

Quarterly Financial Results for the Third Quarter, Ended December 2007



February 8, 2008

Name of Listed Company: **Kaneka Corporation** Stock Exchanges Listed: Tokyo, Osaka, Nagoya (First Sections)

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

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

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

1. Consolidated Business Performance for the Third Quarter, Ended December 31, 2007

(from April 1, 2007, to December 31, 2007)

(1) Consolidated business performance

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net Income	
	¥million	%	¥million	%	¥million	%	¥million	%
Apr. - Dec. 2007	381,407	7.4	29,541	2.6	29,346	(1.1)	16,985	(8.6)
Apr. - Dec. 2006	355,224	2.7	28,801	(18.3)	29,675	(18.0)	18,592	(10.3)
Apr.2006 - Mar. 2007	473,170	—	36,666	—	36,939	—	18,363	—

	Net income per share	Fully diluted net income per share
Apr. - Dec. 2007	¥ 49.70	¥ 49.70
Apr. - Dec. 2006	54.10	—
Apr.2006 - Mar. 2007	53.48	—

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
Dec. 31,2007	¥million 470,828	¥million 275,967	57.3 %	¥ 790.12
Dec. 31,2006	468,148	272,494	56.9	777.51
Mar. 31, 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
Apr. - Dec. 2007	¥million 24,741	¥million (25,965)	¥million (2,577)	¥million 18,556
Apr. - Dec. 2006	21,841	(22,143)	(1,420)	24,154
Apr.2006 - Mar. 2007	32,742	(33,894)	(2,081)	22,635

2. Dividends

	Interim cash dividend per share	Year-end cash dividend per share	Annual cash dividend per share
Apr.2006 - Mar. 2007	¥ 8.00	¥ 8.00	¥ 16.00
Apr.2007 - Mar. 2008	8.00		16.00
Apr.2007 - Mar. 2008(forecast)		8.00	

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

(% indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	¥million	%	¥million	%	¥million	%	¥million	%	¥
Overall term	503,000	6.3	35,500	(3.2)	34,500	(6.6)	18,500	0.7	54.16

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

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

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

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. Please note that the company announced revisions to its operating result forecasts on October 25, 2007. For cautionary items used in operating results forecasts, please refer to the section "3.

Forecast for Consolidated Business Performance " under "Overview of Financial Statements" on page 3.

Overview of Financial Statements

1. Consolidated Business Performance

During the third quarter (from April 1, 2007, to December 31, 2007), the Kaneka Group posted higher consolidated net sales, of ¥381,407 million (up 7.4% year on year), and operating income, of ¥29,541 million (up 2.6% year on year). Ordinary income was ¥29,346 million (down 1.1% year on year).

The Company posted year-on-year sales increases in all segments except life sciences.

Operating income rose year on year in the 'chemicals', 'expandable plastics and products' and 'synthetic fibers and others' segments. However, operating income declined in the 'functional plastics', 'foodstuffs products', 'life sciences products' and 'electronic products' segments, owing to such factors as higher raw materials prices and sluggish demand.

2. Consolidated Financial Position

(1) Status of Assets, Liabilities and Equity

Total assets were ¥470,828 million on December 31, 2007, up ¥3,718 million from March 31, 2007.

Interest-bearing debts totaled ¥56,290 million, an increase of ¥3,827 million. Net assets amounted to ¥275,967 million, up ¥4,687 million, mainly due to the increase in retained earnings.

(2) Consolidated Cash Flows

Net cash provided by operating activities during the third quarter (from April 1, 2007, to December 31, 2007) was ¥24,741 million, while net cash used in investing activities amounted to ¥25,965 million. Net cash used in financing activities was ¥2,577 million. As a result, cash and cash equivalents on December 31, 2007, totaled ¥18,556 million, down ¥4,078 million from March 31, 2007.

3. Forecast for Consolidated Business Performance

During the third quarter, consolidated net sales and operating income both increased year on year, expanding in line with expectations.

However, entering the fourth quarter rapid changes in the market environment resulted from the growing sub-prime loan issue. This situation has the potential to result in lackluster demand in the Kaneka Group's operating segments, cause foreign exchange fluctuations and prompt additional hikes in raw material prices. Consequently, on October 25, 2007, the Company revised its forecast for full-term business results, as follows.

