

2nd Quarter Consolidated Financial Results for the Year Ending March 31, 2019

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

November 1, 2018

Company name	: DAICEL CORPORATION
Stock Exchange on which the shares are listed	: Tokyo Stock Exchange in Japan
Code number	: 4202
URL	: https://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	: November 12, 2018
Scheduled date for dividend payment	: December 4, 2018
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 Six Months Ended September 30, 2018 (Amounts are rounded down to the nearest million)

(1) Consolidated Operating Results (% of change from previous year)

	Net Sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Six months ended Sep. 30, 2018	235,242	2.7	29,515	(6.3)	32,244	(2.7)	22,394	14.4
Six months ended Sep. 30, 2017	229,035	9.2	31,495	2.9	33,148	12.3	19,581	2.7

(Note) Comprehensive income: 29,431 millions of yen [0.2%] for the six months ended September 30, 2018 and 29,364 millions of yen [245.8%] for the six months ended September 30, 2017

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2018	66.23	-
Six months ended Sep. 30, 2017	56.56	-

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Sep. 30, 2018	646,686	429,169	61.8	1,193.13
As of Mar. 31, 2018	640,284	413,541	60.1	1,136.32

(Reference) Shareholders' equity: 399,836 millions of yen as of September 30, 2018 and 384,876 millions of yen as of March 31, 2018

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, 2018	-	16.00	-	16.00	32.00
Year ending Mar. 31, 2019	-	16.00	-	-	-
Year ending Mar. 31, 2019 (Forecast)	-	-	-	16.00	32.00

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

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2019

(% of change from same period of previous year)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Year ending Mar. 31, 2019	479,000	3.5	54,000	(8.4)	58,000	(5.1)	40,000	7.9	119.36

(Note) Revisions to the latest announced forecast of consolidated financial results: Applicable

*Notes

- (1) Changes in significant subsidiaries during the six months ended Sep. 30, 2018: Not applicable
(Note) Changes in specified subsidiaries that caused a change in the scope of consolidation
- (2) Adoption of specific accounting methods for presenting quarterly financial statements: Not applicable
- (3) Changes in accounting policies, changes in accounting estimates and restatements
 - i Changes in accounting policies due to revisions of accounting standards: Not applicable
 - ii Changes in accounting policies other than (3)-i: Not applicable
 - iii Changes in accounting estimates: Not applicable
 - iv Retrospective restatements: Not applicable

(4) Number of shares issued (common share)

i Number of shares issued at the end of each period (including treasury shares)	As of Sep. 30, 2018	349,942,682 shares	As of Mar. 31, 2018	349,942,682 shares
ii Number of treasury shares at the end of each period	As of Sep. 30, 2018	14,825,621 shares	As of Mar. 31, 2018	11,239,478 shares
iii Average number of shares during the each period (Cumulative from the beginning of the fiscal year)	Six months ended Sep. 30, 2018	338,138,873 shares	Six months ended Sep. 30, 2017	346,196,068 shares

*This Quarter Consolidated Financial Results report is not subject to quarterly review.

*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.

4. Overview of the operating results

(1) Overview of the operating results for the period under review

Looking at the world trends during the consolidated second quarter of the fiscal year ending March 2019 (six months ended September 30, 2018), the global economy continued to recover, mainly in the United States, while the Japanese economy remained on a moderate recovery track. On the other hand, the outlook remained uncertain due to the deepening trade friction between the United States and China.

Amid such circumstances, the Group recorded net sales of ¥235,242 million (up 2.7% year-on-year), operating income of ¥29,515 million (down 6.3% year-on-year), ordinary income of ¥32,244 million yen (down 2.7% year-on-year), and quarterly net income attributable to shareholders of the parent company of ¥22,394 million (up 14.4% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Sales revenue of cellulose acetate remained flat due to an increase in other applications, although sales volume for LCD film applications decreased slightly.

As for acetate tow for cigarette filters, amid the worldwide glut, sales revenue posted a decline due primarily to the softening of the market and a decrease in sales volume due to shipment of some products ahead of schedule and other factors, despite our efforts in strengthening relationships with main customers and finding new customers.

Consequently, sales revenue in this segment was ¥42,043 million (down 6.7% year-on-year) and operating income was ¥8,575 million (down 22.2% year-on-year) due mainly to factors such as rising raw material and fuel prices and the softening of the market on acetate tow for cigarette filters.

