others	12,846	12,079	(767)	15,188	(3,108)
Total fixed liabilities	57,770	61,643	3,873	60,168	1,475
Total liabilities	188,626	195,653	7,026	186,756	8,896
(Minority interests)					
Minority interests	5,595	—	—	5,667	—
(Shareholders' equity)					
I. Common stock					
Common stock	33,046	—	—	33,046	—
II. Additional paid in capital					
Additional paid in capital	34,855	—	—	34,856	—
III. Retained earnings					
Retained earnings	170,384	—	—	177,758	—
IV. Net unrealized gain on available-for-sales securities					
Net unrealized gain on available-for-sales securities	28,280	—	—	30,236	—
V. Foreign currency translation adjustments					
Foreign currency translation adjustments	(3,370)	—	—	(2,809)	—
VI. Treasury stock					
Treasury stock	(11,074)	—	—	(12,353)	—
Total common stock	252,123	—	—	260,735	—
Total liabilities, minority interests and shareholders' equity	446,345	—	—	453,158	—
(Net assets)					
I. Shareholders' equity					
Common stocks	—	33,046	—	—	—
Additional paid in capital	—	34,857	—	—	—
Retained earnings	—	188,775	—	—	—
Treasury stock	—	(13,975)	—	—	—
Total shareholders' equity	—	242,703	—	—	—
II. Valuation and translation adjustments, etc					
Net unrealized gain on available-for-sales securities	—	24,854	—	—	—
Loss on deferred hedge	—	(1)	—	—	—
Foreign currency translation adjustments	—	(1,103)	—	—	—
Total valuation and translation adjustments	—	23,749	—	—	—
III. Minority interests					
Minority interests	—	6,041	—	—	—
Total net assets	—	272,494	—	—	—
Total liabilities and net assets	—	468,148	—	—	—

2. Quarterly Consolidated Statement of Income (summary)

	Term from April 1, 2005 to December 31, 2005	Term from April 1, 2006 to December 31, 2006	Increase (Decrease)	Term from April 1, 2005 to March 31, 2006 (Reference)
Item	¥million	¥million	¥million	¥million
I. Net sales	345,931	355,224	9,293	464,310
II. Cost of sales	244,824	256,749	11,925	328,508
Gross profit	101,107	98,475	(2,632)	135,801
III. Selling, general and administrative expenses	65,839	69,673	3,834	88,195
Operating income	35,268	28,801	(6,466)	47,606
IV. Non-operating income	3,361	3,774	412	4,087
Interest and dividends income	751	988	236	907
Others	2,609	2,786	176	3,180
V. Non-operating expenses	2,440	2,901	460	3,976
Interest expense	818	1,222	404	1,070
Others	1,622	1,678	55	2,905
Ordinary income	36,188	29,675	(6,513)	47,718
VI. Extraordinary gain	—	2,725	2,725	—
VII. Extraordinary loss	2,451	1,851	(600)	2,451
Income before income taxes	33,736	30,549	(3,186)	45,266
Income taxes (current and deferred)	12,704	11,505	(1,199)	16,738
Minority interests	305	451	145	427
Net income	20,726	18,592	(2,133)	28,099

3. Quarterly Consolidated Statement of Cash Flows (summary)

	Term from April 1, 2005 to December 31, 2005	Term from April 1, 2006 to December 31, 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	33,736	30,549	45,266
Depreciation and amortization	16,267	17,828	22,435
Gain on sales of subsidiaries stock	-	(2,725)	-
Impairment losses	-	1,851	-
Environmental expenditures	2,451	-	2,451
(Increase) decrease in trade receivables	(10,467)	(12,367)	(2,986)
(Increase) decrease in inventories	(4,158)	(8,448)	(5,387)
Increase (decrease) in trade payables	9,616	13,622	1,795
Others	(14,413)	(18,468)	(16,171)
Net cash provided by operating activities	33,033	21,841	47,402
II. Cash flows from investing activities			
Purchases of marketable securities	(1,900)	-	(1,900)
Proceeds from sales of marketable securities	3,877	1,500	3,870
Purchases of property, plant and equipment	(18,367)	(26,124)	(30,236)
Purchases of intangible assets	(469)	(522)	(912)
Purchases of investments in securities	(1,330)	(2,264)	(2,958)
Proceeds from sales and maturities of investments	2,719	2,395	3,364
Others	(2,194)	2,872	(6,332)
Net cash used in investing activities	(17,664)	(22,143)	(35,105)
III. Cash flows from financing activities			
Increase (decrease) in short-term borrowings	(1,213)	6,643	(43)
Proceeds from long-term debt	1,650	6,331	2,550
Repayment of long-term debt	(1,766)	(7,163)	(2,022)
Redemption of debenture	(5,000)	-	(5,000)
Dividends paid	(5,543)	(5,500)	(5,543)
Purchases of treasury stock	(2,678)	(1,625)	(3,958)
Others	(98)	(106)	(180)
Net cash used in financing activities	(14,650)	(1,420)	(14,198)
IV. Effect of exchange rate changes on cash and cash equivalents	151	309	309
V. Net increase (decrease) in cash and cash equivalents	869	(1,414)	(1,591)
VI. Cash and cash equivalents at beginning of term	25,521	25,044	25,521
VII. Effect of changes in consolidated subsidiaries	1,138	523	1,115
VIII. Cash and cash equivalents at the end of term	27,529	24,154	25,044

4. Segment Information

[Segment Information by Business Category]

Term from April 1, 2005 to December 31, 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	65,334	54,437	52,309	80,885	34,446	35,513	23,004	345,931	—	345,931
(2) Intersegment	1,766	234	1,159	6	—	—	5,492	8,660	(8,660)	—
Total	67,100	54,672	53,469	80,892	34,446	35,513	28,496	354,591	(8,660)	345,931
Operating expenses	63,022	46,045	52,559	77,150	21,439	28,830	26,443	315,491	(4,828)	310,663
Operating income	4,077	8,626	909	3,742	13,007	6,683	2,053	39,099	(3,831)	35,268

Term from April 1, 2006 to December 31, 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	68,136	60,156	54,675	83,092	30,209	40,545	18,409	355,224	—	355,224
(2) Intersegment	1,738	238	949	8	—	—	3,778	6,713	(6,713)	—
Total	69,874	60,395	55,625	83,100	30,209	40,545	22,188	361,938	(6,713)	355,224
Operating expenses	66,085	50,369	55,620	80,044	25,568	32,229	19,625	329,542	(3,119)	326,423
Operating income	3,788	10,025	4	3,056	4,641	8,316	2,562	32,395	(3,594)	28,801

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 December 31, 2005

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. International Sales	48,386	36,293	31,859	6,866	123,405
II. Consolidated sales					345,931
III. The ratio of sales to consolidated sales (%)	14.0	10.5	9.2	2.0	35.7

Term from April 1, 2006 to December 31, 2006

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. International Sales	50,381	31,500	35,847	8,083	125,812
II. Consolidated sales					355,224
III. The ratio of sales to consolidated sales (%)	14.2	8.8	10.1	2.3	35.4

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

(Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I. International 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