Revisions to Forecast for Consolidated Business Results in the Term Ending March 31, 2008

(Unit: ¥million)

	Net sales	Operating income	Ordinary income	Net income
Previous forecast (A)	510,000	40,000	39,000	22,500
Revised forecast (B)	503,000	35,500	34,500	18,500
Change (B –A)	(7,000)	(4,500)	(4,500)	(4,000)
Rate of change	(1.4%)	(11.3%)	(11.5%)	(17.8%)
Results for previous term (term ended March 31, 2007)	473,170	36,666	36,939	18,363

Reference: Overview of Non-Consolidated Operating Performance

(Unit: ¥million)

	Net sales	Operating income	Ordinary income	Net income
Previous forecast (A)	315,000	30,000	32,000	18,000
Revised forecast (B)	313,000	25,000	27,000	15,000
Change (B –A)	(2,000)	(5,000)	(5,000)	(3,000)
Rate of change	(0.6%)	(16.7%)	(15.6%)	(16.7%)
Results for previous term (term ended March 31, 2007)	296,411	27,363	31,675	13,306

Note: 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

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 December 31, 2006	As of December 31, 2007	Increase (Decrease) (Compared to December 31, 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	21,901	16,509	(5,391)	(24.6)	20,396	(3,886)	(19.1)
Notes receivable and accounts receivable	121,457	124,719	3,262	2.7	118,401	6,318	5.3
Marketable securities	2,457	2,362	(94)	(3.9)	2,358	4	0.2
Inventories	63,920	73,512	9,592	15.0	65,277	8,235	12.6
Others	12,026	10,968	(1,058)	(8.8)	12,786	(1,818)	(14.2)
Total current assets	221,762	228,072	6,310	2.8	219,219	8,853	4.0
II. Fixed assets							
Tangible fixed assets	159,547	162,330	2,783	1.7	159,403	2,927	1.8
Intangible fixed assets	2,971	2,876	(95)	(3.2)	3,030	(153)	(5.1)
Investments and other assets	83,866	77,548	(6,318)	(7.5)	85,456	(7,907)	(9.3)
Total fixed assets	246,385	242,755	(3,630)	(1.5)	247,890	(5,134)	(2.1)
Total Assets	468,148	470,828	2,680	0.6	467,109	3,718	0.8
(Liabilities)							
I. Current liabilities							
Notes payable and accounts payable	74,264	75,530	1,266	1.7	69,014	6,516	9.4
Short-term borrowings	20,445	24,422	3,977	19.5	20,266	4,156	20.5
Others	39,298	42,939	3,640	9.3	44,699	(1,760)	(3.9)
Total current liabilities	134,009	142,892	8,883	6.6	133,980	8,912	6.7
II. Long-term liabilities							
Bonds payable	15,000	10,000	(5,000)	(33.3)	15,000	(5,000)	(33.3)
Long-term debts	17,127	16,867	(259)	(1.5)	17,196	(328)	(1.9)
Employees' severance and retirement benefits	17,437	17,611	174	1.0	18,217	(606)	(3.3)
Others	12,079	7,488	(4,590)	(38.0)	11,434	(3,945)	(34.5)
Total fixed liabilities	61,643	51,968	(9,675)	(15.7)	61,849	(9,880)	(16.0)
Total liabilities	195,653	194,860	(792)	(0.4)	195,829	(968)	(0.5)
(Net assets)							
I. Shareholders' equity							
Common stocks	33,046	33,046	—	—	33,046	—	—
Additional paid-in capital	34,857	34,857	0	0.0	34,857	0	0.0
Retained earnings	188,775	199,935	11,159	5.9	188,417	11,517	6.1
Treasury stock	(13,975)	(15,478)	(1,503)	—	(14,479)	(999)	—
Total shareholders' equity	242,703	252,360	9,656	4.0	241,842	10,518	4.3
II. Valuation and translation adjustments, etc							
Net unrealized gain on available-for-sales securities	24,854	17,826	(7,027)	(28.3)	24,115	(6,288)	(26.1)
Loss on deferred hedge	(1)	4	5	—	0	4	—
Foreign currency translation adjustments	(1,103)	(621)	482	—	(827)	205	—
Total valuation and translation adjustments	23,749	17,209	(6,539)	(27.5)	23,288	(6,079)	(26.1)
III. Stock acquisition rights							
	—	50	50	—	—	50	—
IV. Minority interests							
	6,041	6,346	304	5.0	6,148	197	3.2
Total net assets	272,494	275,967	3,472	1.3	271,280	4,687	1.7
Total liabilities and net assets	468,148	470,828	2,680	0.6	467,109	3,718	0.8

(2) Quarterly Consolidated Statement of Income (summary)

(Millions of yen, unless otherwise noted)

