

## 2nd 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)

November 2, 2016

Company name	: DAICEL CORPORATION
Stock Exchange on which the shares are listed	: Tokyo Stock Exchange in Japan
Code number	: 4202
URL	: <a href="http://www.daicel.com">http://www.daicel.com</a>
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 11, 2016
Scheduled date for dividend payment	: December 2, 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 Six Months Ended September 30, 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	%
Six months ended Sep. 30, 2016	209,802	△ 7.4	30,606	△ 3.2	29,516	△ 9.7	19,059	△ 10.7
Six months ended Sep. 30, 2015	226,488	3.6	31,633	24.6	32,684	23.5	21,346	25.9

(Note) Comprehensive income : 8,490 millions of yen (△39.5%) for the six months ended Sep 30, 2016 and 14,037 millions of yen (△52.6%) for the six months ended Sep 30, 2015

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2016	54.91	-
Six months ended Sep. 30, 2015	60.76	-

(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, 2016	541,888	362,278	62.1	971.57
As of Mar. 31, 2016	560,190	368,720	60.2	966.36

(Note) Shareholder's equity : 336,364 millions of yen as of September 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
	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: Applicable

\*Notes

(1) Changes in significant subsidiaries during the six months ended Sep. 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 Sep. 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 Sep. 30, 2016	3,737,108 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)	Six months ended Sep. 30, 2016	347,113,277 shares	Six months ended Sep. 30, 2015	351,320,078 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.

#### 4. Qualitative Information on FY2016 2nd Quarter Consolidated Financial Results

##### (1) Explanation about Operating Results

Looking at world trends during the consolidated cumulative second quarter of FY2016 (six months ended September 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. 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 six months under review amounted to ¥209.802 billion (down 7.4% year-on-year). Operating income fell to ¥30.606 billion (down 3.2% year-on-year), ordinary income was ¥29.516 billion (down 9.7% year-on-year), and net income attributable to owners of the parent company came to ¥19.059 billion (down 10.7% 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, the sales volume remained at almost the same level as a year ago 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 ¥43.458 billion (down 19.1% year-on-year). Operating income was ¥11.679 billion (down 25.2% 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 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 an increase in sales 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 China, India and other destinations.

Consequently, overall segment sales amounted to ¥36.511 billion (down 10.8% year-on-year). Operating income came to ¥5.7 billion (down 1.3% year-on-year), due to unfavorable foreign exchange rates, the impact of falling crude oil prices on selling prices 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 slightly due to a decline in sales of molded containers and other products.

Consequently, overall segment sales amounted to ¥76.323 billion (down 8.6% year-on-year). Operating income rose to ¥11.278 billion (up 13.8% year-on-year), due to an increase in the sales volume, declines in prices of raw material and fuel, improvement in profits of 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, which cover items such as gunpowder, missile components, and pilot emergency-escape systems, saw a decline in sales, due to a decrease in the volume of some products procured by the Ministry of Defense.

Consequently, overall segment sales amounted to ¥50.646 billion (up 11.5% year-on-year). Operating income rose to ¥8.462 billion (up 43.5% 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 increased sales for the medical field.

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

Consequently, overall segment sales amounted to ¥2.861 billion (down 0.6% year-on-year). Operating income was ¥0.298 billion (against an operating loss of ¥0.073 billion in the same period of the previous year).

### (2) Explanation of Financial Position

#### [1] Changes in assets, liabilities and equity

Total assets amounted to ¥541.888 billion, representing a decrease of ¥18.301 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, inventories and the market value of investment securities.

Total liabilities amounted to ¥179.610 billion, representing a decrease of ¥11.859 billion from March 31, 2016, due primarily to decreases in notes and accounts payable.

Total net assets were ¥362.278 billion. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥336.364 billion. The shareholders' equity ratio was 62.1%.

#### [2] Cash flow overview

Cash and cash equivalents (hereinafter, referred to as "funds") during the consolidated cumulative second quarter of FY2016 amounted to 66.834 billion yen.

##### Cash flow from operating activities

Cash flow from operating activities increased by ¥38.674 billion (vs. an increase of ¥28.706 billion in the same period last year). The increase in funds was mainly attributable to ¥29.907 billion of net income before income taxes and ¥13.306 billion of depreciation and amortization. Meanwhile, the main factors for the decrease in funds were a decrease of ¥4.856 billion in trade payables and ¥9.040 billion of payment for corporate income taxes.

