

2nd Quarter Consolidated Financial Results for the Year Ending March 31, 2016

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

November 6, 2015

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	: November 12, 2015
Scheduled date for dividend payment	: December 2, 2015
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, 2015

(Amounts are rounded down to the nearest million)

	Net Sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Six months ended Sep. 30, 2015	226,488	3.6	31,633	24.6	32,684	23.5	21,346	25.9
Six months ended Sep. 30, 2014	218,689	11.0	25,384	44.3	26,468	37.7	16,959	39.7

(Note) Comprehensive income : 14,037 millions of yen (Δ 52.6%) for the Six months ended September 30, 2015 and 29,632 millions of yen (32.8%) for the Six months ended September 30, 2014

	Net income per share	Diluted earnings per share
Six months ended Sep. 30, 2015	Yen 60.76	Yen -
Six months ended Sep. 30, 2014	48.27	-

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholder's equity per total assets	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Sep. 30, 2015	565,274	362,895	58.9	946.95
As of Mar. 31, 2015	565,332	356,177	57.3	922.71

(Note) Shareholder's equity : 332,683 millions of yen as of September 30, 2015 and 324,167 millions of yen as of March 31, 2015

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, 2015	-	8.00	-	13.00	21.00
Year ending Mar. 31, 2016	-	13.00	-	-	-
Year ending Mar. 31, 2015 (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, 2016

(% of change from same period of previous year)

	Net sales		Operating income		Ordinary income		Profit 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, 2016	459,000	3.4	61,000	18.9	63,000	14.4	39,000	24.8	111.01

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

4. Others

(1) Changes in significant subsidiaries during the six months ended Sep. 30, 2015: 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 Sep. 30, 2015	364,942,682 shares	As of Mar. 31, 2015	364,942,682 shares
ii Number of treasury stocks at the end of each period	As of Sep. 30, 2015	13,622,987 shares	As of Mar. 31, 2015	13,622,163 shares
iii Average number of shares during the each period (Cumulative from the beginning of the fiscal year)	Six months ended Sep. 30, 2015	351,320,078 shares	Six months ended Sep. 30, 2014	351,344,745 shares

※Implementation status of quarterly review procedures

This Financial Results report for the 2nd quarter was exempt from quarterly review procedures which was based on Financial Instruments and Exchange Law of Japan.

As of the 2nd 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 FY2015 2nd Quarter Consolidated Financial Results

(1) Explanation about Operating Results

Reviewing the global economic conditions during the six months ended September 30, 2015, while the US economy stayed on a recovery trend and moderate economic recovery continued in Europe, a gradual deceleration was seen in the Chinese economy. Meanwhile, the Japanese economy continued to recover at a slow pace as exemplified by improved corporate earnings and a pick-up in capital investment.

Amid such circumstances, favorable foreign exchange rates and other factors pushed up the Group sales for the six months under review to ¥226.488 billion (up 3.6% year-on-year). Operating income was ¥31.633 billion (up 24.6% year-on-year), ordinary income was ¥32.684 billion (up 23.5% year-on-year), and net income attributable to owners of the parent company rose to ¥21.346 billion (up 25.9% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Sales of cellulose acetate posted growth. Demand decreased for LCD film application, but increased for other applications.

As for acetate tow for cigarette filters, favorable foreign exchange rates and other factors pushed up sales, despite a slowdown in demand worldwide and inventory adjustment in the Chinese market.

Consequently, overall segment sales amounted to ¥53.742 billion (up 11.9% year-on-year). Operating income was ¥15.616 billion (up 22.2% year-on-year).

[Organic Chemicals]

Sales of acetic acid, our key product, decreased as sales quantity declined due to the implementation of the biennial periodical repairs of our Aboshi Plant during the period under review.

Sales of general products such as acetic acid derivatives and solvents also fell. Although the sales quantity of electronic materials remained unchanged, that of paint and other applications posted a decline.

Functional products such as caprolactone derivatives, epoxy compounds and other products posted a slight increase in sales supported by favorable exchange rates and other factors, despite sluggish sales of some products.

Sales of the chiral separation business, such as optical resolution columns, decreased mainly due to the termination of a major spot custom service contract, despite healthy column sales for China and India.

Consequently, overall segment sales amounted to ¥40.953 billion (down 9.0% year-on-year). Operating income also rose to ¥5.777 billion (up 30.0% year-on-year).

[Plastics]

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) and liquid crystal polymers (LCP), registered a slight increase in sales. Favorable foreign exchange rates contributed to the increase, despite the economic slowdown in China, decelerating growth in car production of Japanese automobile manufacturers and weak sales of electronic devices.

