

3rd Quarter Consolidated Financial Results for the Year Ending March 31, 2017

(All financial information has been prepared in accordance with Generally Accepted Accounting Principles in Japan)

February 2, 2017

Company name	: DAICEL CORPORATION
Stock Exchange on which the shares are listed	: Tokyo Stock Exchange in Japan
Code number	: 4202
URL	: http://www.daicel.com
Representative	: Misao Fudaba, President and CEO
Contact person	: Masahiko Hirokawa, General Manager-Investor Relations & Corporate communications Phone +81-3-6711-8121
Scheduled date for submitting financial statements	: February 13, 2017
Scheduled date for dividend payment	: -
The additional materials of the Financial Results	: Yes
The briefing session of the Financial Results	: Yes (for institutional investors and analysts)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2016 (Amounts are rounded down to the nearest million)
(1) Consolidated Operating Results (% of change from previous year)

	Net Sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Nine months ended Dec. 31, 2016	322,714	△ 5.7	48,118	△ 2.6	49,476	△ 3.0	32,291	△ 4.7
Nine months ended Dec. 31, 2015	342,142	2.7	49,388	25.2	51,024	16.9	33,871	30.2

(Note) Comprehensive income : 41,817 millions of yen (25.7%) for the nine months ended December 31, 2016 and 33,258 millions of yen (△34.6%) for the nine months ended December 31, 2015

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended Dec. 31, 2016	93.11	-
Nine months ended Dec. 31, 2015	96.52	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Dec. 31, 2016	580,755	389,811	62.1	1,041.73
As of Mar. 31, 2016	560,190	368,720	60.2	966.36

(Note) Shareholder's equity : 360,651 millions of yen as of December 31, 2016 and 337,424 millions of yen as of March 31, 2016

2. Dividends

(Reference data)	Cash dividends per share				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended Mar. 31, 2016	-	13.00	-	13.00	26.00
Year ending Mar. 31, 2017	-	13.00	-	-	-
Year ending Mar. 31, 2017 (Forecast)	-	-	-	13.00	26.00

(Note) Revisions to the latest announced dividend forecast: Not applicable

3. Forecast of consolidated financial results for the Year Ending March 31, 2017

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Net income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Year ending Mar. 31, 2017	425,000	△ 5.5	56,500	△ 12.2	55,500	△ 15.1	36,000	△ 10.7	103.98

(Note) Revisions to the latest announced forecast of consolidated financial results: Not Applicable

4. Others

(1) Changes in significant subsidiaries during the Nine months ended Dec. 31, 2016: Not applicable

(Note) Changes in specified subsidiaries that caused a change in the scope of consolidation

(2) Adoption of specific accounting methods: Not applicable

(3) Changes in accounting principles, procedures, and presentation methods

i Changes due to revisions to accounting standards: Applicable

ii Changes other than (3)-i: Not applicable

iii Changes accounting estimate : Not applicable

iv Retrospective restatement : Not applicable

(4) Number of shares issued (common share)

i Number of shares issued at the end of each period (including treasury stocks)	As of Dec. 31, 2016	349,942,682 shares	As of Mar. 31, 2016	364,942,682 shares
ii Number of treasury stocks at the end of each period	As of Dec. 31, 2016	3,737,352 shares	As of Mar. 31, 2016	15,770,285 shares
iii Average number of shares during the each period (Cumulative from the beginning of the fiscal year)	Nine months ended Dec. 31, 2016	346,809,562 shares	Nine months ended Dec. 31, 2015	350,937,641 shares

※Implementation status of quarterly review procedures

This Financial Results report for the 3rd quarter was exempt from quarterly review procedures which was based on Financial Instruments and Exchange Law of Japan. As of the 3rd quarter disclosing, quarterly review procedures for the quarterly financial statements are in progress.

※Explanations or other special matters to appropriate use of the forecast of consolidated financial results

The forecast of consolidated financial results 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.

5. Qualitative Information on FY2016 3rd Quarter Consolidated Financial Results

(1) Explanation about Operating Results

Looking at world trends during the consolidated cumulative third quarter of FY2016 (nine months ended December 31, 2016), while China saw a period of economic slowdown, the economy remained on a gradual recovery trend as a whole. The Japanese economy stayed on a moderate recovery track, despite some weakness. However, the situation did not allow optimism due to changes in the foreign exchange environment, increasing uncertainty in overseas trends and other factors. Amid such circumstances, the Group sales for the nine months under review amounted to ¥322.714 billion (down 5.7% year-on-year). Operating income fell to ¥48.118 billion (down 2.6% year-on-year), ordinary income was ¥49.476 billion (down 3.0% year-on-year), and net income attributable to owners of the parent came to ¥32.291 billion (down 4.7% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Cellulose acetate recorded a decline in sales. Although LCD film application stayed steady, decreased demand for other applications and unfavorable foreign exchange rates and other factors exerted negative impacts.

