DAICEL

ANNUAL REPORT 2016

Year ended March 31, 2016

Up to the next stage

DAICEL CORPORATION

Group Symbol

Our symbol, which uses Daicel blue, is given a sense of action and speed by the oblique character design used for the word "DAICEL."
The three red circles represent our unceasing passion for creation, our strong will to keep working on innovation, and our fighting spirit to continue taking on new fields outside our company's current scope.
The designs of the "D" and the "Λ" express our company's intention to continue expanding beyond the chemical industry by employing our unique technologies and expertise, evolving from our foundations in chemistry.

Basic Philosophy

The Best Solution for You

Contributing to an improved quality of life by meeting the needs of society.

At the Daicel Group, we believe in **the unlimited potential of chemistry**.
By applying our unique technologies and expertise in the most effective manner, we are meeting **the diverse needs of society**.
Our industrial group contributes to a better society and an improved quality of life.

The Daicel Spirit

We share the Daicel Spirit, a drive to innovate and achieve our growth.

- We believe that honest effort is the key to creativity.
  Through a commitment to perfection, we excel at innovation.
- We are committed to creativity, a concept that imbues all our business operations from developing innovations to creating value.
- We value each individual as well as his or her achievements.

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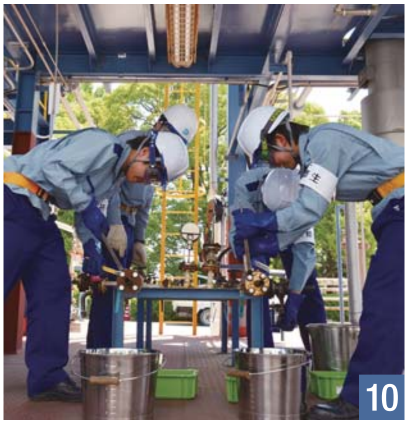

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Corporate Governance

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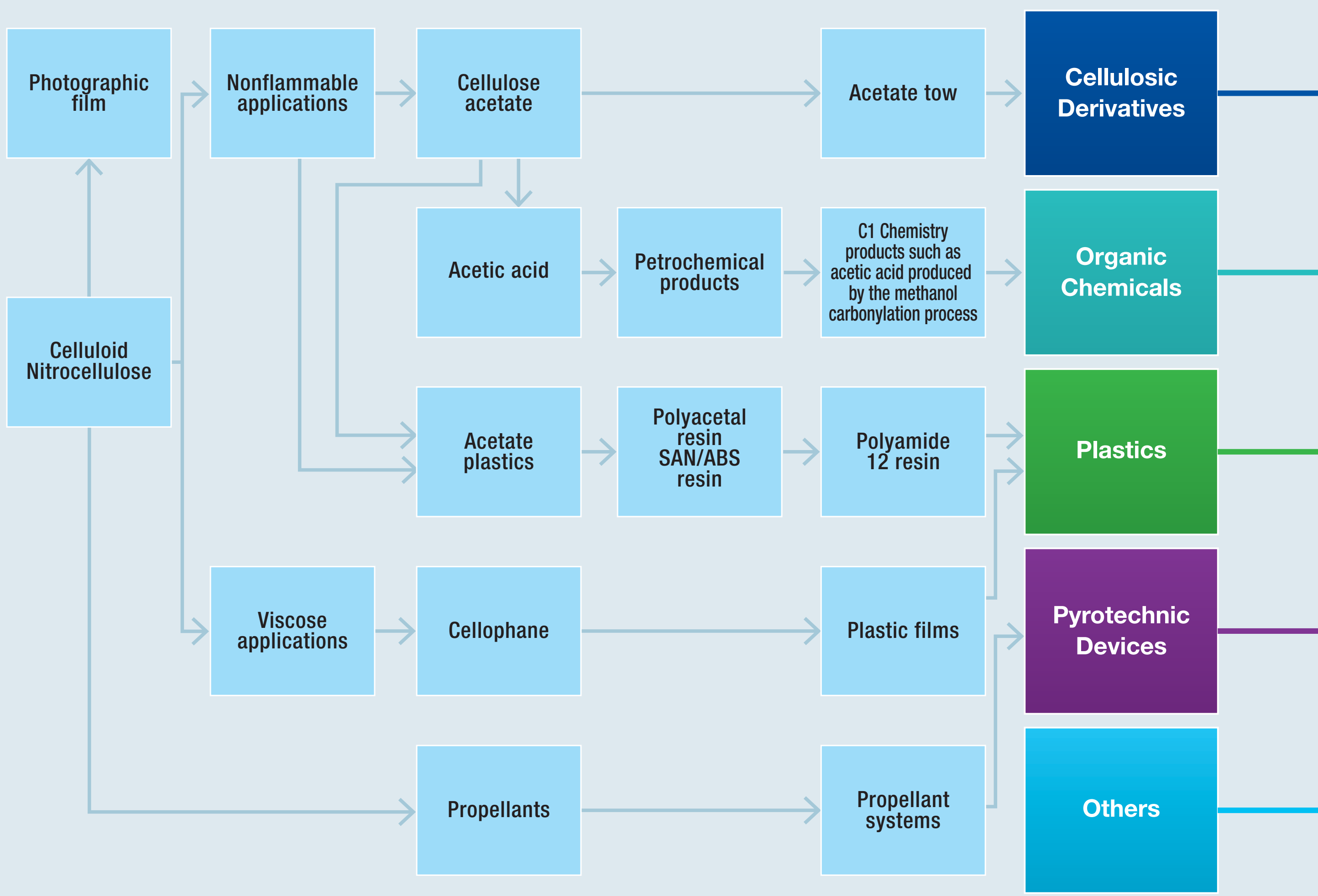
Profile

