Financial Section 2019

Contents

DAICEL

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

We have audited the accompanying consolidated balance sheets of Daicel Corporation and its consolidated subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2019, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Corporation and its consolidated subsidiaries as of March 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2019, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 21, 2019

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2018 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018/3	2019/3	2019/3
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 128,290	**¥ 120,016**	**$ 1,081,225**
Marketable securities (Notes 3 and 14)	929	**30**	**270**
Receivables (Note 14):			
Trade notes	3,380	**2,920**	**26,306**
Trade accounts	88,912	**86,259**	**777,108**
Unconsolidated subsidiaries and associated companies	5,393	**5,059**	**45,576**
Allowance for doubtful receivables	(44)	**(67)**	**(603)**
Inventories (Note 4)	109,295	**126,153**	**1,136,513**
Other current assets	13,057	**13,665**	**123,108**
Total current assets	349,214	**354,038**	**3,189,531**
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 17):			
Land	26,754	**26,931**	**242,621**
Buildings and structures	162,111	**168,530**	**1,518,288**
Machinery and equipment	597,726	**609,850**	**5,494,144**
Construction in progress	14,053	**31,630**	**284,954**
Total	800,646	**836,943**	**7,540,027**
Accumulated depreciation	(616,605)	**(639,511)**	**(5,761,360)**
Net property, plant and equipment	184,041	**197,432**	**1,778,666**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	72,535	**64,002**	**576,594**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	11,119	**11,087**	**99,882**
Deferred tax assets (Note 10)	2,662	**2,701**	**24,333**
Net defined benefit asset (Note 7)	5,321	**6,110**	**55,045**
Other assets	15,390	**19,418**	**174,936**
Total investments and other assets	107,029	**103,320**	**930,810**
TOTAL	¥ 640,284	**¥ 654,791**	**$ 5,899,018**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018/3	2019/3	2019/3
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 10,117	**¥ 9,965**	**$ 89,774**
Current portion of long-term debt (Notes 6 and 14)	13,733	**18,285**	**164,729**
Payables (Notes 14 and 16):			
Trade notes	284	**257**	**2,315**
Trade accounts	53,719	**50,852**	**458,126**
Nontrade accounts	11,077	**13,666**	**123,117**
Construction	7,377	**8,486**	**76,450**
Unconsolidated subsidiaries and associated companies	2,365	**2,898**	**26,108**
Income taxes payable (Notes 10 and 14)	4,271	**4,008**	**36,108**
Other current liabilities (Note 10)	15,233	**17,088**	**153,945**
Total current liabilities	118,181	**125,509**	**1,130,711**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 14)	75,884	**76,043**	**685,072**
Net defined benefit liability (Note 7)	12,318	**12,485**	**112,477**
Provision for environmental measures (Note 22)	4,000	**5,265**	**47,432**
Asset retirement obligations (Note 8)	1,238	**1,256**	**11,315**
Deferred tax liabilities (Note 10)	11,069	**7,673**	**69,126**
Other long-term liabilities	4,050	**3,312**	**29,837**
Total long-term liabilities	108,561	**106,038**	**955,297**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 23)			
EQUITY (Notes 9 and 25):			
Common stock, authorized, 1,450,000,000 shares in 2019/3 and 2018/3; issued, 331,942,682 shares in 2019/3 and 349,942,682 shares in 2018/3	36,275	**36,275**	**326,801**
Capital surplus	31,642	**31,692**	**285,513**
Retained earnings	292,104	**294,149**	**2,649,990**
Treasury stock - at cost, 3,609,174 shares in 2019/3 and 11,239,478 shares in 2018/3	(14,004)	**(4,344)**	**(39,135)**
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	33,410	**29,024**	**261,477**
Deferred gain (loss) on derivatives under hedge accounting	58	**13**	**117**
Foreign currency translation adjustments	4,805	**4,968**	**44,756**
Defined retirement benefit plans	583	**1,817**	**16,369**
Total	384,876	**393,597**	**3,545,918**
Noncontrolling interests	28,665	**29,645**	**267,072**
Total equity	413,541	**423,243**	**3,813,000**
TOTAL	¥ 640,284	**¥ 654,791**	**$ 5,899,018**

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017, 2018 and 2019

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017/3	2018/3	2019/3	2019/3
NET SALES	¥ 440,061	¥ 462,956	¥ 464,859	$ 4,187,918
COST OF SALES (Notes 11 and 16)	303,229	325,754	331,086	2,982,756
Gross profit	136,832	137,201	133,773	1,205,162
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	72,526	78,269	82,602	744,162
Operating income	64,306	58,932	51,171	461,000
OTHER INCOME (EXPENSES):				
Interest and dividend income	1,821	1,770	2,266	20,414
Gain on sales of investment securities	2,461	3,914	5,767	51,954
Gain on sales of investments in capital of subsidiaries and associates			290	2,612
Equity in earnings of unconsolidated subsidiaries and associated companies	870	1,336	1,762	15,873
Insurance income (Note 18)		854	2,005	18,063
Interest expense	(958)	(1,203)	(1,185)	(10,675)
Foreign exchange gain (loss)	(1,599)	(730)	(73)	(657)
Loss on dispositions of property, plant and equipment	(3,361)	(2,260)	(1,715)	(15,450)
Loss on claim compensation (Note 19)	(989)	(85)		
Impairment loss on fixed assets (Note 20)			(1,783)	(16,063)
Loss on disaster (Note 21)		(677)	(967)	(8,711)
Provision for environmental measures (Note 22)		(4,000)	(1,298)	(11,693)
Loss on revision of retirement benefit plan (Note 7)			(3,308)	(29,801)
Other – net	1,822	1,379	801	7,216
Other income (expenses) – net	66	297	2,563	23,090
INCOME BEFORE INCOME TAXES	64,373	59,229	53,734	484,090
INCOME TAXES (Note 10):				
Current	15,996	14,537	13,910	125,315
Prior periods	690			
Deferred	(2,439)	225	(2,106)	(18,972)
Total income taxes	14,246	14,763	11,804	106,342
NET INCOME	50,126	44,466	41,930	377,747
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	6,928	7,404	6,628	59,711
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 43,198	¥ 37,062	¥ 35,301	$ 318,027

