

1st 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)

August 3, 2016

Company name : DAICEL CORPORATION
 Stock Exchange on which the shares are listed : Tokyo Stock Exchange in Japan
 Code number : 4202
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 Scheduled date for submitting financial statements : August 10, 2016
 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 Three Months Ended June 30, 2016

(Amounts are rounded down to the nearest million)

	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	%
Three months ended Jun. 30, 2016	103,696	△ 8.6	17,161	7.7	15,985	△ 6.5	10,562	△ 9.3
Three months ended Jun. 30, 2015	113,443	4.6	15,936	27.5	17,091	34.5	11,642	27.2

(Note) Comprehensive income : △1,868 millions of yen (—%) for the three months ended June 30, 2016 and 15,238 millions of yen (42.5%) for the three months ended June 30, 2015

	Net income per share	Diluted net income per share
	Yen	Yen
Three months ended Jun. 30, 2016	30.35	—
Three months ended Jun. 30, 2015	33.14	—

(2) Consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	Millions of Yen	Millions of Yen	%	Yen
As of Jun. 30, 2016	526,859	354,011	62.1	945.20
As of Mar. 31, 2016	560,190	368,720	60.2	966.36

(Note) Shareholder's equity : 327,234 millions of yen as of June 30, 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
Year ended Mar. 31, 2016	Yen —	Yen 13.00	Yen —	Yen 13.00	Yen 26.00
Year ending Mar. 31, 2017	—	—	—	—	—
Year ending Mar. 31, 2017 (Forecast)	—	13.00	—	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

(% of change from same period of previous year)

	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
Six months ending Sep. 30, 2016	217,000	△ 4.2	30,000	△ 5.2	31,000	△ 5.2	20,000	△ 6.3	57.28
Year ending Mar. 31, 2017	444,000	△ 1.3	61,000	△ 5.2	63,500	△ 2.9	40,000	△ 0.8	114.56

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

*Notes

(1) Changes in significant subsidiaries during the three months ended Jun. 30, 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 Jun. 30, 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 Jun. 30, 2016	3,737,046 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)	Three months ended Jun. 30, 2016	348,030,906 shares	Three months ended Jun. 30, 2015	351,320,298 shares

※Implementation status of quarterly review procedures

This Financial Results report for the 1st quarter was exempt from quarterly review procedures which was based on Financial Instruments and Exchange Law of Japan. As of the 1st 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.

4. Qualitative Information on FY2016 1st Quarter Consolidated Financial Results

(1) Explanation about Operating Results

Looking at world trends during the consolidated first quarter of FY2016 (the three months ended June 30, 2016), while the economy remained on a recovery trend in the United States and also continued to pick up gradually in Europe, economic growth slowed down in China. The Japanese economy stayed on a moderate recovery track, despite some weakness, such as stagnant personal consumption. 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 three months under review amounted to ¥103.696 billion (down 8.6% year-on-year). Operating income rose to ¥17.161 billion (up 7.7% year-on-year), ordinary income was ¥15.985 billion (down 6.5% year-on-year), and net income attributable to owners of the parent came to ¥10.562 billion (down 9.3% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Cellulose acetate recorded a decline in sales. Demand increased slightly for LCD film application, however decreased for other applications. Unfavorable foreign exchange rates and other factors also exerted negative impacts.

As for acetate tow for cigarette filters, amid the worldwide glut, sales volume increased through our efforts in strengthening relationships with main customers and finding new customers. However, unfavorable foreign exchange rates and other factors pushed down sales revenue.

Consequently, overall segment sales amounted to ¥22.301 billion (down 17.1% year-on-year). Operating income was ¥6.366 billion (down 18.2% year-on-year), due to unfavorable foreign exchange rates and other factors

[Organic Chemicals]

Sales of acetic acid, our key product, decreased due to unfavorable foreign exchange rates and sluggish market conditions, although 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 a decrease in sales volume of electronic materials, paint and other applications, unfavorable foreign exchange rates, the impact of falling crude oil prices on selling prices, and other factors.