Sales growth was also recorded by the resin compound business centering on ABS resins and engineering plastic alloy resins due primarily to overseas sales growth and favorable foreign exchange rates, while domestic sales remained stagnant.

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

Consequently, overall segment sales amounted to ¥83.508 billion (down 0.2% year-on-year). Operating income rose to ¥9.910 billion (up 23.7% year-on-year).

[Pyrotechnic Devices]

The automobile airbag inflator (gas-generating device) and other automobile safety parts business achieved sales growth thanks to an increase in initiator (parts for igniting the inflator) sales quantity, favorable exchange rates and other factors, while inflator sales remained almost unchanged.

Aerospace & defense businesses, which cover items such as gunpowder, missile components, and pilot emergency-escape systems also enjoyed sales growth buoyed by an increase in the quantity of some products procured by the Ministry of Defense.

Consequently, overall segment sales amounted to ¥45.405 billion (up 15.7% year-on-year). Operating income was ¥5.897 billion (up 21.9% year-on-year).

[Others]

In the membrane business, including membrane modules for water treatment, sales declined partly due to weak sales for the sewage sector.

Meanwhile, the warehousing business and other businesses posted growth in sales.

Consequently, overall segment sales amounted to ¥2.879 billion (up 5.3% year-on-year). On the income front, we posted an operating loss of ¥73 million (operating income of ¥38 million in the same period of the previous year).

(2) Qualitative Information Regarding Financial Position

1. Changes in assets, liabilities, and equity

Total assets amounted to ¥565.274 billion, representing a decrease of ¥58 million measured against the end of the previous consolidated fiscal year-end, or March 31, 2015, due primarily to decreases in inventories and investment securities.

Total liabilities amounted to ¥202.379 billion, representing a decrease of ¥6.775 billion from March 31, 2015.

Total net assets were ¥362.895 billion. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥332.683 billion. The shareholders' equity ratio was 58.9%.

2. Situation of cash flow

Cash flow from operating activities

Cash flow from operating activities increased by ¥28.706 billion (vs. an increase of ¥24.604 billion in the same period last year). The increase in funds was mainly attributable to ¥32.993 billion of net income before income taxes and ¥12.213 billion of depreciation and amortization. Meanwhile, the main factors for the decrease in funds were an increase of ¥3.929 billion in accounts receivable and ¥13.633 billion of payment for corporate income taxes.

Cash flow from investment activities

Cash flow from investment activities decreased by ¥13.383 billion (vs. a decrease of ¥14.058 billion in the same period last year). The main factor for the decrease in funds was an expenditure of ¥16.024 billion for the purchase of property, plant, and equipment.

Cash flow from financing activities

Cash flow from financing activities decreased by ¥8.199 billion (vs. a decrease of ¥10.580 billion in the same period last year). The decrease in funds was mainly due to expenditures of ¥4.109 billion for repayment of long-term loans and ¥4.540 billion for dividend payments.

As a result of the above, cash and cash equivalents on September 30, 2015 totaled ¥71.427 billion.

(3) Forecast of consolidated performance and other future predictions

Regarding future global economic conditions, uncertainty is expected to persist due partly to the slowdown in China and other Asian regions, although modest economic recovery is likely to continue in Europe, the United States and Japan.

Under such circumstances, the Daicel Group has been steadily pursuing the basic strategy of its medium-term plan “3D-II.” The strategy consists of new business creation, further strengthening of our core business, expansion and reinforcement of business operations in the global market, enhancement of production infrastructure, and other efforts.

In view of the six months ended September 30, 2015, during which profits exceeded our previously announced forecast, as well as the review of the projected foreign exchange rates and raw material prices for the second half of the current fiscal year, despite the unclear economic outlook, the Daicel Group projects full-year consolidated sales of ¥459.0 billion, operating income of ¥61.0 billion, ordinary income of ¥63.0 billion and net income attributable to owners of the parent company of ¥39.0 billion.

<Forecast of FY 2015 consolidated performance>

(Unit: Billions 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)	467.000	54.000	56.000	35.000	99.62
This announcement (B)	459.000	61.000	63.000	39.000	111.01
Change (B-A)	-8.000	7.000	7.000	4.000	
% of change	-1.7	13.0	12.5	11.4	
(Reference data) Year ended Mar. 31, 2015	443.775	51.303	55.063	31.252	88.95

* The above business outlook 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.