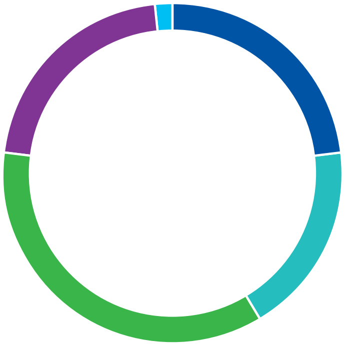
Daicel Corporation was founded in 1919 as Dainippon Celluloid Company Limited, created through the merger of eight celluloid producers. Deploying its original celluloid-related technological expertise, the Company has expanded into the fields of cellulose chemistry, organic synthesis chemistry, polymer chemistry, and pyrotechnic engineering.

Today, Daicel's extensive business lineup expands beyond the chemical industry segment and includes cellulose acetates made from pulp and other natural fibers, cigarette filter tow, water-soluble polymers and other cellulosic derivatives, organic chemical products (centering on acetic acid and acetic acid derivatives), organic performance chemical products, engineering plastics (such as polyacetal and polybutylene terephthalate), plastic compounds derived from engineering plastic alloys, various processed plastic products (such as polystyrene sheets), automobile airbag inflators, and defense-related items (such as propellants and aircrew emergency escape systems).

Business Development Flowchart

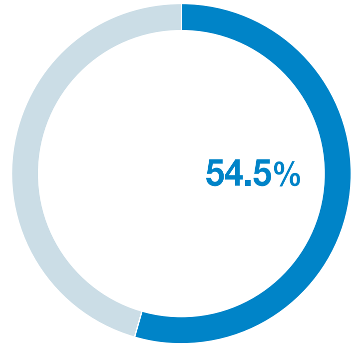


Sales by Segment



- 23.2% Cellulosic Derivatives
- 18.2% Organic Chemicals
- 35.8% Plastics
- 21.3% Pyrotechnic Devices
- 1.5% Others

Overseas Sales



Major Applications of Daicel Group Products

Cellulosic Derivatives P17


LCDs/TAC


Cigarette filters/ Acetate tow, Cellulose acetate


Lithium-ion batteries/ CMC

Organic Chemicals P18


Polyester fibers/ Acetic acid


Automotive paints/ Caprolactone and special epoxy resins


Pharmaceutical development/ Chiral columns

Plastics P19


Auto parts/ POM, PBT, PPS, SAN and ABS


Office equipment and electronic components/ POM, PBT, LCP and PPS

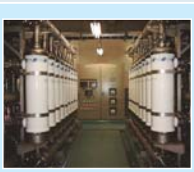

Gas barrier films/ Packaging films

Pyrotechnic Devices P20


Airbag systems/ Inflators


Pyrotechnic products/ Initiators

Others P21


Water filtration and wastewater treatment/ Reverse osmosis membranes and ultrafiltration membranes


