

2nd Quarter Consolidated Financial Results for the Year Ending March 31, 2018

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

November 1, 2017

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 13, 2017
Scheduled date for dividend payment	: December 4, 2017
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, 2017

(Amounts are rounded down to the nearest million)

(1) Consolidated Operating Results

(% of change from previous year)

	Net Sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Six months ended Sep. 30, 2017	229,035	9.2	31,495	2.9	33,148	12.3	19,581	2.7
Six months ended Sep. 30, 2016	209,802	△ 7.4	30,606	△ 3.2	29,516	△ 9.7	19,059	△ 10.7

(Note) Comprehensive income : 29,364 millions of yen (245.8%) for the six months ended September 30, 2017 and 8,490 millions of yen (△39.5%) for the six months ended September 30, 2016

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2017	56.56	-
Six months ended Sep. 30, 2016	54.91	-

(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, 2017	649,984	415,492	59.7	1,122.60
As of Mar. 31, 2017	599,708	399,429	61.6	1,067.63

(Reference) Shareholders' equity : 388,303 millions of yen as of September 30, 2017 and 369,620 millions of yen as of March 31, 2017

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, 2017	-	13.00	-	17.00	30.00
Year ending Mar. 31, 2018	-	16.00			
Year ending Mar. 31, 2018 (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, 2018

(% of change from same period of previous year)

	Net sales		Operating profit		Ordinary profit		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, 2018	462,000	5.0	58,500	△ 9.0	61,000	△ 7.9	37,000	△ 14.3	106.97

(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, 2017 : 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 : Not 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 shares)	As of Sep. 30, 2017	349,942,682 shares	As of Mar. 31, 2017	349,942,682 shares
ii Number of treasury shares at the end of each period	As of Sep. 30, 2017	4,044,302 shares	As of Mar. 31, 2017	3,737,941 shares
iii Average number of shares during the each period (Cumulative from the beginning of the fiscal year)	Six months ended Sep. 30, 2017	346,196,068 shares	Six months ended Sep. 30, 2016	347,113,277 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) Operating results for the quarter under review

Looking at the world trends during the cumulative second quarter of FY2017 (six months ended September 30, 2017), the economy remained on a recovery track in the United States and Europe, and there were signs of improvement in the Chinese economy. The Japanese economy also continued to recover at a slow pace.

Amid such circumstances, the Group sales revenue for the six months under review totaled ¥229.035 billion (up 9.2% year-on-year). Operating income amounted to ¥31.495 billion (up 2.9% year-on-year), and ordinary income was ¥33.148 billion (up 12.3% year-on-year). Net income attributable to owners of the parent came to ¥19.581 billion (up 2.7% year-on-year).

Segment information is summarized as follows.

[Cellulosic Derivatives]

Sales revenue of cellulose acetate remained flat. Demand decreased for LCD film applications, however it increased for other applications.

As for acetate tow for cigarette filters, even amid the world-wide glut resulting from the softening of the market, sales revenue posted growth because of an increase of sales volume due to our efforts in strengthening relationships with main customers and finding new customers, favorable foreign exchange rates and other factors.

Consequently, overall segment sales revenue amounted to ¥45.084 billion (up 3.7% year-on-year). Operating income fell to ¥11.015 billion (down 5.7% year-on-year), due mainly to the negative impact of the softening of the market on acetate tow for cigarette filters and an increase in depreciation costs.

[Organic Chemicals]

Acetic acid, our key product, posted a decline in sales volume as the biennial periodical maintenance of our Aboshi Plant was implemented during the period under review. However, sales revenue posted growth due mainly to an upward trend in the market.

Sales revenue of organic chemicals also increased because of an increase in sales volume and other factors.

Performance chemicals posted a slight increase in sales revenue. While sales volume of peracetic acid derivative decreased due to a fire that occurred on July 18, 2017 at the peracetic acid plant of the Ohtake Plant, sales volume of other products for electronic materials registered an increase.

Sales revenue of the chiral separation business, such as optical resolution columns, increased. Chiral stationary phase (CSPs) sales declined amid steady column sales, however the new business in India posted growth.