	Yen			U.S. Dollars (Note 1)
	2017/3	2018/3	2019/3	2019/3
PER SHARE INFORMATION (Notes 2.s and 12):				
Basic net income	¥ 124.61	¥ 107.81	¥ 105.38	$ 0.94
Cash dividends applicable to the year	30.00	32.00	32.00	0.28

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017, 2018 and 2019

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017/3	2018/3	2019/3	2019/3
NET INCOME	¥ 50,126	¥ 44,466	¥ 41,930	$ 377,747
OTHER COMPREHENSIVE INCOME (LOSS) (Note 24):				
Unrealized gain (loss) on available-for-sale securities	3,546	(1,563)	(4,439)	(39,990)
Deferred gain (loss) on derivatives under hedge accounting	222	113	(67)	(603)
Foreign currency translation adjustments	(1,340)	91	431	3,882
Defined retirement benefit plans	(210)	869	1,291	11,630
Share of other comprehensive income (loss) in associates	(404)	236	(178)	(1,603)
Total other comprehensive income (loss)	1,813	(252)	(2,961)	(26,675)
COMPREHENSIVE INCOME	¥ 51,939	¥ 44,214	¥ 38,968	$ 351,063
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	¥ 44,937	¥ 36,880	¥ 32,267	$ 290,693
Noncontrolling interests	7,001	7,334	6,700	60,360

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017, 2018 and 2019

		Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2016	349,172,397	¥ 36,275	¥ 31,579	¥ 242,657	¥ (10,388)	¥ 31,499	¥ (146)	¥ 5,885	¥ 62	¥ 337,424	¥ 31,296	¥ 368,720
Net income attributable to owners of the parent				43,198						43,198		43,198
Cash dividends, ¥26.00 per share				(9,039)						(9,039)		(9,039)
Repurchase of treasury stock	(2,967,656)				(4,001)					(4,001)		(4,001)
Retirement of treasury stock			(11)	(10,353)	10,364							
Change in the parent's ownership interest due to transactions with noncontrolling interests			298							298	(2,228)	(1,930)
Net change in the year						3,479	130	(1,672)	(197)	1,739	742	2,481
BALANCE, MARCH 31, 2017	346,204,741	36,275	31,867	266,462	(4,025)	34,978	(16)	4,212	(134)	369,620	29,809	399,429
Net income attributable to owners of the parent				37,062						37,062		37,062
Cash dividends, ¥33.00 per share				(11,419)						(11,419)		(11,419)
Repurchase of treasury stock	(7,501,649)				(9,979)					(9,979)		(9,979)
Disposal of treasury stock			0		0					0		0
Retirement of treasury stock	112											
Change in the parent's ownership interest due to transactions with noncontrolling interests			(225)							(225)	(324)	(549)
Net change in the year						(1,568)	75	593	718	(181)	(818)	(1,000)
BALANCE, MARCH 31, 2018	338,703,204	36,275	31,642	292,104	(14,004)	33,410	58	4,805	583	384,876	28,665	413,541
Net income attributable to owners of the parent				**35,301**						**35,301**		**35,301**
Cash dividends, ¥32.00 per share				**(10,781)**						**(10,781)**		**(10,781)**
Restricted stock awards			**(0)**	**(9)**	**192**					**182**		**182**
Repurchase of treasury stock	**(10,523,907)**				**(12,998)**					**(12,998)**		**(12,998)**
Disposal of treasury stock					**0**					**0**		**0**
Retirement of treasury stock	**18,154,211**			**(22,465)**	**22,465**							
Change in the parent's ownership interest due to transactions with noncontrolling interests			**50**							**50**	**(41)**	**8**
Net change in the year						**(4,385)**	**(44)**	**163**	**1,233**	**(3,033)**	**1,021**	**(2,012)**
BALANCE, MARCH 31, 2019	**346,333,508**	**¥ 36,275**	**¥ 31,692**	**¥ 294,149**	**¥ (4,344)**	**¥ 29,024**	**¥ 13**	**¥ 4,968**	**¥ 1,817**	**¥ 393,597**	**¥ 29,645**	**¥ 423,243**

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2018	**$ 326,801**	**$ 285,063**	**$ 2,631,567**	**$ (126,162)**	**$ 300,990**	**$ 522**	**$ 43,288**	**$ 5,252**	**$3,467,351**	**$ 258,243**	**$3,725,594**
Net income attributable to owners of the parent			**318,027**						**318,027**		**318,027**
Cash dividends, $0.29 per share			**(97,126)**						**(97,126)**		**(97,126)**
Restricted stock awards		**(0)**	**(81)**	**1,729**					**1,639**		**1,639**
Repurchase of treasury stock				**(117,099)**					**(117,099)**		**(117,099)**
Disposal of treasury stock				**0**					**0**		**0**
Retirement of treasury stock			**(202,387)**	**202,387**							
Change in the parent's ownership interest due to transactions with noncontrolling interests		**450**							**450**	**(369)**	**72**
Net change in the year					**(39,504)**	**(396)**	**1,468**	**11,108**	**(27,324)**	**9,198**	**(18,126)**
BALANCE, MARCH 31, 2019	**$ 326,801**	**$ 285,513**	**$ 2,649,990**	**$ (39,135)**	**$ 261,477**	**$ 117**	**$ 44,756**	**$ 16,369**	**$3,545,918**	**$ 267,072**	**$3,813,000**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2017, 2018 and 2019