[Organic Chemicals]

Sales revenue of acetic acid, our key product, increased due to strong demand and an upward trend in the market.

Sales revenue of organic chemicals also increased due to an increase in sales volume and a rise in market prices.

Sales revenue of performance chemicals increased due to recovery from the fire at the peracetic acid plant in the previous fiscal year, revisions to selling prices due to rising raw material and fuel prices, and strong demand for the products in cosmetics / healthcare.

Sales revenue of chiral separation businesses, such as optical resolution separation columns, increased due to higher sales of columns and chiral stationary phases (CSPs) and growth of new businesses in India.

Consequently, sales revenue in this segment was ¥45,133 million (up 15.4% year-on-year), and operating income was ¥7,088 million (up 95.5% year-on-year), due mainly to factors such as an increase in sales volume and revisions to selling prices due to rising raw material and fuel prices.

[Plastics]

Sales revenue of engineering plastics, such as polyacetal(POM), polybutylene terephthalate (PBT), and liquid crystal polymers (LCP), increased due to greater demand for automobile parts and progress in new parts adoption, as well as price revisions accompanying higher raw material and fuel prices.

Sales revenue in the plastic compound business, centering on ABS resin and engineering plastic alloy resin, increased due to revisions to selling prices due to rising raw material and fuel prices.

Sales revenue in the plastic processing business, such as sheets, molded containers and films, increased mainly due to an increase in film sales.

Consequently, sales revenue in this segment was ¥89,570 million (up 7.0% year-on-year), and operating income was ¥11,895 million (down 2.1% year-on-year), due mainly to factors such as rising raw material and fuel prices, despite an increase in sales volume.

[Pyrotechnic Devices]

In the automobile airbag inflator (gas-generating device) and other automobile safety parts business, sales volume of inflators increased, but sales revenue declined slightly due mainly to changes in sales product mix.

Sales revenue of the aerospace & defense business, which cover defense-related products, decreased due to a decrease in the volume of some products procured by the Ministry of Defense.

Consequently, sales revenue in this segment was ¥55,526million (down 4.4% year-on-year) and operating income was ¥9,821 million (down 15.7% year-on-year) due to changes in the product mix and other factors.

[Other Businesses]

Sales revenue of membrane business, including membrane modules for water treatment, remained flat.

Sales revenue in other businesses including warehousing business decreased.

Consequently, sales revenue in this segment was ¥2,969 million (down 2.2% year-on-year) and operating income was ¥219 million (down 19.2% year-on-year).

(2) Overview of the consolidated financial position for the period under review

Changes in assets, liabilities and equity

Total assets amounted to ¥646,686 million, representing an increase of ¥6,402 million measured against the end of the previous consolidated fiscal year-end, or March 31, 2018, due primarily to increases in inventories and property, plant and equipment despite a decrease in cash and deposits.

Total liabilities amounted to ¥217,517 million, representing a decrease of ¥9,225 million from March 31, 2018, due primarily to a decrease in bonds.

Total net assets were ¥429,169 million. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥399,836 million. The shareholders' equity ratio was 61.8%.

(3) Overview of cash flow for the period under review

Cash flow from operating activities

Cash flow from operating activities during the period under review increased by ¥26,941 million (vs. an increase of ¥29,715 million in the same period last year). The increase in funds was mainly attributable to ¥35,096 million of net profit before income taxes and ¥14,659 million of depreciation. Meanwhile, the main factors for the decrease in funds were an increase of 10,023 million in inventories, and a payment of ¥7,394 million for income taxes.

Cash flow from investment activities

Cash flow from investment activities during the period under review decreased by ¥24,118 million (vs. a decrease of ¥20,623 million in the same period last year). The main factor for the decrease in funds was expenditures of ¥23,525 million for the purchase of property, plant, and equipment.

Cash flow from financing activities

Cash flow from financing activities during the period under review decreased by ¥24,973 million (vs. an increase of ¥17,885 million in the same period last year). The main factors of a decrease in funds were the redemption of bonds for ¥10,000 million, an expenditure of ¥5,419 million in cash dividend payments and ¥3,897 million in dividends paid to non-controlling interests.

As a result of the above, cash and cash equivalents on September 30, 2018 totaled ¥106,708 million.

(4) Forecast of consolidated performance and other future predictions

In view of our performance trend up to the 2nd quarter, as well as a review of market prices of some products for the 3rd quarter onward and others, the Daicel Group has revised its forecast of consolidated business results for the full-year of the FY ending March 2019 from those announced on May 10, 2018, as shown in the following table.