Consequently, overall segment sales amounted to ¥39.102 billion (up 7.1 % year-on-year). Operating income fell to ¥3.626 billion (down 36.4% year-on-year), due to the impact of rising raw material and fuel procurement prices, increases in R&D and depreciation costs, and other factors.

[Plastics]

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) and liquid crystal polymers (LCP), registered growth in sales revenue, supported by increases in demand for automobile parts and smartphones, an increase in sales volume resulting from progress in new parts adoption, favorable foreign exchange rates and other factors.

Growth in sales revenue was also recorded by the plastic compound business centering on ABS resins and engineering plastic alloy resins, due primarily to an increase in sales volume, rising raw material and fuel prices and the subsequent revision of selling prices, and favorable foreign exchange rates.

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

Consequently, overall segment sales amounted to ¥83.719 billion (up 9.7% year-on-year). Operating income was ¥12.149 billion (up 7.7% year-on-year), thanks to an increase in sales volume despite a rise in raw material and fuel procurement prices.

[Pyrotechnic Devices]

The automobile airbag inflator (gas-generating device) and other automobile safety parts business achieved growth in sales revenue, thanks to an increase in inflator sales volume, favorable foreign exchange rates and other factors.

Aerospace & defense businesses, which cover defense-related products, also enjoyed growth in sales revenue due to an increase in volume of some products procured by the Ministry of Defense.

Consequently, overall segment sales came to ¥58.093 billion (up 14.7% year-on-year). Operating income rose to ¥11.649 billion (up 37.7% year-on-year), due to an increase in sales volume and other factors.

[Other Businesses]

The membrane business, such as membrane modules for water treatment, saw an increase in sales revenue, due to the growth of sales for sewage treatment, despite the fact that partial sales of some products are not included in this result,

Other businesses including the warehousing business also posted increases in sales revenue.

Consequently, overall segment sales amounted to ¥3.035 billion (up 6.1% year-on-year). Operating income was ¥271 million (down 9.1% year-on-year).

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

Changes in assets, liabilities and equity

Total assets amounted to ¥649.984 billion, representing an increase of ¥50.276 billion measured against the end of the previous consolidated fiscal year-end, or March 31, 2017, due primarily to increases in cash and deposits, and notes and accounts receivable.

Total liabilities amounted to ¥234.491 billion, representing an increase of ¥34.213 billion from March 31, 2017, due primarily to increases in bonds payable and notes and accounts payable .

Total net assets were ¥415.492 billion. Total shareholders' equity, which is net assets minus non-controlling interests, was ¥388.303 billion. The shareholders' equity ratio was 59.7%.

(3) Overview of cash flow for the fiscal year under review

Cash flow from operating activities

Cash flow from operating activities during the consolidated fiscal year under review increased by ¥29.715 billion (vs. an increase of ¥38.674 billion in the same period last year). The increase in funds was mainly attributable to ¥33.197 billion of net profit before income taxes and ¥15.852 billion of depreciation. Meanwhile, the main factors for the decrease in funds were an increase of 6.310 billion in notes and accounts receivable, and a payment of ¥11.106 billion for income taxes.

Cash flow from investment activities

Cash flow from investment activities during the consolidated fiscal year under review decreased by ¥20.623 billion (vs. a decrease of ¥17.809 billion in the same period last year). The main factors for the decrease in funds were expenditures of ¥16.656 billion for the purchase of property, plant, and equipment.

Cash flow from financing activities

Cash flow from operating activities during the consolidated fiscal year under review increased by ¥17.885 billion (vs. a decrease of ¥14.723 billion in the same period last year). The increase in funds was mainly attributable to ¥29.849 billion of proceeds from issuance of bonds. Meanwhile, main factors accounting for the decrease in funds were ¥2.402 billion of repayments of long-term loans, an expenditure of ¥5.881 billion in cash dividend payments and ¥6.446 billion in dividends paid to non-controlling interests.

As a result of the above, cash and cash equivalents on September 30, 2017 totaled ¥124.359 billion.