6. Matters concerning summary information (Notes)

(1) Changes in important subsidiaries during the three months ended September 30, 2015

Not applicable

(2) Changes in accounting policy, changes of estimation in accounting and modified restatement

Changes in accounting policy

(Adoption of Accounting Standards for Business Combination)

Effective from the first three months ended June 30, 2015, the Company has adopted the “Accounting Standards for Business Combination” (ASBJ Statement No. 21, issued on September 13, 2013; hereinafter “Business Combination Standards”), “Accounting Standards for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013; hereinafter, “Consolidated Accounting Standards”), “Accounting Standards for Business Divestiture” (ASBJ Statement No. 7, issued on September 13, 2013; hereinafter “Business Divestiture Standards”) and others. Accordingly, the Company’s accounting policies have been changed; the difference arising from a change in the Company’s ownership interest in a subsidiary over which the Company continues to have control is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year during which they are incurred.

In addition, for business combinations to be performed at and after the beginning of the first quarter of the fiscal year under review, a method was changed to recognize an adjustment to the provisional amount arising from the finalization of the tentative accounting treatment relating to the allocation of acquisition cost in the consolidated financial statements for the quarter to which the date of business combination belongs. Furthermore, the Company has changed the presentation of net income and other related items, and the presentation of “minority interests” to “non-controlling interests.” To reflect this change in presentation, a reclassification of accounts has been made to the consolidated financial statements for the six months ended September 30, 2015 and the fiscal year ended March 31, 2015.

The Business Combination Standards and others were adopted in accordance with transitional treatments stipulated in Paragraph 58-2 (4) of the Business Combination Standards, Paragraph 44-5 (4) of Consolidated Accounting Standards and Paragraph 57-4 (4) of the Business Divestiture Standards, and they have been prospectively adopted from the beginning of the first quarter of FY 2015.

These changes have no impact on profit and loss.

7. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2015	As of Sep. 30, 2015
Assets		
Current assets		
Cash and deposits	64,594	69,042
Notes and accounts receivable-trade	83,394	85,109
Short-term investment securities	5,185	3,484
Inventories	107,101	105,667
Other	19,628	21,669
Allowance for doubtful accounts	(115)	(110)
Total current assets	<u>279,788</u>	<u>284,862</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	50,048	48,608
Machinery, equipment and vehicles, net	62,300	62,601
Land	27,793	27,500
Construction in progress	23,604	27,009
Other, net	3,148	3,227
Total property, plant and equipment	<u>166,896</u>	<u>168,947</u>
Intangible assets		
Goodwill	4,919	4,437
Other	8,315	8,045
Total Intangible assets	<u>13,234</u>	<u>12,483</u>
Investments and other assets		
Investment securities	81,662	74,999
Other	23,891	24,112
Allowance for doubtful accounts	(141)	(129)
Total investments and other assets	<u>105,412</u>	<u>98,982</u>
Total non-current assets	<u>285,543</u>	<u>280,412</u>
Total assets	<u>565,332</u>	<u>565,274</u>

	As of Mar. 31, 2015	As of Sep. 30, 2015
Liabilities		
Current liabilities		
Notes and accounts payable-trade	51,690	50,612
Short-term loans payable	13,481	16,782
Current portion of long-term loans payable	8,577	7,167
Income taxes payable	10,467	6,333
Provision for repairs	3,152	870
Other	25,202	28,359
Total current liabilities	<u>112,572</u>	<u>110,125</u>
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	34,896	31,919
Provision for directors' retirement benefits	79	79
Provision for repairs	46	356
Net defined benefit liability	10,609	10,846
Asset retirement obligation	1,093	1,096
Other	19,855	17,955
Total non-current liabilities	<u>96,581</u>	<u>92,254</u>
Total liabilities	<u>209,154</u>	<u>202,379</u>
Net assets		
Shareholders' equity		
Common stock	36,275	36,275
Capital surplus	31,579	31,579
Retained earnings	211,478	228,257
Treasury stock	(6,385)	(6,387)
Total shareholders' equity	<u>272,947</u>	<u>289,725</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	35,014	31,281
Deferred gains or losses on hedges	(88)	(115)
Foreign currency translation adjustment	14,674	10,124
Remeasurements of defined benefit plans	1,619	1,666
Total accumulated other comprehensive income	<u>51,219</u>	<u>42,957</u>
Non-controlling interests	<u>32,010</u>	<u>30,212</u>
Total net assets	<u>356,177</u>	<u>362,895</u>
Total liabilities and net assets	<u>565,332</u>	<u>565,274</u>