As for acetate tow for cigarette filters, amid slack demand worldwide, sales decreased due to unfavorable foreign exchange rates and other factors, despite our efforts in strengthening relationships with main customers and finding new customers. Consequently, overall segment sales amounted to ¥65.222 billion (down 19.5% year-on-year). Operating income fell to ¥17.077 billion (down 27.3% year-on-year), due to unfavorable foreign exchange rates, an increase in depreciation costs and other factors.

[Organic Chemicals]

Sales of acetic acid, our key product, decreased due to unfavorable foreign exchange rates and sluggish market conditions, although the sales volume increased as the biennial periodical maintenance of our Aboshi Plant was not implemented during the period under review.

Sales of organic chemicals also fell, adversely affected by unfavorable foreign exchange rates, the impact of falling crude oil prices on selling prices and other factors, despite an increase in the sales volume of electronic materials and other applications.

Performance chemicals posted a slight increase in sales revenue thanks to solid demand for some products in the electronic materials, cosmetics/healthcare and other markets, despite the effect of unfavorable foreign exchange rates.

Sales by the chiral separation business, such as optical resolution columns, also decreased due to unfavorable foreign exchange rates and other factors, despite healthy column sales for India and other destinations.

Consequently, overall segment sales amounted to ¥55.318 billion (down 10.6% year-on-year). Operating income came to ¥8.511 billion (up 0.9% year-on-year), due to a decrease in raw material and fuel procurement costs and other factors.

[Plastics]

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) and liquid crystal polymers (LCP), registered growth in the sales quantity buoyed by solid automobile production in China and Southeast Asia, despite deceleration in emerging economies including China and a slowdown in the electronic device market. However, unfavorable foreign exchange rates, the impact of falling raw material and fuel prices on selling prices and other factors pushed down sales.

A sales decline was also recorded by the plastic compound business centering on ABS resins and engineering plastic alloy resins, due primarily to unfavorable foreign exchange rates and the impact of falling crude oil prices on selling prices, despite an increase in the sales volume.

As for the plastic processing business, including sheets, molded containers and films, sales decreased due to a decline in sales of sheets and other products.

Consequently, overall segment sales amounted to ¥117.152 billion (down 5.5% year-on-year). Operating income rose to ¥16.704 billion (up 9.8% year-on-year), supported by an increase in sales volume, a decrease in raw material and fuel procurement costs, profit improvement achieved by each company and other factors.

[Pyrotechnic Devices]

The automobile airbag inflator (gas-generating device) and other automobile safety parts business achieved growth in sales thanks to an increase in the sales volume of inflators and other factors, despite unfavorable exchange rates.

The aerospace and defense businesses, including items such as gunpowder, missile components and pilot emergency-escape systems, saw a decline in sales.

Consequently, overall segment sales amounted to ¥80.498 billion (up 14.1% year-on-year). Operating income rose to ¥15.165 billion (up 48.7% year-on-year) due to an increase in sales volume and other factors.

[Other Businesses]

In the membrane business, including membrane modules for water treatment, sales decreased, as in the previous year, sales revenue increased due partly to frontloaded product releases in the medical sector.

Meanwhile, other businesses including the logistics business posted declines in sales.

Consequently, overall segment sales amounted to ¥4.522 billion (down 3.7% year-on-year). Operating income was ¥508 million (against an operating loss of ¥46 million in the same period of the previous year).

(2) Explanation of Financial Position

Changes in assets, liabilities and equity

Total assets amounted to ¥580.755 billion, representing an increase of ¥20.564 billion measured against the end of the previous consolidated fiscal year-end, or March 31, 2016, due primarily to increase in notes and accounts receivable, and property, plant and equipment.

Total liabilities amounted to ¥190.944 billion, representing a decrease of ¥525 million from March 31, 2016, due primarily to decreases in notes and accounts payable.

Total net assets were ¥389.811 billion. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥360.651 billion. The shareholders' equity ratio was 62.1%.

6. Matters concerning summary information (Notes)

(1) Transfer of major subsidiaries

There were no applicable subsidiary transfers.

(2) Change(s) in accounting policy (policies), accounting estimates and retrospective restatements for consolidated financial statements

(Change in accounting policy)

(Application of Practical Solution on a change in depreciation method due to Tax Reform 2016)

In conjunction with the revision of the Corporation Tax Act, the Company has applied the "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force (PITF) Solution No. 32, June 17, 2016), effective from the first quarter under review, and has changed the method for the depreciation of facilities attached to buildings and structures acquired on or after April 1, 2016 from the declining balance method to the straight-line method. This change in accounting policy has minimal impact on the Company's profit/loss for the third quarter under review.

(3) Additional information

(Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has applied the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016), effective from the first quarter under review.