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2017/3	2018/3	2019/3	2019/3
OPERATING ACTIVITIES:				
Income before income taxes	¥ 64,373	¥ 59,229	**¥ 53,734**	**$ 484,090**
Adjustments for:				
Income taxes - paid	(16,272)	(16,607)	**(14,623)**	**(131,738)**
Depreciation and amortization	29,926	32,229	**30,442**	**274,252**
Impairment loss on fixed assets			**1,783**	**16,063**
Amortization of goodwill	910	727	**608**	**5,477**
Loss on dispositions of property, plant and equipment	3,361	2,260	**1,715**	**15,450**
Provision for environmental measures		4,000	**1,265**	**11,396**
Gain on sales of investment securities	(2,461)	(3,914)	**(5,767)**	**(51,954)**
Gain on sales of investments in capital of subsidiaries and associates			**(290)**	**(2,612)**
Equity in earnings of unconsolidated subsidiaries and associated companies	(870)	(1,336)	**(1,762)**	**(15,873)**
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(4,161)	(5,243)	**4,140**	**37,297**
Decrease (increase) in inventories	3,778	(8,624)	**(16,149)**	**(145,486)**
Increase (decrease) in notes and accounts payable	(3,165)	9,952	**(3,049)**	**(27,468)**
Other – net	10,751	(5,786)	**6,476**	**58,342**
Net cash provided by operating activities	86,168	66,888	**58,523**	**527,234**
INVESTING ACTIVITIES:				
Net decrease (increase) in time deposits	468	241	**(157)**	**(1,414)**
Net decrease (increase) in short-term investment securities	59	(575)	**900**	**8,108**
Capital expenditures	(38,014)	(33,433)	**(43,580)**	**(392,612)**
Payment for purchases of investment securities	(524)	(5,103)	**(167)**	**(1,504)**
Proceeds from sales and redemption of investment securities	5,232	6,641	**8,076**	**72,756**
Proceeds from sales of property, plant and equipment	521	415	**22**	**198**
Payment for investments in capital of subsidiaries and associates			**(4,103)**	**(36,963)**
Proceeds from sales of investments in capital of subsidiaries and associates			**431**	**3,882**
Increase in finance receivables	(76)	(499)	**(56)**	**(504)**
Collection of finance receivables	51	73	**127**	**1,144**
Other – net	(2,440)	(948)	**(2,587)**	**(23,306)**
Net cash used in investing activities	(34,722)	(33,189)	**(41,095)**	**(370,225)**
FINANCING ACTIVITIES:				
Net change in short-term bank loans	831	2,268	**(121)**	**(1,090)**
Proceeds from issuance of long-term debt	5,771	513	**17,755**	**159,954**
Repayments of long-term debt	(5,318)	(4,499)	**(13,809)**	**(124,405)**
Proceeds from issuance of bond		29,849		
Dividends paid	(9,036)	(11,412)	**(10,783)**	**(97,144)**
Dividends paid to noncontrolling interests	(6,259)	(8,153)	**(5,679)**	**(51,162)**
Payment for purchases of treasury stock	(4,001)	(9,979)	**(12,998)**	**(117,099)**
Payment for acquisition of interests in a subsidiary from noncontrolling interests	(1,930)	(549)	**(0)**	**(0)**
Net cash used in financing activities	(19,942)	(1,962)	**(25,636)**	**(230,954)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(465)	278	**(64)**	**(576)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,037	32,014	**(8,273)**	**(74,531)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	65,237	96,275	**128,290**	**1,155,765**
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 96,275	¥ 128,290	**¥ 120,016**	**$ 1,081,225**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Corporation and Consolidated Subsidiaries

1.BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daicel Corporation (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Amounts less than one million yen and one thousand U.S. dollars are rounded down, except for per share data. Therefore, total amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to $1, the approximate rate of exchange at March 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2019, include the accounts of the Company and its 65 significant (62 in 2018 and 2017) subsidiaries (collectively, the "Companies").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

The Company's wholly owned subsidiary, Daicel America Holdings, Inc., formerly known as Daicel (U.S.A.), Inc., acquired 100% of shares of Special Devices, Inc. on April 16, 2012, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 10 years. The Company acquired 100% of shares of Lomapharm GmbH on August 1, 2018, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 10 years. The Company's wholly owned subsidiary, Chiral Technologies, Inc. acquired 100% of shares of Biodiscovery LLC (as known as Arbor Biosciences) on January 7, 2019, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 10 years.

Investments in one (one in 2018 and 2017) unconsolidated subsidiary and seven (seven in 2018 and 2017) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies and associated companies accounted for by the equity method has been eliminated.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

d. **Business Combinations –** Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. **Cash Equivalents –** Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

f. **Marketable and Investment Securities –** Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

All of the Companies' securities are classified as available-for-sale securities.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. **Inventories –** Inventories are stated at the lower of cost, determined by the moving-average method, or net selling value.

h. **Property, Plant and Equipment –** Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and leased assets of the Company. Consolidated foreign subsidiaries primarily apply the straight-line method to property, plant and equipment.

The range of useful lives is principally from 3 to 75 years for buildings and structures and from 4 to 15 years for machinery and equipment. The useful lives for leased assets are the terms of the respective leases. Property, plant and equipment are carried at cost, less gains deferred on the sale and replacement of certain assets.

i. **Long-Lived Assets –** The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. **Retirement and Pension Plans –** The Company has lump-sum severance payment and defined benefit plans. Certain consolidated subsidiaries have lump-sum severance payment plans, defined benefit plans and defined contribution plans for employees. Additionally, the Company has a "Retirement Benefit Trust."

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain subsidiaries account for the net defined benefit liability based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years. Prior service cost is amortized on a straight-line basis over a period within the average remaining years of service of the employees (5 years).

Because certain subsidiaries are classified as small enterprises, the simplified method (the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) is applied for the calculation of the retirement benefit obligation of the subsidiaries.

Certain domestic subsidiaries record retirement allowances for directors and corporate auditors to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

k. **Asset Retirement Obligations –** An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

l. **Foreign Currency Transactions –** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

m. **Foreign Currency Financial Statements –** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

n. **Leases –** Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

o. **Research and Development Costs –** Research and development costs are charged to income as incurred and included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES."

p. **Income Taxes –** The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets under current assets decreased by ¥5,353 million and deferred tax assets under investments and other assets increased by ¥1,560 million. Moreover, deferred tax liabilities under current liabilities decreased by ¥228 million and deferred tax liabilities under non-current liabilities decreased by ¥3,565 million. As a result of offsetting deferred tax assets against deferred tax liabilities with regard to the same taxable entities, total assets decreased by ¥3,794 million.

q. **Derivatives and Hedging Activities –** The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and foreign currency swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Swaps that qualify for hedge accounting are measured at market value at the balance sheet date, and unrealized gains or losses are deferred until maturity and included in other liabilities or assets.

r. **Provision for Environmental Measures –** The provision for environmental measures is based on estimated future cost of environmental measures such as soil improvement work.

s. **Per Share Information –** Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Company has no securities or warrants that may cause an additional issue of common shares.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

t. **Accounting Changes and Error Corrections –** Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

u. **New Accounting Pronouncements –** On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