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2014	Six months ended Sep. 30, 2015
Net Sales	218,689	226,488
Cost of sales	162,159	160,272
Gross profit	56,529	66,216
Selling, general and administrative expenses	31,144	34,582
Operating Income	25,384	31,633
Non-operating income		
Interest income	203	269
Dividends income	609	703
Equity in earnings of affiliates	510	397
Foreign exchange gains	158	26
Other	694	653
Total non-operating income	2,175	2,050
Non-operating expenses		
Interest expenses	715	610
Other	375	388
Total non-operating expenses	1,091	999
Ordinary income	26,468	32,684
Extraordinary gain		
Gain on disposal of noncurrent assets	345	553
Gain on sales of investment securities	-	1,518
Subsidies from municipal governments	500	130
Total extraordinary gain	845	2,202
Extraordinary loss		
Loss on retirement of noncurrent assets	446	1,762
Impairment loss	90	-
Loss on reduction of noncurrent assets	475	130
Total extraordinary loss	1,012	1,892
Income before income taxes and minority interests	26,301	32,993
Income Taxes		
Income taxes-current	7,249	9,022
Income taxes-deferred	(193)	(246)
Total income taxes	7,056	8,776
Profit	19,245	24,216
Profit attributable to non-controlling interests	2,285	2,870
Profit attributable to owners of parent	16,959	21,346

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2014	Six months ended Sep. 30, 2015
Profit	19,245	24,216
Other comprehensive income		
Valuation difference on available-for-sale securities	4,880	(3,738)
Deferred gains or losses on hedges	(45)	(35)
Foreign currency translation adjustment	5,068	(6,346)
Remeasurements of defined benefit plans, net of tax	121	83
Share of other comprehensive income of associates accounted for using equity method	362	(141)
Total other comprehensive income	10,387	(10,178)
Comprehensive income	29,632	14,037
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	26,119	13,083
Comprehensive income attributable to non-controlling interes	3,512	954

(4) Consolidated Statement of Cash Flows

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2014	Six months ended Sep. 30, 2015
Net cash provided by (used in) operating activities		
Income before income taxes and minority interests	26,301	32,993
Depreciation and amortization	11,747	12,213
Impairment loss	90	-
Amortization of goodwill	604	514
Interest and dividends income	(812)	(973)
Interest expenses	715	610
Equity in (earnings) losses of affiliates	(510)	(397)
Loss (gain) on sales and retirement of noncurrent assets	101	1,209
Loss (gain) on sales of investment securities	-	(1,518)
Decrease (increase) in notes and accounts receivable-trade	(611)	(3,929)
Decrease (increase) in inventories	(8,585)	(626)
Increase (decrease) in notes and accounts payable-trade	198	(5)
Other, net	156	803
Subtotal	29,395	40,894
Interest and dividends income received	1,857	2,049
Interest expenses paid	(730)	(604)
Income taxes paid	(5,917)	(13,633)
Net cash provided by (used in) operating activities	24,604	28,706
Net cash provided by (used in) investing activities		
Net decrease (increase) in short-term investment securities	1,100	-
Purchase of property, plant and equipment	(11,377)	(16,024)
Proceeds from sales of property, plant and equipment	327	661
Purchase of intangible assets	(277)	(396)
Purchase of investment securities	(2,411)	(11)
Proceeds from sales and redemption of investment securities	13	3,686
Payments of loans receivable	(261)	(146)
Collection of loans receivable	3	88
Other, net	(1,175)	(1,240)
Net cash provided by (used in) investing activities	(14,058)	(13,383)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	(1,522)	3,203
Repayment of long-term loans payable	(5,316)	(4,109)
Purchase of treasury stock	(20)	(1)
Proceeds from sales of treasury stock	-	0
Cash dividends paid	(3,162)	(4,540)
Dividends paid to non-controlling interests	(558)	(2,751)
Net cash provided by (used in) financing activities	(10,580)	(8,199)
Effect of exchange rate change on cash and cash equivalents	2,078	(2,433)
Net increase (decrease) in cash and cash equivalents	2,044	4,689
Cash and cash equivalents at beginning of period	62,573	66,737
Amount of increase of cash equivalent of beginning of period due to changes in the accounting period of consolidated subsidiaries	1,452	-
Cash and cash equivalents at the end of period	66,070	71,427

8. Segment information

Six months ended Sep. 30, 2014

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	48,039	44,998	83,672	39,242	2,735	218,689	-	218,689
Intersegment sales	1,365	9,485	1	-	4,950	15,803	(15,803)	-
Total	49,405	54,484	83,673	39,242	7,686	234,492	(15,803)	218,689
Operating income	12,784	4,444	8,014	4,837	38	30,119	(4,734)	25,384

Six months ended Sep. 30, 2015

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	53,742	40,953	83,508	45,405	2,879	226,488	-	226,488
Intersegment sales	1,110	7,979	9	-	4,944	14,043	(14,043)	-
Total	54,852	48,932	83,518	45,405	7,823	240,532	(14,043)	226,488
Operating income	15,616	5,777	9,910	5,897	(73)	37,128	(5,495)	31,633