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2016	As of Dec. 31, 2016
Assets		
Current assets		
Cash and deposits	66,040	73,003
Notes and accounts receivable-trade	84,450	93,809
Short-term investment securities	661	420
Inventories	104,886	99,406
Other	20,891	20,093
Allowance for doubtful accounts	(103)	(183)
Total current assets	<u>276,828</u>	<u>286,550</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,947	54,786
Machinery, equipment and vehicles, net	59,430	79,250
Land	27,109	27,147
Construction in progress	36,777	21,537
Other, net	3,311	4,086
Total property, plant and equipment	<u>175,576</u>	<u>186,808</u>
Intangible assets		
Goodwill	3,694	3,051
Other	7,651	7,240
Total Intangible assets	<u>11,346</u>	<u>10,291</u>
Investments and other assets		
Investment securities	73,721	75,626
Other	22,948	21,712
Allowance for doubtful accounts	(231)	(233)
Total investments and other assets	<u>96,439</u>	<u>97,105</u>
Total non-current assets	<u>283,362</u>	<u>294,205</u>
Total assets	<u>560,190</u>	<u>580,755</u>

	As of Mar. 31, 2016	As of Dec. 31, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	50,108	45,365
Short-term loans payable	7,196	8,164
Current portion of long-term loans payable	5,361	5,197
Income taxes payable	6,938	5,122
Provision for repairs	47	2,665
Other	33,014	36,608
Total current liabilities	<u>102,667</u>	<u>103,124</u>
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	28,709	27,446
Provision for directors' retirement benefits	87	85
Provision for repairs	1,246	11
Net defined benefit liability	11,686	11,851
Asset retirement obligation	1,091	1,044
Other	15,980	17,380
Total non-current liabilities	<u>88,802</u>	<u>87,820</u>
Total liabilities	<u>191,469</u>	<u>190,944</u>
Net assets		
Shareholders' equity		
Common stock	36,275	36,275
Capital surplus	31,579	31,899
Retained earnings	242,657	255,555
Treasury stock	(10,388)	(4,024)
Total shareholders' equity	<u>300,123</u>	<u>319,706</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,499	34,569
Deferred gains or losses on hedges	(146)	(44)
Foreign currency translation adjustment	5,885	6,163
Remeasurements of defined benefit plans	62	256
Total accumulated other comprehensive income	<u>37,301</u>	<u>40,945</u>
Non-controlling interests	<u>31,296</u>	<u>29,159</u>
Total net assets	<u>368,720</u>	<u>389,811</u>
Total liabilities and net assets	<u>560,190</u>	<u>580,755</u>

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Nine months ended Dec. 31, 2015	Nine months ended Dec. 31, 2016
Net Sales	342,142	322,714
Cost of sales	240,957	221,918
Gross profit	101,184	100,795
Selling, general and administrative expenses	51,795	52,677
Operating Income	49,388	48,118
Non-operating income		
Interest income	394	242
Dividends income	1,282	1,385
Share of profit of entities accounted for using equity method	852	740
Other	1,050	999
Total non-operating income	3,579	3,367
Non-operating expenses		
Interest expenses	890	706
Foreign exchange loss	414	779
Other	639	523
Total non-operating expenses	1,943	2,009
Ordinary income	51,024	49,476
Extraordinary gain		
Gain on disposal of non-current assets	1,114	5
Gain on sales of investment securities	2,719	2,376
Subsidy income	130	-
Total extraordinary gain	3,963	2,382
Extraordinary loss		
Loss on retirement of non-current assets	2,238	1,590
Loss on reduction of non-current assets	130	-
Total extraordinary loss	2,369	1,590
Profit before income taxes	52,618	50,268
Income Taxes		
Income taxes-current	12,946	12,305
Income taxes for prior periods	-	688
Income taxes-deferred	1,308	(417)
Total income taxes	14,255	12,577
Profit	38,363	37,691
Profit attributable to non-controlling interests	4,491	5,399
Profit attributable to owners of the parent	33,871	32,291

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Nine months ended Dec. 31, 2015	Nine months ended Dec. 31, 2016
Profit	38,363	37,691
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	1,789	3,118
Deferred gains or losses on hedges	60	211
Foreign currency translation adjustment	(6,684)	818
Remeasurements of defined benefit plans	107	241
Share of other comprehensive income (loss) of entities accounted for using equity method	(377)	(263)
Total other comprehensive income (loss)	(5,104)	4,126
Comprehensive income	33,258	41,817
Comprehensive income attributable to		
owners of the parent	30,474	35,935
non-controlling interests	2,784	5,882

8. Segment information

Nine months ended Dec. 31, 2015

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	81,052	61,884	123,931	70,575	4,697	342,142	-	342,142
Intersegment sales	1,730	10,731	12	-	7,468	19,943	(19,943)	-
Total	82,783	72,615	123,944	70,575	12,166	362,085	(19,943)	342,142
Operating income	23,492	8,436	15,208	10,200	(46)	57,291	(7,902)	49,388

Nine months ended Dec. 31, 2016

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	65,222	55,318	117,152	80,498	4,522	322,714	-	322,714
Intersegment sales	1,381	8,268	11	-	7,820	17,482	(17,482)	-
Total	66,604	63,586	117,164	80,498	12,343	340,197	(17,482)	322,714
Operating income	17,077	8,511	16,704	15,165	508	57,966	(9,848)	48,118