<Forecast of the FY ending March 2019 consolidated performance>

(Unit: Millions of Yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent company	Net income per share (Yen)
Last announcement (A)	478,000	51,000	53,000	37,000	109.24
This announcement (B)	479,000	54,000	58,000	40,000	119.36
Change (B-A)	1,000	3,000	5,000	3,000	
% of change	0.2	5.9	9.4	8.1	
(Reference data) Year ended Mar. 31, 2018	462,956	58,932	61,093	37,062	107.81

* 1. The above business forecast is based on the information that is available at the time of writing. There are many uncertain factors inherent in projections, and there might be cases in which actual results materially differ from projections of this material.

* 2. For forecasts of this announcement, we assume an exchange rate (US\$/¥) of ¥110, (Asian spot) methanol price of US\$360/ton, Dubai crude oil price of US\$70/bbl. and domestic naphtha price of ¥52,000/kl from the second half of the FY ending March 2019.

5. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2018	As of Sep. 30, 2018
Assets		
Current assets		
Cash and deposits	125,358	96,613
Notes and accounts receivable – trade	93,256	94,695
Securities	3,929	11,525
Inventories	109,295	120,838
Other	17,418	18,545
Allowance for doubtful accounts	(44)	(51)
Total current assets	349,214	342,166
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	58,320	60,230
Machinery, equipment and vehicles, net	79,607	78,262
Land	26,754	26,885
Construction in progress	14,053	24,691
Other, net	5,305	5,508
Total property, plant and equipment	184,041	195,578
Intangible assets		
Goodwill	1,894	3,837
Other	6,694	7,154
Total intangible assets	8,589	10,992
Investments and other assets		
Investment securities	76,390	76,556
Other	22,225	21,568
Allowance for doubtful accounts	(174)	(174)
Total investments and other assets	98,440	97,949
Total non-current assets	291,070	304,519
Total assets	640,284	646,686

(Unit: Millions of Yen)

	As of Mar. 31, 2018	As of Sep. 30, 2018
Liabilities		
Current liabilities		
Notes and accounts payable – trade	56,213	54,922
Short-term loans payable	10,117	11,219
Current portion of bonds	10,000	–
Current portion of long-term loans payable	3,733	3,572
Income taxes payable	4,271	5,665
Provision for repairs	37	1,063
Other	33,806	33,221
Total current liabilities	118,181	109,664
Non-current liabilities		
Bonds payable	50,000	50,000
Long-term loans payable	25,884	25,509
Provision for directors' retirement benefits	39	47
Provision for repairs	869	515
Provision for environmental measures	4,000	4,323
Net defined benefit liability	12,279	13,219
Asset retirement obligations	1,238	1,299
Deferred tax liabilities	11,069	10,230
Other	3,180	2,708
Total non-current liabilities	108,561	107,852
Total liabilities	226,742	217,517
Net assets		
Shareholders' equity		
Capital stock	36,275	36,275
Capital surplus	31,642	31,692
Retained earnings	292,104	309,070
Treasury shares	(14,004)	(18,492)
Total shareholders' equity	346,017	358,546
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33,410	34,233
Deferred gains or losses on hedges	58	91
Foreign currency translation adjustment	4,805	6,309
Remeasurements of defined benefit plans	583	656
Total accumulated other comprehensive income	38,858	41,290
Non-controlling interests	28,665	29,332
Total net assets	413,541	429,169
Total liabilities and net assets	640,284	646,686

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2017	Six months ended Sep. 30, 2018
Net sales	229,035	235,242
Cost of sales	159,104	165,580
Gross income	69,931	69,662
Selling, general and administrative expenses	38,436	40,146
Operating income	31,495	29,515
Non-operating income		
Interest income	125	172
Dividend income	770	830
Share of profit of entities accounted for using equity method	516	924
Foreign exchange gains	219	965
Other	1,011	1,171
Total non-operating income	2,644	4,063
Non-operating expenses		
Interest expenses	569	606
Provision for environmental measures	-	298
Other	421	429
Total non-operating expenses	990	1,334
Ordinary income	33,148	32,244
Extraordinary income		
Gain on disposal of non-current assets	2	7
Gain on sales of investment securities	353	2,985
Insurance income	700	1,006
Total extraordinary income	1,055	3,999
Extraordinary losses		
Loss on retirement of non-current assets	698	570
Claim compensation expenses	85	-
Loss on disaster	222	577
Total extraordinary losses	1,007	1,147
Net income before income taxes	33,197	35,096
Income taxes		
Income taxes - current	8,182	9,402
Income taxes - deferred	1,488	(722)
Total income taxes	9,671	8,679
Net income	23,525	26,417
Net income attributable to non-controlling interests	3,944	4,022
Net income attributable to owners of parent	19,581	22,394