Step 1:Identify the contract(s) with a customer
Step 2:Identify the performance obligations in the contract
Step 3:Determine the transaction price
Step 4:Allocate the transaction price to the performance

obligations in the contract

Step 5:Recognize revenue when (or as) the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3.MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Current:			
Government and corporate bonds	¥ 929	**¥ 30**	**$ 270**
Non-current:			
Equity securities	¥ 68,422	**¥ 59,839**	**$ 539,090**
Government and corporate bonds	4,097	**4,053**	**36,513**
Other	15	**109**	**981**
Total	¥ 72,535	**¥ 64,002**	**$ 576,594**

The costs and aggregate fair values of marketable and investment securities at March 31, 2019 and 2018, were as follows:

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 17,633**	**¥ 41,238**	**¥ (319)**	**¥ 58,551**
Debt securities	**4,029**	**4**	**(16)**	**4,017**

	Millions of Yen			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 19,881	¥ 47,386	¥ (87)	¥ 67,180
Debt securities	4,948	0	(18)	4,931

	Thousands of U.S. Dollars			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 158,855**	**$ 371,513**	**$ (2,873)**	**$ 527,486**
Debt securities	**36,297**	**36**	**(144)**	**36,189**

Securities whose fair values are not readily determinable as of March 31, 2019 and 2018, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Available-for-sale:			
Equity securities	¥ 1,241	**¥ 1,287**	**$ 11,594**
Debt securities	96	**66**	**594**
Other	15	**109**	**981**
Total	¥ 1,353	**¥ 1,463**	**$ 13,180**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2019, 2018 and 2017, was ¥8,083 million ($72,819 thousand), ¥6,641 million and ¥5,252 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥5,767 million ($51,954 thousand) respectively, for the year ended March 31, 2019.

4.INVENTORIES

Inventories at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Finished products	¥ 54,878	**¥ 64,703**	**$ 582,909**
Semi-finished products and work in process	17,283	**18,652**	**168,036**
Raw materials and supplies	37,133	**42,797**	**385,558**
Total	¥ 109,295	**¥ 126,153**	**$ 1,136,513**

5.INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. Rental income for the years ended March 31, 2019, 2018 and 2017 was ¥500 million ($4,504 thousand), ¥509 million and ¥507 million, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2018	Increase/(Decrease)	March 31, 2019	March 31, 2019
¥ 3,039	¥ (325)	**¥ 2,713**	**¥ 16,609**

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2017	Increase/(Decrease)	March 31, 2018	March 31, 2018
¥ 3,066	¥ (27)	¥ 3,039	¥ 17,195

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2018	Increase/(Decrease)	March 31, 2019	March 31, 2019
$ 27,378	$ (2,927)	**$ 24,441**	**$ 149,630**

Notes:
1) Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2019 and 2018 due to insignificance.
2) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3) Fair values of properties as of March 31, 2019 and 2018, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

6.SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans were principally represented by bank overdrafts. Weighted-average annual interest rate of short-term bank loans at March 31, 2019 and 2018, was 2.10% and 1.95%, respectively.

Long-term debt at March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
1.69% bonds due 2019	¥ 10,000	¥ 10,000	$ 90,090
0.41% bonds due 2018	10,000		
1.05% bonds due 2023	10,000	10,000	90,090
0.14% bonds due 2022	10,000	10,000	90,090
0.23% bonds due 2024	10,000	10,000	90,090
0.37% bonds due 2027	10,000	10,000	90,090
Unsecured loans from banks and other financial institutions, due through 2025, with interest rates ranging from 0.16% to 9.00% for 2019 (from 0.42% to 5.50% for 2018)	29,618	44,329	399,360
Total	89,618	94,329	849,810
Less current portion	(13,733)	(18,285)	(164,729)
Long-term debt, less current portion	¥ 75,884	¥ 76,043	$ 685,072

At March 31, 2019, annual maturities of long-term debt were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 18,285	$ 164,729
2021	10,466	94,288
2022	3,514	31,657
2023	18,546	167,081
2024	19,046	171,585
2025 and thereafter	24,468	220,432
Total	¥ 94,329	$ 849,810

7. RETIREMENT AND PENSION PLANS

Effective from April 1, 2019, the Company converted part of its defined benefit plans to a defined contribution plan. Due to the conversion, the Company applied "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (PITF No. 2).

(1)The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Balance at beginning of year	¥ 35,434	¥ 35,770	$ 322,252
Current service cost	1,933	1,968	17,729
Interest cost	215	232	2,090
Actuarial (gains) losses	(522)	71	639
Benefits paid	(1,243)	(1,266)	(11,405)
Prior service cost		4,140	37,297
Loss on revision of retirement benefit plan		(3,308)	(29,801)
Gains due to new consolidation		644	5,801
Others	(45)	(74)	(666)
Balance at end of year	¥ 35,770	¥ 38,178	$ 343,945

(2)The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Balance at beginning of year	¥ 31,610	¥ 32,039	$ 288,639
Expected return on plan assets	363	369	3,324
Actuarial gains	(160)	2,465	22,207
Contributions from employer	1,000	1,010	9,099
Benefits paid	(752)	(661)	(5,954)
Others	(22)	(22)	(198)
Balance at end of year	¥ 32,039	¥ 35,199	$ 317,108

(3)The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Balance at beginning of year	¥ 3,032	¥ 3,226	$ 29,063
Retirement benefit cost	442	376	3,387
Benefits paid	(275)	(200)	(1,801)
Contributions from employer	(48)	(47)	(423)
Others	74	(13)	(117)
Balance at end of year	¥ 3,226	¥ 3,340	$ 30,090

(4)Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Funded defined benefit obligation	¥ 36,453	¥ 38,268	$ 344,756
Plan assets	(32,625)	(35,828)	(322,774)
	3,827	2,439	21,972
Unfunded defined benefit obligation	3,129	3,880	34,954
Net liability arising from defined benefit obligation	¥ 6,957	¥ 6,319	$ 56,927

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Net defined benefit liability	¥ 12,279	¥ 12,430	$ 111,981
Net defined benefit asset	(5,321)	(6,110)	(55,045)
Net liability arising from defined benefit obligation	¥ 6,957	¥ 6,319	$ 56,927

Note: Including defined benefit obligation under the simplified method.