(4) Forecast of consolidated performance and other future predictions

In light of the operating performance of the first half of the FY ending March 2018, influence of a fire that occurred on July 18, 2017 at the Ohtake Plant and other factors, the Daicel Group has revised its forecast of consolidated business results for the full-year of the FY ending March 2018 from those announced on May 10, 2017, as shown in the following table. For these forecasts, we assume an exchange rate (US\$/¥) of ¥110, (Asian spot) methanol price of US\$290/ton, Dubai crude oil price of US\$52/bbl and domestic naphtha price of ¥38,000/kl from the second half of the FY ending March 2018.

<Forecast of the FY ending March 2018 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)	460.000	61.000	62.000	37.000	106.87
This announcement (B)	462.000	58.500	61.000	37.000	106.97
Change (B-A)	2.000	-2.500	-1.000	-	-
% of change	0.4	-4.1	-1.6	-	-
(Reference data) Year ended Mar. 31, 2017	440.061	64.306	66.215	41.198	124.61

* 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.

5. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Unit: Millions of Yen)

	As of Mar. 31, 2017	As of Sep. 30, 2017
Assets		
Current assets		
Cash and deposits	96,586	120,490
Notes and accounts receivable – trade	88,307	95,894
Securities	328	4,531
Inventories	100,657	107,473
Other	21,416	20,633
Allowance for doubtful accounts	(80)	(62)
Total current assets	307,216	348,960
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	54,285	56,568
Machinery, equipment and vehicles, net	80,214	80,438
Land	26,760	26,812
Construction in progress	19,762	18,891
Other, net	4,158	5,123
Total property, plant and equipment	185,180	187,835
Intangible assets		
Goodwill	2,712	2,259
Other	6,915	7,147
Total intangible assets	9,627	9,407
Investments and other assets		
Investment securities	76,238	83,196
Other	21,606	20,760
Allowance for doubtful accounts	(162)	(175)
Total investments and other assets	97,683	103,781
Total non-current assets	292,491	301,024
Total assets	599,708	649,984

(Unit: Millions of Yen)

	As of Mar. 31, 2017	As of Sep. 30, 2017
Liabilities		
Current liabilities		
Notes and accounts payable – trade	46,575	54,193
Current portion of bonds	–	10,000
Short-term loans payable	7,788	11,878
Current portion of long-term loans payable	4,513	4,015
Income taxes payable	7,432	3,847
Provision for repairs	3,305	961
Other	39,712	36,757
Total current liabilities	109,327	121,653
Non-current liabilities		
Bonds payable	30,000	50,000
Long-term loans payable	29,983	28,273
Provision for directors' retirement benefits	89	32
Provision for repairs	17	212
Net defined benefit liability	12,159	12,383
Asset retirement obligations	1,036	1,060
Other	17,665	20,875
Total non-current liabilities	90,951	112,837
Total liabilities	200,278	234,491
Net assets		
Shareholders' equity		
Capital stock	36,275	36,275
Capital surplus	31,867	31,801
Retained earnings	266,462	280,158
Treasury shares	(4,025)	(4,445)
Total shareholders' equity	330,579	343,790
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	34,978	37,702
Deferred gains or losses on hedges	(16)	(16)
Foreign currency translation adjustment	4,212	6,708
Remeasurements of defined benefit plans	(134)	118
Total accumulated other comprehensive income	39,040	44,513
Non-controlling interests	29,809	27,188
Total net assets	399,429	415,492
Total liabilities and net assets	599,708	649,984