Eco-friendly System/ E-Mizu system

Main product application/ Product

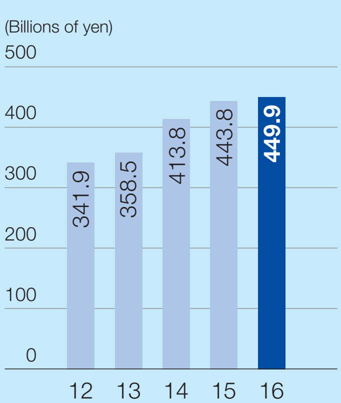
Consolidated Financial Highlights

Daicel Corporation and Consolidated Subsidiaries
Years ended March 31

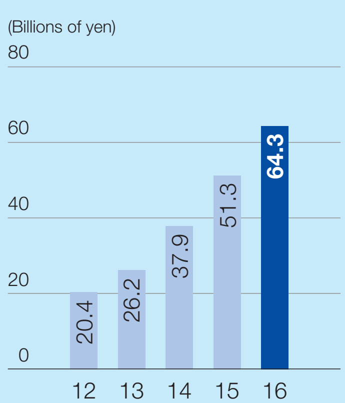
	Millions of yen					Thousands of U.S. dollars*2
	2012	2013	2014	2015	2016	2016
Results for the year						
Net sales	¥ 341,943	¥ 358,514	¥ 413,786	¥ 443,776	**¥ 449,879**	**$ 3,981,230**
Operating income	20,426	26,197	37,912	51,304	**64,350**	**569,469**
Income before income taxes	19,962	25,283	40,824	52,948	**63,491**	**561,867**
Net income attributable to owners of the parent	11,827	15,373	22,844	31,253	**40,313**	**356,752**
Capital expenditures	17,394	26,067	28,026	29,629	**35,851**	**317,265**
Depreciation and amortization	28,849	24,605	24,257	24,520	**24,959**	**220,876**
Research and development expenses	12,731	12,876	13,360	14,032	**15,307**	**135,460**
At year-end						
Total assets	¥ 398,197	¥ 461,513	¥ 509,834	¥ 565,332	**¥ 560,191**	**$ 4,957,442**
Total equity	234,712	262,900	295,805	356,178	**368,721**	**3,263,017**
Ratios						
Ratio of operating income to net sales	6.0	7.3	9.2	11.6	**14.3**	
Return on equity	5.5	6.7	9.0	10.5	**12.2**	
	Yen					U.S. dollars*2
Per share*1						
Basic net income	¥ 33.46	¥ 43.71	¥ 64.98	¥ 88.95	**¥ 115.02**	**$ 1.02**
Cash dividends applicable to the year	10.00	12.00	15.00	21.00	**26.00**	**0.23**

*1: The computations of net income per common share are based on the weighted average number of shares outstanding.
*2: The U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥113 = $1, the approximate exchange rate at March 31, 2016.

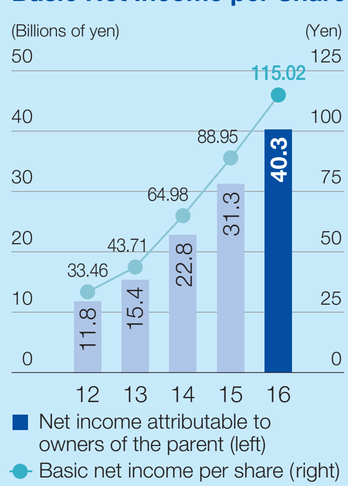
Net Sales



Operating Income



Net Income Attributable to Owners of the Parent/ Basic Net Income per Share



Message from the President

We will steadily implement the action plan in the 3D-II medium-term plan, with the aim of becoming a company that delivers the best solutions to the global market.