(5)The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Service cost	¥ 1,933	**¥ 1,968**	**$ 17,729**
Interest cost	215	**232**	**2,090**
Expected return on plan assets	(363)	**(369)**	**(3,324)**
Recognized actuarial losses	841	**300**	**2,702**
Amortization of transitional obligation	448	**369**	**3,324**
Balance at end of year	¥ 3,075	**¥ 2,502**	**$ 22,540**
Loss on revision of retirement benefit plan (Note)	¥	**¥ (3,308)**	**$ (29,801)**

Note: Loss on revision of retirement benefit plan was recognized in other income (expenses) for the year ended March 31, 2019.

(6)Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Prior service cost		**¥ (831)**	**$ (7,486)**
Actuarial losses	¥ 1,207	**2,696**	**24,288**
Total	¥ 1,207	**¥ 1,865**	**$ 16,801**

(7)Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Unrecognized prior service cost		**¥ (831)**	**$ (7,486)**
Unrecognized actuarial losses	¥ 593	**3,290**	**29,639**
Total	¥ 593	**¥ 2,459**	**$ 22,153**

(8)Plan assets

a. Components of plan assets

Plan assets as of March 31, 2019 and 2018, consisted of the following:

	2018	2019
Debt investments	27%	**25%**
Equity investments	50	**53**
General accounts of insurance companies	8	**8**
Others	15	**14**
Total	100%	**100%**

Note:Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2019 and 2018, were 15% and 14%, respectively.

b. Method of determining the expected rate of return on plan assets
The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9)Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2018	2019
Discount rate	0.6%	**0.6%**
Expected rate of return on plan assets	1.2%	**1.2%**
Lump-sum election rate	82.5%	**81.5%**

(10)The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2019 and 2018 was ¥448 million ($4,036 thousand) and ¥419 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Net defined benefit liability" in the consolidated balance sheets. The amount was ¥55 million ($495 thousand) and ¥39 million at March 31, 2019 and 2018, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Balance at beginning of year	¥ 1,036	**¥ 1,252**	**$ 11,279**
Reconciliation associated with passage of time	6	**13**	**117**
Reduction associated with settlement of asset retirement obligations	(8)	**(17)**	**(153)**
Other	217	**85**	**765**
Balance at end of year	¥ 1,252	**¥ 1,333**	**$ 12,009**

9. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without

limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2019, 2018 and 2017. Foreign subsidiaries are subject to income tax of the countries in which they operate. Income taxes for prior periods are due to payments based on Advance Pricing Agreements of transfer pricing taxation for prior years.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2019, 2018 and 2017, was as follows:

	2017	2018	2019
Normal effective statutory tax rate	31%	31%	**31%**
Increase or decrease of valuation allowance	(0)	(0)	**0**
Different tax rate in foreign countries	(2)	(4)	**(4)**
Equity in earnings of associated companies	(0)	(1)	**(1)**
Amortization of goodwill	0	0	**0**
Tax credit primarily for research and development costs	(5)	(4)	**(2)**
Effect of transfer pricing taxation		2	**(3)**
Other – net	(2)	1	**1**
Actual effective tax rate	22%	25%	**22%**

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Deferred tax assets:			
Accrued enterprise taxes	¥ 344	¥ 326	$ 2,936
Accrued bonuses	1,751	1,725	15,540
Net defined benefit liability	5,071	4,752	42,810
Provision for environmental measures	1,223	1,587	14,297
Amount transferred to defined contribution pension plan		1,011	9,108
Investment securities	174	83	747
Tax loss carryforwards	2,572	2,607	23,486
Intercompany profits	2,332	2,290	20,630
Other	4,899	7,274	65,531
Less valuation allowance	(2,815)	(2,818)	(25,387)
Deferred tax assets	¥ 15,554	¥ 18,842	$ 169,747
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 13,547	¥ 11,612	$ 104,612
Tax purpose reserves regulated by Japanese tax law	746	698	6,288
Undistributed earnings of foreign subsidiaries	5,637	6,892	62,090
Securities contributed to employees' retirement benefit trust	2,655	2,711	24,423
Intangible fixed assets	738	658	5,927
Other	635	1,242	11,189
Deferred tax liabilities	¥ 23,960	¥ 23,814	$ 214,540
Net deferred tax liabilities	¥ 8,406	¥ (4,972)	$ (44,792)

At March 31, 2019, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,607 million ($23,486 thousand), which are available to be offset against taxable income of such subsidiaries in future years.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥20,749 million ($186,927 thousand), ¥18,843 million and ¥16,806 million for the years ended March 31, 2019, 2018 and 2017, respectively.

12. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted-average number of shares outstanding. The weighted-average number of common shares in the computation was 334,988,060, 343,761,655, and 346,660,483 for the years ended March 31, 2019, 2018 and 2017, respectively.

13. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.
Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Due within one year	¥ 1,129	¥ 1,246	$ 11,225
Due after one year	1,974	1,769	15,936
Total	¥ 3,103	¥ 3,016	$ 27,171

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1)Group Policy for Financial Instruments

The Companies use financial instruments, mainly long-term debt including bank loans and bonds, based on their capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2)Nature and Extent of Risks Arising from Financial Instruments

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Companies, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Maturities of bank loans and bonds are less than eight years and six months after the balance sheet date. Although a part of such bank loans and bonds are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps.

Derivatives mainly include forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 15 for more details about derivatives.

(3)Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Companies manage their credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Please see Note 15 for more detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2019.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected to arise from forecasted transactions, forward foreign currency contracts may be used with a contract term not exceeding six months.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables.

Marketable and investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

The basic principles of derivative transactions are approved by management at meetings held on a semiannual basis based on internal guidelines which prescribe the authority and the limits for each transaction by the corporate treasury department. Reconciliation of the transactions and balances with customers is made, and the transaction data is reported to the chief financial officer and management, on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Companies cannot meet their contractual obligations in full on their maturity dates. The Companies manage their liquidity risk by holding an adequate volume of liquid assets on a regular basis, along with adequate financial planning by the corporate treasury department.

(4)Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Also, please see Note 15 for more detail about fair values of derivatives.