Performance chemicals posted a decline in sales reflecting falling demand for some products in overseas markets, unfavorable foreign exchange rates and other factors, despite increases in sales quantity of some products for electronic materials in the domestic market.

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 China, India and other destinations.

Consequently, overall segment sales amounted to ¥18.964 billion (down 10.5% year-on-year). Operating income rose to ¥3.479 billion (up 2.7% year-on-year), due to a drop in raw material and fuel procurement prices, the periodic maintenance of the Aboshi plant not being carried out and other factors.

[Plastics]

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) and liquid crystal polymers (LCP), registered growth in sales quantity, despite market conditions represented by decelerating emerging economies including China, slow growth of the Japanese automobile manufacturers

and sluggish sales of electronic devices. However, unfavorable foreign exchange rates, impact of falling raw material and fuel prices on selling prices and other factors pushed down sales.

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, impact of falling crude oil prices on selling prices, although sales volume increased particularly in the domestic market.

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

Consequently, overall segment sales amounted to ¥37.855 billion (down 9.7% year-on-year). Operating income increased to ¥6.291 billion (up 31.9% year-on-year), due to increase in sales volume, a drop in raw material and fuel procurement prices, a reduction in fixed costs 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 inflator sales volume and other factors, despite unfavorable exchange rates.

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

Consequently, overall segment sales amounted to ¥23.290 billion (up 4.6% year-on-year). Operating income rose to ¥4.085 billion (up 45.0% 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 increased, supported by front-loaded release of some products and increased sales for the medical field.

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

Consequently, overall segment sales amounted to ¥1.284 billion (up 6.7% year-on-year). Operating income was ¥0.088 billion (against an operating loss of ¥0.161 billion in the same period of the previous year).

(2) Qualitative Information Regarding Financial Position

Changes in assets, liabilities and equity

Total assets amounted to ¥526.859 billion, representing a decrease of ¥33.331 billion measured against the end of the previous consolidated fiscal year-end, or March 31, 2016, due primarily to decreases in notes and accounts receivable, and market value of investment securities.

Total liabilities amounted to ¥172.848 billion, representing a decrease of ¥18.621 billion from March 31, 2016, due primarily to decreases in notes and accounts payable.

Total net assets were ¥354.011 billion. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥327.234 billion. The shareholders' equity ratio was 62.1%.

5. Matters concerning summary information (Notes)

(1) Changes in important subsidiaries during the nine months ended June 30, 2016

Not applicable

(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 first 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.

6. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2016	As of Jun. 30, 2016
Assets		
Current assets		
Cash and deposits	66,040	57,738
Notes and accounts receivable-trade	84,450	77,464
Short-term investment securities	661	908
Inventories	104,886	102,221
Other	20,891	19,420
Allowance for doubtful accounts	(103)	(89)
Total current assets	<u>276,828</u>	<u>257,664</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,947	49,018
Machinery, equipment and vehicles, net	59,430	65,499
Land	27,109	26,926
Construction in progress	36,777	25,830
Other, net	3,311	3,303
Total property, plant and equipment	<u>175,576</u>	<u>170,578</u>
Intangible assets		
Goodwill	3,694	3,148
Other	7,651	6,967
Total Intangible assets	<u>11,346</u>	<u>10,116</u>
Investments and other assets		
Investment securities	73,721	66,857
Other	22,948	21,873
Allowance for doubtful accounts	(231)	(231)
Total investments and other assets	<u>96,439</u>	<u>88,499</u>
Total non-current assets	<u>283,362</u>	<u>269,194</u>
Total assets	<u>560,190</u>	<u>526,859</u>