Misao Fudaba
President and CEO

Year in review

The Daicel Group posted record-high earnings thanks to increased sales volumes and cost reduction initiatives, as well as favorable external conditions.

In the year ended March 2016, the global economy saw continuing recovery in the U.S. and a modest recovery underway in Europe, but China's economy slowed. Although the Japanese economy had areas of weakness, the modest recovery trend continued overall, backed by improving corporate profits.

Under these circumstances, the Daicel Group continued to work relentlessly to strengthen the company's foundations, including by building optimal production systems tailored to product demand and implementing continuous cost reductions.

As a result, we posted increased sales volumes for cellulose acetate and automobile airbag inflators and undertook cost reductions. We also benefited from favorable external conditions, such as foreign exchange factors and raw material prices,

Results for the Fiscal Years Ended March 2015 and 2016

(Billions of yen)

	2015/3	2016/3	Change	% Change
Net sales	443.8	**449.9**	**+6.1**	**+1.4%**
Operating income	51.3	**64.3**	**+13.0**	**+25.4%**
Ordinary income	55.1	**65.4**	**+10.3**	**+18.8%**
Net income attributable to owners of the parent	31.3	**40.3**	**+9.1**	**+29.0%**

enabling us to post record-high earnings figures. We attribute this to our success in taking advantage of the external environment by continuing to emphasize stable operations and quality-assured manufacturing.

In light of our performance, we declared a year-end cash dividend of ¥13.00 per share. This brought annual dividends to ¥26.00 per share, up ¥5.00 from the previous year. Combined with the acquisition of around ¥4.0 billion of our own shares last November, this gave a shareholder return ratio of 32.5%.