##### Cash flow from investment activities

Cash flow from investment activities decreased by ¥17.809 billion (vs. a decrease of ¥13.383 billion in the same period last year). The main factor for the decrease in funds was an expenditure of ¥19.634 billion for the purchase

of property, plant, and equipment.

#### Cash flow from financing activities

Cash flow from financing activities decreased by ¥14.723 billion (vs. a decrease of ¥8.199 billion in the same period last year). The decrease in funds was mainly due to expenditures of ¥2.630 billion for repayment of long-term loans, ¥4.0 billion for acquisition of treasury stock, ¥4.537 billion for payment of dividends and ¥4.522 billion of dividends paid to non-controlling interests.

#### (3) Forecast of consolidated performance and other future predictions

Regarding future global economic conditions, while modest economic recovery is expected in Japan, the United States and Europe, a somewhat pessimistic situation is likely to persist due to a slowdown in the economies of emerging countries including China.

Under such circumstances, the Daicel Group has been steadily pursuing the basic strategy of its medium-term plan “3D-II,” which 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 our performance trend up to the 2nd quarter, as well as a review of the projected foreign exchange rates and raw material and fuel prices for the 3rd quarter onward, the Daicel Group projects full-year consolidated sales of ¥425.0 billion, operating income of ¥56.5 billion, ordinary income of ¥55.5 billion and net income attributable to owners of the parent company of ¥36.0 billion.

#### 5. Other information

##### (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 second 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 Sep. 30, 2016
<b>Assets</b>		
Current assets		
Cash and deposits	66,040	67,234
Notes and accounts receivable-trade	84,450	79,638
Short-term investment securities	661	387
Inventories	104,886	100,295
Other	20,891	20,107
Allowance for doubtful accounts	(103)	(144)
Total current assets	<u>276,828</u>	<u>267,518</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,947	48,549
Machinery, equipment and vehicles, net	59,430	63,535
Land	27,109	26,915
Construction in progress	36,777	33,056
Other, net	3,311	3,496
Total property, plant and equipment	<u>175,576</u>	<u>175,554</u>
Intangible assets		
Goodwill	3,694	2,880
Other	7,651	6,784
Total Intangible assets	<u>11,346</u>	<u>9,665</u>
Investments and other assets		
Investment securities	73,721	67,648
Other	22,948	21,734
Allowance for doubtful accounts	(231)	(232)
Total investments and other assets	<u>96,439</u>	<u>89,150</u>
Total non-current assets	<u>283,362</u>	<u>274,369</u>
Total assets	<u>560,190</u>	<u>541,888</u>

	As of Mar. 31, 2016	As of Sep. 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable-trade	50,108	41,792
Short-term loans payable	7,196	8,586
Current portion of long-term loans payable	5,361	4,923
Income taxes payable	6,938	6,068
Provision for repairs	47	1,783
Other	33,014	33,129
Total current liabilities	<u>102,667</u>	<u>96,284</u>
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	28,709	25,533
Provision for directors' retirement benefits	87	81
Provision for repairs	1,246	395
Net defined benefit liability	11,686	11,649
Asset retirement obligation	1,091	1,028
Other	15,980	14,638
Total non-current liabilities	<u>88,802</u>	<u>83,325</u>
Total liabilities	<u>191,469</u>	<u>179,610</u>
Net assets		
Shareholders' equity		
Common stock	36,275	36,275
Capital surplus	31,579	31,899
Retained earnings	242,657	246,824
Treasury stock	(10,388)	(4,024)
Total shareholders' equity	<u>300,123</u>	<u>310,974</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	31,499	28,471
Deferred gains or losses on hedges	(146)	(154)
Foreign currency translation adjustment	5,885	(3,128)
Remeasurements of defined benefit plans	62	201
Total accumulated other comprehensive income	<u>37,301</u>	<u>25,389</u>
Non-controlling interests	<u>31,296</u>	<u>25,913</u>
Total net assets	<u>368,720</u>	<u>362,278</u>
Total liabilities and net assets	<u>560,190</u>	<u>541,888</u>