	As of Mar. 31, 2016	As of Jun. 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	50,108	38,947
Short-term loans payable	7,196	7,918
Current portion of long-term loans payable	5,361	5,247
Income taxes payable	6,938	2,463
Provision for repairs	47	1,426
Other	33,014	32,206
Total current liabilities	<u>102,667</u>	<u>88,211</u>
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	28,709	27,730
Net defined benefit liability	11,686	11,570
Provision for directors' retirement benefits	87	76
Provision for repairs	1,246	283
Asset retirement obligation	1,091	1,035
Other	15,980	13,940
Total non-current liabilities	<u>88,802</u>	<u>84,637</u>
Total liabilities	<u>191,469</u>	<u>172,848</u>
Net assets		
Shareholders' equity		
Common stock	36,275	36,275
Capital surplus	31,579	31,568
Retained earnings	242,657	238,327
Treasury stock	(10,388)	(4,024)
Total shareholders' equity	<u>300,123</u>	<u>302,146</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,499	27,307
Deferred gains or losses on hedges	(146)	(158)
Foreign currency translation adjustment	5,885	(2,198)
Remeasurements of defined benefit plans	62	136
Total accumulated other comprehensive income	<u>37,301</u>	<u>25,087</u>
Non-controlling interests	<u>31,296</u>	<u>26,776</u>
Total net assets	<u>368,720</u>	<u>354,011</u>
Total liabilities and net assets	<u>560,190</u>	<u>526,859</u>

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Three months ended Jun. 30, 2015	Three months ended Jun. 30, 2016
Net Sales	113,443	103,696
Cost of sales	80,670	69,408
Gross profit	32,773	34,287
Selling, general and administrative expenses	16,836	17,126
Operating Income	15,936	17,161
Non-operating income		
Interest income	143	125
Dividends income	614	597
Share of profit of entities accounted for using equity method	222	141
Foreign exchange gains	452	-
Other	250	213
Total non-operating income	1,683	1,078
Non-operating expenses		
Interest expenses	328	238
Foreign exchange loss	-	1,860
Other	199	155
Total non-operating expenses	528	2,253
Ordinary income	17,091	15,985
Extraordinary gain		
Gain on disposal of non-current assets	439	3
Gain on sales of investment securities	1,306	892
Subsidy income	130	-
Total extraordinary gain	1,877	895
Extraordinary loss		
Loss on retirement of non-current assets	549	662
Loss on reduction of non-current assets	130	-
Loss on valuation of investment securities	-	75
Total extraordinary loss	680	738
Profit before income taxes	18,288	16,142
Income Taxes		
Income taxes-current	3,940	3,230
Income taxes-deferred	1,388	447
Total income taxes	5,328	3,677
Profit	12,959	12,464
Profit attributable to non-controlling interests	1,317	1,901
Profit attributable to owners of the parent	11,642	10,562

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Three months ended Jun. 30, 2015	Three months ended Jun. 30, 2016
Profit	12,599	12,464
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	1,108	(4,209)
Deferred gains or losses on hedges	56	(21)
Foreign currency translation adjustment	930	(9,519)
Remeasurements of defined benefit plans	54	103
Share of other comprehensive income (loss) of entities accounted for using equity method	128	(685)
Total other comprehensive income (loss)	<u>2,278</u>	<u>(14,333)</u>
Comprehensive income	<u>15,238</u>	<u>(1,868)</u>
Comprehensive income attributable to		
owners of the parent	13,520	(1,650)
non-controlling interests	1,717	(217)

7. Segment information

Three months ended Jun. 30, 2015

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	26,890	21,182	41,906	22,260	1,203	113,443	-	113,443
Intersegment sales	382	3,452	0	-	2,456	6,292	(6,292)	-
Total	27,273	24,634	41,907	22,260	3,659	119,735	(6,292)	113,443
Operating income	7,785	3,389	4,770	2,817	(161)	18,601	(2,664)	15,936

Three months ended Jun. 30, 2016

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	22,301	18,964	37,855	23,290	1,284	103,696	-	103,696
Intersegment sales	409	2,752	4	-	2,563	5,730	(5,730)	-
Total	22,710	21,717	37,859	23,290	3,847	109,426	(5,730)	103,696
Operating income	6,366	3,479	6,291	4,085	88	20,312	(3,151)	17,161