(3) Consolidated Statements of Comprehensive Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2017	Six months ended Sep. 30, 2018
Net income	23,525	26,417
Other comprehensive income		
Valuation difference on available-for-sale securities	2,736	826
Deferred gains or losses on hedges	(22)	52
Foreign currency translation adjustment	2,572	2,199
Remeasurements of defined benefit plans, net of tax	294	102
Share of other comprehensive income of entities accounted for using equity method	258	(167)
Total other comprehensive income	5,839	3,014
Comprehensive income	29,364	29,431
Comprehensive income attributable to		
owners of parent	25,054	24,826
non-controlling interests	4,310	4,605

(4) Consolidated Statements of Cash Flows

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2017	Six months ended Sep. 30, 2018
Cash flows from operating activities		
Net income before income taxes	33,197	35,096
Depreciation	15,852	14,659
Amortization of goodwill	474	245
Interest and dividend income	(896)	(1,002)
Interest expenses	569	606
Share of (profit) loss of entities accounted for using equity method	(516)	(924)
Loss (gain) on sales and retirement of non-current assets	696	563
Loss (gain) on sales of investment securities	(353)	(2,985)
Decrease (increase) in notes and accounts receivable – trade	(6,310)	903
Decrease (increase) in inventories	(5,797)	(10,023)
Increase (decrease) in notes and accounts payable – trade	6,559	(3,201)
Other, net	(3,089)	(514)
Subtotal	40,385	33,422
Interest and dividend income received	1,003	1,533
Interest expenses paid	(568)	(620)
Income taxes paid	(11,106)	(7,394)
Net cash provided by (used in) operating activities	29,715	26,941
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,656)	(23,525)
Proceeds from sales of property, plant and equipment	3	9
Purchase of intangible assets	(557)	(1,191)
Purchase of investment securities	(3,162)	(97)
Proceeds from sales and redemption of investment securities	1,115	4,207
Payments for investments in capital of subsidiaries and associates	–	(2,229)
Payments of loans receivable	(211)	–
Collection of loans receivable	4	242
Other, net	(1,158)	(1,534)
Net cash provided by (used in) investing activities	(20,623)	(24,118)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	3,661	695
Proceeds from long-term loans payable	73	218
Repayments of long-term loans payable	(2,402)	(1,891)
Redemption of bonds	–	(10,000)
Proceeds from issuance of bonds	29,849	–
Purchase of treasury shares	(419)	(4,679)
Proceeds from sales of treasury shares	–	0
Cash dividends paid	(5,881)	(5,419)
Dividends paid to non-controlling interests	(6,446)	(3,897)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(549)	–
Net cash provided by (used in) financing activities	17,885	(24,973)
Effect of exchange rate change on cash and cash equivalents	1,107	570
Net increase (decrease) in cash and cash equivalents	28,084	(21,581)
Cash and cash equivalents at beginning of period	96,275	128,290
Cash and cash equivalents at the end of period	124,359	106,708

(5) Additional Information

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other standards have been adopted from the beginning of the first quarter of FY ending March 2019, whereby deferred tax assets are presented under Investments and other assets, while deferred tax liabilities are presented under Non-current liabilities.

6. Segment Information

Six months ended Sep. 30, 2017

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	45,084	39,102	83,719	58,093	3,035	229,035	-	229,035
Intersegment sales	917	8,157	3	-	5,317	14,395	(14,395)	-
Total	46,001	47,259	83,723	58,093	8,353	243,431	(14,395)	229,035
Operating income	11,015	3,626	12,149	11,649	271	38,712	(7,217)	31,495

Six months ended Sep. 30, 2018

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	42,043	45,133	89,570	55,526	2,969	235,242	-	235,242
Intersegment sales	1,508	10,633	9	-	5,564	17,716	(17,716)	-
Total	43,551	55,766	89,579	55,526	8,534	252,959	(17,716)	235,242
Operating income	8,575	7,088	11,895	9,821	219	37,599	(8,083)	29,515