(a) Fair value of financial instruments

March 31, 2019	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	**¥ 120,016**	**¥ 120,016**	**¥**
Marketable securities	**30**	**30**	
Receivables	**94,239**	**94,239**	
Investment securities	**62,539**	**62,539**	
Total	**¥ 276,825**	**¥ 276,825**	**¥**
Short-term bank loans	**¥9,965**	**¥9,965**	
Payables	**76,160**	**76,160**	
Income taxes payable	**4,008**	**4,008**	
Long-term debt	**94,329**	**95,058**	**¥ (729)**
Total	**¥ 184,464**	**¥ 185,193**	**¥ (729)**

March 31, 2018	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 128,290	¥ 128,290	¥
Marketable securities	929	929	
Receivables	97,686	97,686	
Investment securities	71,182	71,182	
Total	¥ 298,088	¥ 298,088	¥
Short-term bank loans	¥ 10,117	¥ 10,117	
Payables	74,824	74,824	
Income taxes payable	4,271	4,271	
Long-term debt	89,618	90,257	¥ (639)
Total	¥ 178,832	¥ 179,471	¥ (639)

March 31, 2019	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	**$ 1,081,225**	**$ 1,081,225**	**$**
Marketable securities	**270**	**270**	
Receivables	**849,000**	**849,000**	
Investment securities	**563,414**	**563,414**	
Total	**$ 2,493,918**	**$ 2,493,918**	**$**
Short-term bank loans	**$ 89,774**	**$ 89,774**	
Payables	**686,126**	**686,126**	
Income taxes payable	**36,108**	**36,108**	
Long-term debt	**849,810**	**856,378**	**$ (6,567)**
Total	**$ 1,661,837**	**$ 1,668,405**	**$ (6,567)**

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Receivables, Payables and Income Taxes Payable

The carrying values of receivables, payables and income taxes payable approximate fair value because of their short maturities.

Short-Term Bank Loans

The carrying values of short-term bank loans approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 15.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Carrying Amount	
March 31, 2019	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	**¥ 5,478**	**$ 49,351**

	Carrying Amount
March 31, 2018	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 5,207

(5)Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen			
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**¥ 120,016**			
Receivables	**94,239**			
Marketable securities and investment securities:				
Government bonds	**30**	**¥ 36**	**¥**	**¥**
Corporate bonds	**500**	**3,500**		
Total	**¥ 214,786**	**¥ 3,536**	**¥**	**¥**

	Millions of Yen			
March 31, 2018	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 128,290			
Receivables	97,686			
Marketable securities and investment securities:				
Government bonds	29	¥ 66	¥	¥
Corporate bonds	900	4,000		
Total	¥ 226,906	¥ 4,066	¥	¥

	Thousands of U.S. Dollars			
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**$ 1,081,225**			
Receivables	**849,000**			
Marketable securities and investment securities:				
Government bonds	**270**	**$ 324**	**$**	**$**
Corporate bonds	**4,504**	**31,531**		
Total	**$ 1,935,009**	**$ 31,855**	**$**	**$**

Please see Note 6 for annual maturities of long-term debt.

15. DERIVATIVES

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage their interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Companies' businesses. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Companies have been made in accordance with internal policies that regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	**¥ 15,118**	**¥**	**¥ (124)**	**¥ (124)**
Selling Euro	**1,162**		**18**	**18**
Buying U.S.$	**2,254**		**17**	**17**
Buying Ringgit	**136**		**0**	**0**
Buying Japanese yen	**652**		**(2)**	**(2)**

	Millions of Yen			
March 31, 2018	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥ 14,261		¥ 166	¥ 166
Selling Euro	671		8	8
Buying U.S.$	2,113		(13)	(13)
Buying Japanese yen	291		(1)	(1)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	983		(17)	(17)
Receiving U.S.$, paying KRW	2,011	¥ 1,015	(101)	(101)

	Thousands of U.S. Dollars			
March 31, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	**$ 136,198**	**$**	**$ (1,117)**	**$ (1,117)**
Selling Euro	**10,468**		**162**	**162**
Buying U.S.$	**20,306**		**153**	**153**
Buying Ringgit	**1,225**		**0**	**0**
Buying Japanese yen	**5,873**		**(18)**	**(18)**

Derivative Transactions to Which Hedge Accounting Is Applied

	Millions of Yen			
March 31, 2019	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	**¥ 7,867**	**¥ 6,220**	**¥ 37**

	Millions of Yen			
March 31, 2018	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	¥ 9,299	¥ 7,675	¥ 106

	Thousands of U.S. Dollars			
March 31, 2019	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	**$ 70,873**	**$ 56,036**	**$ 333**

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.
The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

16. RELATED PARTY DISCLOSURES

One of the Companies representative director and president who has served since June 2017 has close relatives who substantially preserve the majority of voting rights of SEIWA INDUSTRY CO., LTD.
The balance due to SEIWA INDUSTRY CO., LTD. at March 31, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2019	2019
Trade accounts payables	¥ 1	**¥ 12**	**$ 108**
Purchase	47	**35**	**315**

The transaction amount is determined on an arm's length basis.

17. MUNICIPAL GOVERNMENT SUBSIDIES

The Companies received various incentives from municipal governments in the form of subsidies for purchases of property, plant and equipment. Such subsidies were accounted for as income as received. Certain portion of the amount is charged to income and credited against the cost of property, plant and equipment when the property, plant and equipment subject to the subsidies are acquired.

18. INSURANCE INCOME

Insurance income for the year ended March 31, 2018 was due to compensation related to the quality of products on prior period and the fire accident occurred at the Ohtake Plant on July 18, 2017. Insurance income for the year ended March 31, 2019 was due to the fire accident stated previously and natural disasters.

19. LOSS ON CLAIM COMPENSATION

Compensation related to the quality of products.

20. IMPAIRMENT LOSS ON FIXED ASSETS

Daicel Safety Systems Korea, Inc. has recognized impairment to their automobile airbag inflators manufacturing machine and other related assets for the years ended March 31, 2019 (buildings and structures ¥488 million ($4,396 thousand), machinery and equipment ¥1,227 million ($11,054 thousand), construction in progress ¥65 million ($585 thousand) and other assets (investments and other assets) ¥2 million ($18 thousand)) because it was considered difficult to recover the investment amount. Recoverable values were measured at the net selling price which was based on the appraisal value of real estate.