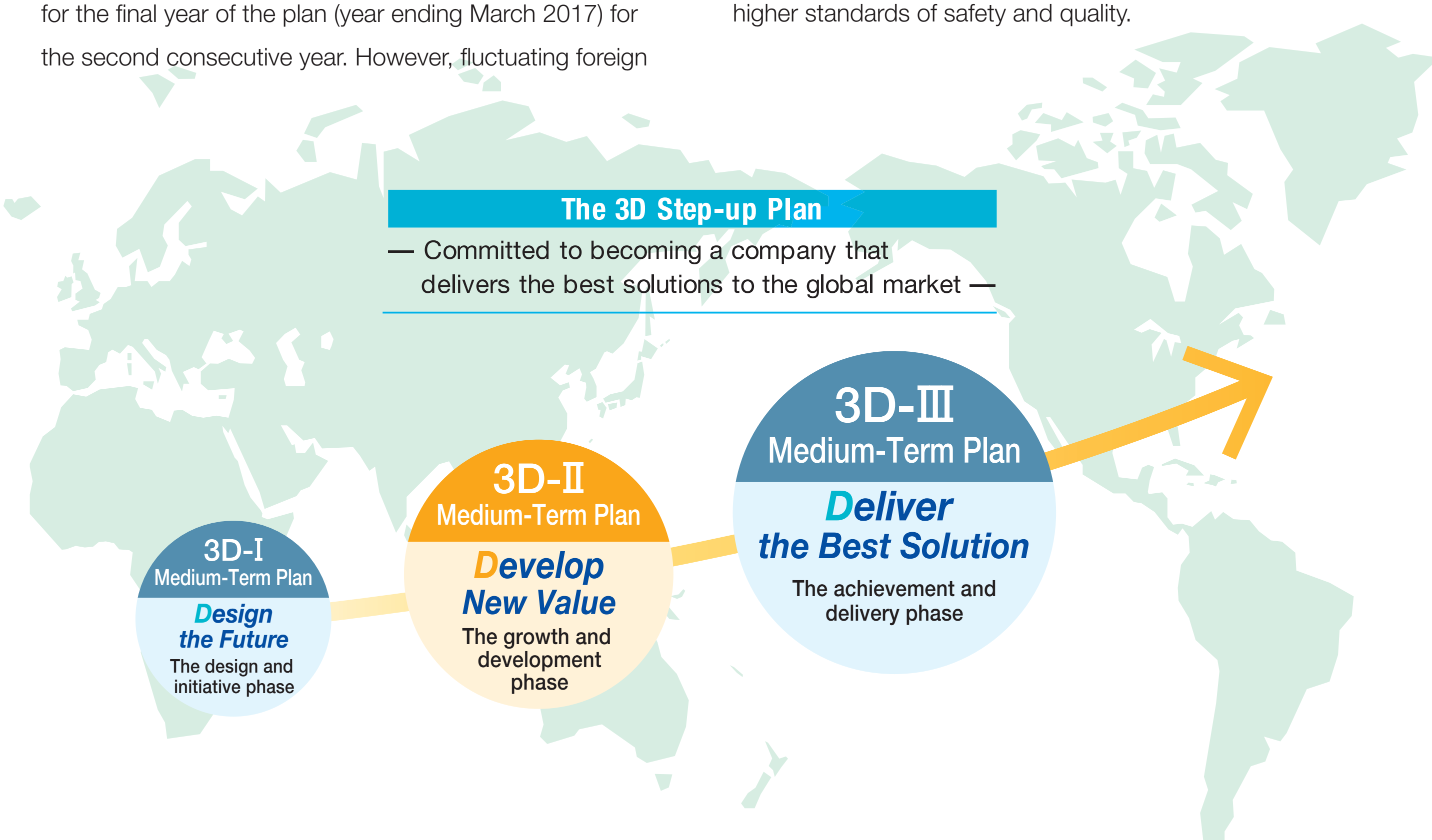
Progress of the 3D-II medium-term plan

We are pursuing further growth in our core businesses, creating new businesses, and implementing various other measures.

As part of Grand Vision 2020, our long-term vision, we formulated and are implementing our 3D Step-up Plan, which represents our commitment to becoming a company that delivers the best solutions to the global market. The 3D Step-up Plan consists of three three-year medium-term plans.

In the period under review, which was the second year of 3D-II, we met the operating income target of ¥50.0 billion set for the final year of the plan (year ending March 2017) for the second consecutive year. However, fluctuating foreign exchange rates and raw material prices have a substantial impact on the assumptions in the medium-term plan, so we do not think that this operating income is the result of our having implemented all of the specific measures described in the medium-term plan.

Going forward, we will strive to achieve further growth in our core businesses, including augmenting our cigarette filter tow capacity, expanding global sales of engineering plastics, and enhancing our automobile airbag inflator manufacturing bases. In addition, we will promote cost reductions via process innovation and other means, the creation of new businesses in such fields as medical and health care and electronics, and initiatives focused on achieving even higher standards of safety and quality.



Outline of 3D-Ⅱ

Business targets

1 Consolidated performance for the year ending March 2017

Net sales: **¥500 billion** Operating income: **¥50 billion**

<Important management index>

Targeting to **10% or more** for operating income ratio (ROS) and ROE

2 Accelerated development of new businesses

Long-term target:
Development of new businesses, **¥10 billion in sales × 5 units**

Emphasis themes

On the assumption of the most important fundamentals as a manufacturer, such as product safety, quality assurance and safe operations, we make efforts by focusing on the following five themes:

1. **Further growth in core businesses**
2. **Development of new businesses**
3. **Development and enhancement of businesses from a global perspective**
4. **Enhancement of production foundations**
5. **Enhancement of capabilities of corporate divisions**

Outlook for the fiscal year ending March 2017

We forecast falls in both revenue and earnings despite increasing sales volumes, as the yen is expected to be stronger.

Although the economies of Japan, the U.S., and Europe are expected to see modest recoveries, there are fears of economic slowdown in China and other emerging economies, so the outlook for the global economy remains pessimistic.

In terms of the outlook for the Daicel Group's performance under these circumstances, we anticipate increased sales volumes for cigarette filter tow and automobile airbag inflators, but the yen is expected to be stronger than in the fiscal year ended March 2016.