Account Items	Term from April 1, 2006 to December 31, 2006	Term from April 1, 2007 to December 31, 2007	Increase (Decrease)		Term from April 1, 2006 to March 31, 2007 (Reference)
	Amount	Amount	Amount	Percentage	Amount
I. Net sales	355,224	381,407	26,182	7.4	473,170
II. Cost of sales	256,749	283,105	26,355	10.3	344,519
Gross profit	98,475	98,301	(173)	(0.2)	128,651
III. Selling, general and administrative expenses	69,673	68,760	(913)	(1.3)	91,985
Operating income	28,801	29,541	739	2.6	36,666
IV. Non-operating income	3,774	3,032	(742)	(19.7)	4,482
Interest and dividends income	988	1,432	444	45.0	1,163
Others	2,786	1,599	(1,186)	(42.6)	3,318
V. Non-operating expenses	2,901	3,227	326	11.3	4,209
Interest expense	1,222	1,145	(77)	(6.3)	1,719
Others	1,678	2,082	404	24.1	2,490
Ordinary income	29,675	29,346	(329)	(1.1)	36,939
VI. Extraordinary gain	2,725	—	(2,725)	—	2,725
VII. Extraordinary loss	1,851	628	(1,223)	(66.1)	7,008
Income before income taxes	30,549	28,717	(1,831)	(6.0)	32,656
Tax expense	11,505	11,396	(108)	(0.9)	13,656
Minority interests	451	336	(115)	(25.5)	636
Net income	18,592	16,985	(1,607)	(8.6)	18,363

Quarterly Financial Results for the Third Quarter, Ended December 2007, Kaneka Corporation (4118)

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

(Unit: ¥million)

	Term from April 1, 2006 to December 31, 2006	Term from April 1, 2007 to December 31, 2007	Term from April 1, 2006 to March 31, 2007 (Reference)
Item	Amount	Amount	Amount
I. Cash flows from operating activities			
Net income before income taxes	30,549	28,717	32,656
Depreciation and amortization	17,828	18,423	24,584
Extraordinary gain	(2,725)	—	(2,725)
Extraordinary loss	1,851	628	7,008
(Increase) decrease in trade receivables	(12,367)	(6,099)	(9,219)
(Increase) decrease in inventories	(8,448)	(8,184)	(9,324)
Increase (decrease) in trade payables	13,622	6,450	8,316
Others	(18,468)	(15,195)	(18,553)
Net cash provided by operating activities	21,841	24,741	32,742
II. Cash flows from investing activities			
Proceeds from marketable securities	1,500	—	1,600
Payment for purchase of tangible fixed assets	(26,124)	(24,560)	(34,879)
Payment for purchase of intangible assets	(522)	(441)	(769)
Purchase of investment securities	(2,264)	(2,333)	(4,885)
Proceeds from investment securities	2,395	1,213	2,893
Others	2,872	156	2,146
Net cash used in investing activities	(22,143)	(25,965)	(33,894)
III. Cash flows from financing activities			
Increase in short-term borrowing	6,643	4,763	6,652
Proceeds from long-term debt	6,331	127	6,914
Repayment of long-term debt	(7,163)	(883)	(7,821)
Dividends paid	(5,500)	(5,467)	(5,500)
Purchase of treasury stock	(1,625)	(1,005)	(2,130)
Others	(106)	(111)	(197)
Net cash used in financing activities	(1,420)	(2,577)	(2,081)
IV. Effect of exchange rate changes on cash and cash equivalents	309	(277)	301
V. Net decrease in cash and cash equivalents	(1,414)	(4,078)	(2,932)
VI. Cash and cash equivalents at beginning of term	25,044	22,635	25,044
VII. Effect of changes in consolidated subsidiaries	523	—	523
VIII. Cash and cash equivalents at term end	24,154	18,556	22,635

(4) Segment Information

[Segment Information by Business Category]

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, 2007 to December 31, 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	76,581	63,930	56,803	89,143	26,178	44,885	23,885	381,407	—	381,407
(2) Intersegment	2,142	322	668	8	—	—	3,801	6,943	(6,943)	—
Total	78,723	64,252	57,472	89,152	26,178	44,885	27,686	388,350	(6,943)	381,407
Operating expenses	74,532	54,619	57,120	87,126	22,193	37,116	22,226	354,936	(3,070)	351,865
Operating income	4,191	9,632	351	2,025	3,985	7,768	5,460	33,414	(3,873)	29,541

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 (loss)	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 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 net sales					355,224
III Ratio of international sales to consolidated net sales(%)	14.2	8.8	10.1	2.3	35.4

Term from April 1, 2007 to December 31, 2007 (Unit: ¥million)

	Asia	North America	Europe	Other Areas	Total
I International sales	59,599	27,551	43,105	11,867	142,123
II Consolidated net sales					381,407
III Ratio of international sales to consolidated net sales(%)	15.7	7.2	11.3	3.1	37.3

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