21. LOSS ON DISASTER

Loss on disaster for the year ended March 31, 2018 relates to the fire accident that occurred at the Ohtake Plant on July 18, 2017. Loss on disaster for the year ended March 31, 2019 relates to natural disasters.

22. PROVISION FOR ENVIRONMENTAL MEASURES

Due to the formulation of the plant construction plan at Himeji Production Sector/Aboshi Plant, the Company reported estimated improvement costs for soil improvement work at the planned construction site so as to meet applicable laws and regulations.

23. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2019, for guaranteed loans amounted to ¥201 million ($1,810 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

24. OTHER COMPREHENSIVE INCOME

	Millions of Yen			Thousands of U.S. Dollars
	2017	2018	2019	2019
Unrealized gain (loss) on available-for-sale securities:				
Gains (losses) arising during the year	¥ 7,509	¥ 2,011	¥ (468)	$ (4,216)
Reclassification adjustments to profit or loss	(2,482)	(3,925)	(5,906)	(53,207)
Amount before income tax effect	5,027	(1,913)	(6,374)	(57,423)
Income tax effect	(1,481)	349	1,935	17,432
Total	¥ 3,546	¥ (1,563)	¥ (4,439)	$ (39,990)
Deferred gain (loss) on derivatives under hedge accounting:				
Adjustments arising during the year	¥ 152	¥84	¥ (58)	$ (522)
Reclassification adjustments to profit or loss	78	41	(9)	(81)
Amount before income tax effect	230	126	(68)	(612)
Income tax effect	(7)	(12)	1	9
Total	¥ 222	¥ 113	¥ (67)	$ (603)
Foreign currency translation adjustments -				
Adjustments arising during the year	¥ (1,340)	¥ 91	¥ 431	$ 3,882
Defined retirement benefit plans:				
Adjustments arising during the year	¥ (754)	¥ 398	¥ 1,586	$ 14,288
Reclassification adjustments to profit or loss	470	809	279	2,513
Amount before income tax effect	(283)	1,207	1,865	16,801
Income tax effect	73	(338)	(574)	(5,171)
Total	¥ (210)	¥ 869	¥ 1,291	$ 11,630
Share of other comprehensive income in associates - Gains arising during the year	¥ (404)	¥ 236	¥ (178)	$ (1,603)
Total other comprehensive income	¥ 1,813	¥ (252)	¥ (2,961)	$ (26,675)

25. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2019, was approved at the shareholders' general meeting of the Company held on June 21, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥16 ($0.14) per share	¥ 5,253	$ 47,324

26. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Operating segments are components of the entity for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in determining how to allocate the entity's resources and evaluate its performance.

Segment Information

1.Description of Reportable Segments

The Companies engage in various fields of business and industries by providing products and services, which are categorized into the following segments: Cellulosic Derivatives, Organic Chemicals, Plastics, Pyrotechnic Devices and Others. The Cellulosic Derivatives segment manufactures and sells cellulose acetate and acetate tow for cigarette filters from cellulose as a key raw material. The Organic Chemicals segment manufactures and sells various organic chemical products and the relevant products, such as chiral columns used for separation of optical isomers. The Plastics segment manufactures and sells various resin materials, such as engineering plastics and other plastic products. The Pyrotechnic Devices segment manufactures and sells motor vehicle safety devices and products for aerospace and defense, based on pyrotechnology. The Others segment includes membrane, warehousing, and other businesses.

2.Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

3.Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Millions of Yen

Year Ended March 31, 2019	Reportable Segment								
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 83,241	¥ 89,515	¥ 175,855	¥ 107,882	¥ 456,494	¥ 8,364	¥ 464,859		¥ 464,859
Intersegment sales or transfers	2,726	19,873	15		22,616	11,031	33,647	¥ (33,647)	
Total sales	¥ 85,968	¥ 109,389	¥ 175,870	¥ 107,882	¥ 479,111	¥ 19,395	¥ 498,507	¥ (33,647)	¥ 464,859
Segment profit	¥ 16,006	¥ 14,391	¥ 20,622	¥ 15,593	¥ 66,612	¥ 589	¥ 67,202	¥ (16,031)	¥ 51,171
Segment assets	104,879	92,468	169,193	117,251	483,794	11,552	495,346	159,444	654,791
Depreciation	8,338	6,003	4,991	8,793	28,128	426	28,554	1,489	30,044
Investments in associated companies	7,282	144	2,793		10,220		10,220		10,220
Amortization of goodwill		12		494	506	101	608		608
Increase in property, plant and equipment	2,890	22,069	6,106	10,790	41,857	634	42,491	2,202	44,694

Millions of Yen

Year Ended March 31, 2018	Reportable Segment								
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 89,071	¥ 82,043	¥ 168,260	¥ 117,186	¥ 456,561	¥ 6,394	¥ 462,956		¥ 462,956
Intersegment sales or transfers	2,136	17,735	8		19,881	10,605	30,486	¥ (30,486)	
Total sales	¥ 91,207	¥ 99,779	¥ 168,269	¥ 117,186	¥ 476,442	¥ 17,000	¥ 493,442	¥ (30,486)	¥ 462,956
Segment profit	¥ 19,354	¥ 7,918	¥ 23,253	¥ 22,173	¥ 72,699	¥ 753	¥ 73,452	¥ (14,520)	¥ 58,932
Segment assets	107,392	75,909	159,933	112,894	456,130	7,392	463,522	180,555	644,078
Depreciation	9,545	7,098	4,887	8,453	29,985	340	30,326	1,394	31,720
Investments in associated companies	7,201	141	2,718		10,061		10,061		10,061
Amortization of goodwill			233	493	727		727		727
Increase in property, plant and equipment	4,475	7,815	4,732	111,342	28,366	923	29,289	1,529	30,819

Millions of Yen

Year Ended March 31, 2017	Reportable Segment								
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 89,476	¥ 76,193	¥ 156,946	¥ 111,199	¥ 433,816	¥ 6,244	¥ 440,061		¥ 440,061
Intersegment sales or transfers	2,009	12,725	16		14,751	10,456	25,207	¥ (25,207)	
Total sales	¥ 91,485	¥ 88,919	¥ 156,963	¥ 111,199	¥ 448,568	¥ 16,701	¥ 465,269	¥ (25,207)	¥ 440,061
Segment profit	¥ 23,000	¥ 11,538	¥ 21,551	¥ 21,278	¥ 77,369	¥ 741	¥ 78,111	¥ (13,804)	¥ 64,306
Segment assets	112,748	74,563	158,135	111,154	456,601	6,598	463,200	136,507	599,708
Depreciation	9,293	5,364	5,043	7,906	27,608	271	27,880	1,151	29,031
Investments in associated companies	6,674	140	2,562		9,377		9,377		9,377
Amortization of goodwill			427	482	910		910		910
Increase in property, plant and equipment	8,267	9,192	5,145	12,625	35,229	368	35,598	3,930	39,528