Earnings Forecasts for the Fiscal Year Ending March 2017

(Billions of yen)

	2016/3 (Result)	2017/3 (Forecasts)	Change	% Change
Net sales	449.9	444.0	-5.9	-1.3%
Operating income	64.3	61.0	-3.3	-5.2%
Ordinary income	65.4	63.5	-1.9	-2.9%
Net income attributable to owners of the parent	40.3	40.0	-0.3	-0.8%

For the fiscal year to March 2017, we forecast annual cash dividends of ¥26.00 per share, remaining unchanged from the year under review. Following on from the year under review, we have decided to acquire around ¥4.0 billion of our own shares again in the fiscal year ending March 2017. In conjunction with this, we have also canceled 15 million of our own shares (4% of the total number of shares issued before cancellation).

Future initiatives

We will continue to prioritize efforts to ensure safety and quality, the foundations of manufacturing.

Since my appointment as president, I have consistently stated that safety and quality are the very foundations of manufacturing and are therefore the most important issue for us as a manufacturer. I would like to take this opportunity to outline a few of our initiatives in these areas.

Developing the personnel who carry out manufacturing and the maintenance of equipment required for this is fundamental to ensuring safety and quality. To enhance human resource development in our production division, we refurbished our Operation Training Center in 2013 to serve as a more functional training facility, not only offering education in basic plant operation, but also equipped with facilities for experiential education in dealing with potentially dangerous situations. During the period under review, we set up annexes where we can deliver education tailored to the specific features of each plant. We also established the Maintenance Dojo, where maintenance division staff involved in equipment maintenance and staff from partner companies can hone their practical knowledge, techniques, and skills. We are gradually enhancing the curriculum there.

In the area of quality assurance, we are progressively dissolving the Quality Audit Group in the Production Technology Headquarters and have replaced it with the Quality Management Division. Dedicated to quality audit functions, the new division has an expanded remit covering the whole of the Daicel Group and reports directly to the president.

We will also undertake various other initiatives, including improving the stable operation level via Production Innovations the Daicel Way and process innovations, as well as the Comprehensive Assessment Procedure and a wide range of other risk assessments. Thus, while doing our utmost to reinforce the foundations of our business, we will forge ahead with further safety and quality improvements in order to become a company trusted throughout society.

SPECIAL FEATURE

Human resource development initiatives for safety and quality assurance that supports Daicel's production line

Safety and quality assurance are the foundations of manufacturing and of the utmost importance as an ongoing concern. The Daicel Group has long focused its efforts on human resource development for safety and quality assurance. In this special feature, we introduce the Operation Training Center, which plays the central role in this, and our new Maintenance Dojo* initiative.

* Dojo: a Japanese word meaning "a place of training."

The operation training center: Promoting hands-on training

The Operation Training Center was set up in 2002 primarily to serve as a place for training operators and engineers working at our production sites, with the goal of establishing and maintaining “Production Innovation the Daicel Way.” Daicel’s unique approach to production innovation aims to achieve a wide range of effects, including (1) safe and stable operations, (2) dramatically higher productivity, (3) substantially lower manufacturing costs, (4) smoother, more uniform operations and quality stabilization, (5) the passing on of skills and techniques and human resource development, and (6) energy conservation. To this end, the center goes back to basics with a focus on human-centered manufacturing, systemizing the skills and know-how of experienced workers in a way that enables everyone to utilize them.