(2) Consolidated Statements of Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2016	Six months ended Sep. 30, 2017
Net sales	209,802	229,035
Cost of sales	144,325	159,104
Gross profit	65,476	69,931
Selling, general and administrative expenses	34,869	38,436
Operating profit	30,606	31,495
Non-operating income		
Interest income	184	125
Dividend income	822	770
Share of profit of entities accounted for using equity method	363	516
Foreign exchange gains	-	219
Other	557	1,011
Total non-operating income	1,929	2,644
Non-operating expenses		
Interest expenses	464	569
Foreign exchange losses	2,307	-
Other	247	421
Total non-operating expenses	3,019	990
Ordinary profit	29,516	33,148
Extraordinary income		
Gain on disposal of non-current assets	3	2
Gain on sales of investment securities	1,718	353
Insurance income	-	700
Total extraordinary income	1,722	1,055
Extraordinary losses		
Loss on retirement of non-current assets	1,251	698
Loss on valuation of investment securities	78	-
Claim compensation expenses	-	85
Loss on disaster	-	222
Total extraordinary losses	1,330	1,007
Profit before income taxes	29,907	33,197
Income Taxes		
Income taxes - current	8,112	8,182
Income taxes for prior periods	669	-
Income taxes - deferred	(1,483)	1,488
Total income taxes	7,298	9,671
Profit	22,608	23,525
Profit attributable to non-controlling interests	3,549	3,944
Profit attributable to owners of parent	19,059	19,581

(3) Consolidated Statement of Comprehensive Income

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2016	Six months ended Sep. 30, 2017
Profit	22,608	23,525
Other comprehensive income		
Valuation difference on available-for-sale securities	(3,001)	2,736
Deferred gains or losses on hedges	20	(22)
Foreign currency translation adjustment	(10,479)	2,572
Remeasurements of defined benefit plans, net of tax	183	294
Share of other comprehensive income of entities accounted for using equity method	(840)	258
Total other comprehensive income	<u>(14,118)</u>	<u>5,839</u>
Comprehensive income	<u>8,490</u>	<u>29,364</u>
Comprehensive income attributable to		
owners of parent	7,148	25,054
non-controlling interests	1,342	4,310

(4) Consolidated Statement of Cash Flows

(Unit: Millions of Yen)

	Six months ended Sep. 30, 2016	Six months ended Sep. 30, 2017
Cash flows from operating activities		
Profit before income taxes	29,907	33,197
Depreciations	13,306	15,852
Amortization of goodwill	447	474
Interest and dividend income	(1,007)	(896)
Interest expenses	464	569
Share of (profit) loss of entities accounted for using equity method	(363)	(516)
Loss (gain) on sales and retirement of non-current assets	1,247	696
Loss (gain) on sales of investment securities	(1,718)	(353)
Loss (gain) on valuation of investment securities	78	-
Decrease (increase) in notes and accounts receivable – trade	245	(6,310)
Decrease (increase) in inventories	1,127	(5,797)
Increase (decrease) in notes and accounts payable – trade	(4,856)	6,559
Other, net	8,086	(3,089)
Subtotal	46,964	40,385
Interest and dividend income received	1,209	1,003
Interest expenses paid	(459)	(568)
Income taxes paid	(9,040)	(11,106)
Net cash provided by (used in) operating activities	38,674	29,715
Cash flows from investing activities		
Purchase of property, plant and equipment	(19,634)	(16,656)
Proceeds from sales of property, plant and equipment	6	3
Purchase of intangible assets	(259)	(557)
Purchase of investment securities	(12)	(3,162)
Proceeds from sales and redemption of investment securities	3,057	1,115
Payments of loans receivable	(70)	(211)
Collection of loans receivable	56	4
Other, net	(954)	(1,158)
Net cash provided by (used in) investing activities	(17,809)	(20,623)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	2,257	3,661
Proceeds from long-term loans payable	580	73
Repayments of long-term loans payable	(2,630)	(2,402)
Proceeds from issuance of bonds	-	29,849
Purchase of treasury shares	(4,000)	(419)
Cash dividends paid	(4,537)	(5,881)
Dividends paid to non-controlling interests	(4,522)	(6,446)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,871)	(549)
Net cash provided by (used in) financing activities	(14,723)	17,885
Effect of exchange rate change on cash and cash equivalents	(4,543)	1,107
Net increase (decrease) in cash and cash equivalents	1,597	28,084
Cash and cash equivalents at beginning of period	65,237	96,275
Cash and cash equivalents at the end of period	66,834	124,359

6. Segment Information

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 profit	11,679	5,700	11,278	8,462	298	37,417	(6,810)	30,606

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 profit	11,015	3,626	12,149	11,649	271	38,712	(7,217)	31,495