Thousands of U.S. Dollars

Year Ended March 31, 2019	Reportable Segment								
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	$ 749,918	$ 806,441	$1,584,279	$ 971,909	$4,112,558	$ 75,351	$4,187,918		$4,187,918
Intersegment sales or transfers	24,558	179,036	135		203,747	99,378	303,126	$ (303,126)	
Total sales	$ 774,486	$ 985,486	$1,584,414	$ 971,909	$4,316,315	$ 174,729	$4,491,054	$ (303,126)	$4,187,918
Segment profit	$ 144,198	$ 129,648	$ 185,783	$ 140,477	$ 600,108	$ 5,306	$ 605,423	$ (144,423)	$ 461,000
Segment assets	944,855	833,045	1,524,261	1,056,315	4,358,504	104,072	4,462,576	1,436,432	5,899,018
Depreciation	75,117	54,081	44,963	79,216	253,405	3,837	257,243	13,414	270,666
Investments in associated companies	65,603	1,297	25,162		92,072		92,072		92,072
Amortization of goodwill		108		4,450	4,558	909	5,477		5,477
Increase in property, plant and equipment	26,036	198,819	55,009	97,207	377,090	5,711	382,801	19,837	402,648

(Notes)
1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥16,031 million ($144,423 thousand), ¥14,520 million and ¥13,804 million for the years ended March 31, 2019, 2018 and 2017, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.
   (2) The unallocated corporate assets included in "Reconciliations" amounted to ¥162,664 million ($1,465,441 thousand), ¥184,073 million and ¥145,072 million for the years ended March 31, 2019, 2018 and 2017, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥3,219 million ($29,000 thousand), ¥3,518 million and ¥8,564 million for the years ended March 31, 2019, 2018 and 2017, respectively.
   (3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.
2. The aggregated amounts of operating income were equal to those in the consolidated statements of income.

Related Information

1.Information about Products and Services

Millions of Yen

	2019					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	**¥ 83,241**	**¥ 89,515**	**¥ 175,855**	**¥ 107,882**	**¥ 8,364**	**¥ 464,859**

Millions of Yen

	2018					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 89,071	¥ 82,043	¥ 168,260	¥ 117,186	¥ 6,394	¥ 462,956

Millions of Yen

	2017					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 89,476	¥ 76,193	¥ 156,946	¥ 111,199	¥ 6,244	¥ 440,061

Thousands of U.S. Dollars

	2019					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	**$ 749,918**	**$ 806,441**	**$ 1,584,279**	**$ 971,909**	**$ 75,351**	**$ 4,187,918**

2.Information about Geographical Areas

(1) Sales

Millions of Yen

2019				
	Asia			
Japan	China	Other	Other	Total
¥ 223,532	**¥ 73,467**	**¥ 89,249**	**¥ 78,609**	**¥464,859**

Millions of Yen

2018				
	Asia			
Japan	China	Other	Other	Total
¥ 216,884	¥ 70,902	¥ 86,626	¥ 88,542	¥ 462,956

Millions of Yen

2017				
	Asia			
Japan	China	Other	Other	Total
¥210,526	¥ 67,619	¥ 78,113	¥ 83,802	¥ 440,061

Thousands of U.S. Dollars

2019				
	Asia			
Japan	China	Other	Other	Total
$ 2,013,801	**$ 661,864**	**$ 804,045**	**$ 708,189**	**$ 4,187,918**

Note: Sales are classified by country or region based on the location of customers.

(2) Property, Plant and Equipment

Millions of Yen

2019					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 129,800	**¥ 21,784**	**¥ 15,282**	**¥ 12,683**	**¥ 17,881**	**¥ 197,432**

Millions of Yen

2018					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 117,225	¥ 21,197	¥ 15,123	¥ 14,070	¥ 16,424	¥ 184,041

Millions of Yen

2017					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 119,352	¥ 19,248	¥ 17,149	¥ 13,129	¥ 16,301	¥ 185,180

Thousands of U.S. Dollars

2019					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$ 1,169,369	**$ 196,252**	**$ 137,675**	**$ 114,261**	**$ 161,090**	**$ 1,778,666**

3.Information on Impairment Loss on Fixed Assets for Each Reportable Segment

Millions of Yen

	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment loss on fixed assets	**¥**	**¥**	**¥**	**¥ 1,783**	**¥**	**¥**	**¥ 1,783**

Thousands of U.S. Dollars

	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment loss on fixed assets	**$**	**$**	**$**	**$ 16,063**	**$**	**$**	**$ 16,063**

4.Information on Amortization and Balance of Goodwill for Each Reportable Segment

Millions of Yen

	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	**¥**	**¥ 12**	**¥**	**¥ 494**	**¥ 101**	**¥**	**¥ 608**
Goodwill at March 31, 2019		**476**		**1,484**	**1,871**		**3,832**

Millions of Yen

	2018						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥	¥ 233	¥ 493	¥	¥	¥ 727
Goodwill at March 31, 2018				1,894			1,894

Millions of Yen

	2017						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥	¥ 427	¥ 482	¥	¥	¥ 910
Goodwill at March 31, 2017			215	2,496			2,712

Thousands of U.S. Dollars

	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination Corporate	Total
Amortization of goodwill	**$**	**$ 108**	**$**	**$ 4,450**	**$ 909**	**$**	**$ 5,477**
Goodwill at March 31, 2019		**4,288**		**13,369**	**16,855**		**34,522**

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

We have audited the accompanying consolidated balance sheets of Daicel Corporation and its consolidated subsidiaries as of March 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2019, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Corporation and its consolidated subsidiaries as of March 31, 2019 and 2018, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2019, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 21, 2019

Member of
Deloitte Touche Tohmatsu Limited

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