## (2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016
Net Sales	226,488	209,802
Cost of sales	160,272	144,325
Gross profit	66,216	65,476
Selling, general and administrative expenses	34,582	34,869
Operating Income	31,633	30,606
Non-operating income		
Interest income	269	184
Dividends income	703	822
Share of profit of entities accounted for using equity method	397	363
Foreign exchange gains	26	—
Other	653	557
Total non-operating income	2,050	1,929
Non-operating expenses		
Interest expenses	610	464
Foreign exchange loss	—	2,307
Other	388	247
Total non-operating expenses	999	3,019
Ordinary income	32,684	29,516
Extraordinary gain		
Gain on disposal of non-current assets	553	3
Gain on sales of investment securities	1,518	1,718
Subsidy income	130	—
Total extraordinary gain	2,202	1,722
Extraordinary loss		
Loss on retirement of non-current assets	1,762	1,251
Loss on reduction of non-current assets	130	—
Loss on valuation of investment securities	—	78
Total extraordinary loss	1,892	1,330
Profit before income taxes	32,993	29,907
Income Taxes		
Income taxes-current	9,022	8,112
Income taxes for prior periods	—	669
Income taxes-deferred	(246)	(1,483)
Total income taxes	8,776	7,298
Profit	24,216	22,608
Profit attributable to non-controlling interests	2,870	3,549
Profit attributable to owners of the parent	21,346	19,059

## (3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016
Profit	24,216	22,608
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	(3,738)	(3,001)
Deferred gains or losses on hedges	(35)	20
Foreign currency translation adjustment	(6,346)	(10,479)
Remeasurements of defined benefit plans	83	183
Share of other comprehensive income (loss) of entities accounted for using equity method	(141)	(840)
Total other comprehensive income (loss)	<u>(10,178)</u>	<u>(14,118)</u>
Comprehensive income	<u>14,037</u>	<u>8,490</u>
Comprehensive income attributable to		
owners of the parent	13,083	7,148
non-controlling interests	954	1,342

## (4) Consolidated Statement of Cash Flows

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2015	Six months ended Sep. 30, 2016
Net cash provided by (used in) operating activities		
Profit before income taxes	32,993	29,907
Depreciation and amortization	12,213	13,306
Amortization of goodwill	514	447
Interest and dividends income	(973)	(1,007)
Interest expenses	610	464
Share of (profit) loss of entities accounted for using equity method	(397)	(363)
Loss on retirement of non-current assets	1,209	1,247
Loss (gain) on sales of investment securities	(1,518)	(1,718)
Loss (gain) on valuation of investment securities	—	78
Decrease (increase) in notes and accounts receivable-trade	(3,929)	245
Decrease (increase) in inventories	(626)	1,127
Increase (decrease) in notes and accounts payable-trade	(5)	(4,856)
Other, net	803	8,086
Subtotal	40,894	46,964
Interest and dividends income received	2,049	1,209
Interest expenses paid	(604)	(459)
Income taxes paid	(13,633)	(9,040)
Net cash provided by (used in) operating activities	28,706	38,674
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(16,024)	(19,634)
Proceeds from sales of property, plant and equipment	661	6
Purchase of intangible assets	(396)	(259)
Purchase of investment securities	(11)	(12)
Proceeds from sales and redemption of investment securities	3,686	3,057
Payments of loans receivable	(146)	(70)
Collection of loans receivable	88	56
Other, net	(1,240)	(954)
Net cash provided by (used in) investing activities	(13,383)	(17,809)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	3,203	2,257
Proceeds from long-term loans payable	—	580
Repayment of long-term loans payable	(4,109)	(2,630)
Purchase of treasury stock	(1)	(4,000)
Proceeds from sales of treasury stock	0	—
Cash dividends paid	(4,540)	(4,537)
Cash dividends paid to non-controlling interests	(2,751)	(4,522)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(1,871)
Net cash provided by (used in) financing activities	(8,199)	(14,723)
Effect of exchange rate change on cash and cash equivalents	(2,433)	(4,543)
Net increase (decrease) in cash and cash equivalents	4,689	1,597
Cash and cash equivalents at beginning of period	66,737	65,237
Cash and cash equivalents at the end of period	71,427	66,834

## 7. Segment information

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

Six months ended Sep. 30, 2016

(Unit: Millions of Yen)

	Cellulosic derivatives	Organic chemicals	Plastics	Pyrotechnic devices	Others	Total	Corporate and eliminations	Consolidated
Net sales								
Outside customers	43,458	36,511	76,323	50,646	2,861	209,802	—	209,802
Intersegment sales	978	5,496	8	—	5,214	11,698	(11,698)	—
Total	44,437	42,008	76,331	50,646	8,076	221,500	(11,698)	209,802
Operating income	11,679	5,700	11,278	8,462	298	37,417	(6,810)	30,606