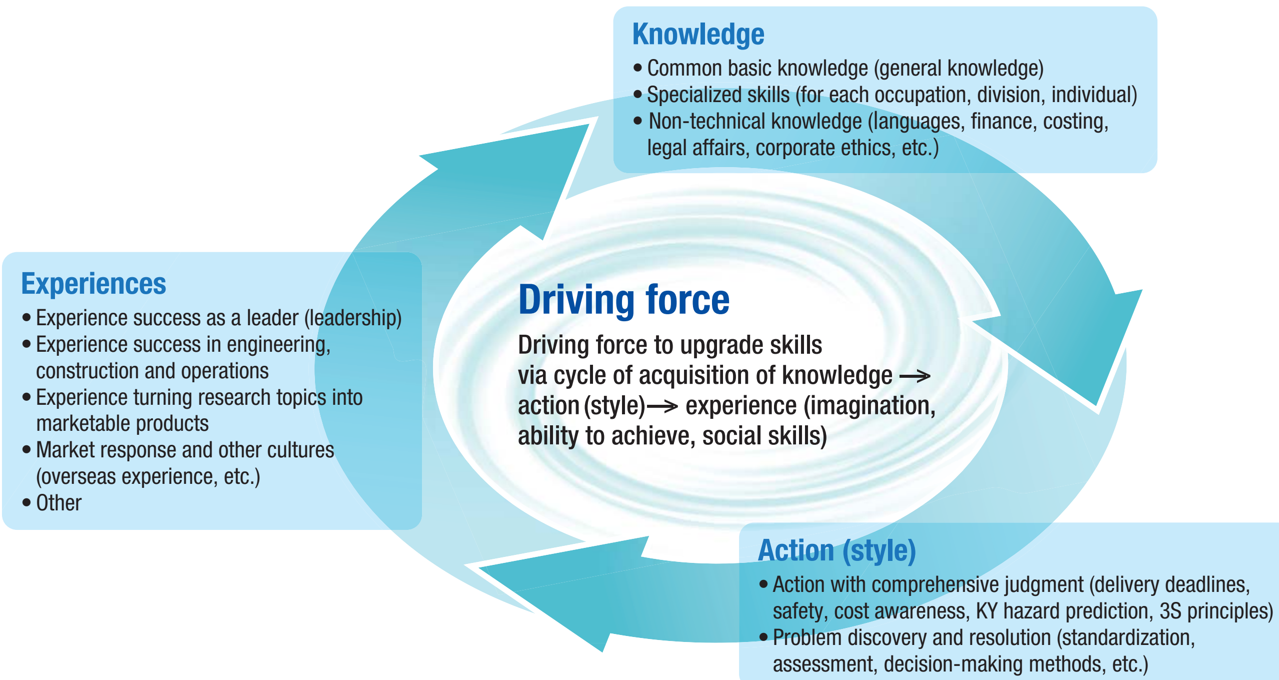
The center prepares a curriculum that meets Daicel’s needs and maintains a small-scale plant where trainees can experience operating a chemical plant, including operating a distributed control system (DCS). With the goal of contributing to safe and stable operation by understanding the structure of equipment used and its proper operation and control, the center provides equipment for instruction purposes including pumps and valves, distillation towers, cutaway models of instruments, distillation tower filling, and packing materials.

The educational program involves hands-on learning to master the “knowledge,” “experience” and “action” required in the participants’ respective roles. The study texts cover a wide range of topics, beginning with the basics of chemical plant operation and moving on to unit operation in chemical engineering (axioms and principles), machine management, instrumentation technology, and safety assessment. The importance of safety is reaffirmed in the curriculum. It also provides a historical perspective, including the history of safety and improvement (Production Innovations the Daicel Way), and a review of the background and purpose of systems and rules that were created as a result of lessons learned from past problems.

The Operation Training Center regularly conducts hands-on chemical plant training not only for Daicel employees, but also for university and technical college students. The center has trained approximately 4,200 people since its establishment, including around 2,400 operators, 1,500

engineers, and 340 managers and students.

We cannot offer safety and quality assurance unless we develop human resources capable of delivering them. It is therefore vital that we not only acquire more advanced skills and knowledge, but also tirelessly continue to put the fundamentals of manufacturing and basic activities into practice every day. We will maintain our management principle of "start with basics, and return to basics," which was adopted at the time of our founding, and continue to develop people who support Daicel's manufacturing activities so that we can deliver safety and quality assurance.



The establishment of our Maintenance Dojo

Over the years, Daicel has endeavored to improve maintenance, but generational change in recent years has been accompanied by a number of equipment defects that would appear to stem from a decline in technical maintenance skills, abilities in the area of managing, supervising, and inspecting engineering work, and problem analysis capabilities. This led us to conclude that our human resource development did not have an adequate focus on existing *knowledge* and *experience* when nurturing the *people* who actually put into practice our safety and quality assurance. Accordingly, we opened the Maintenance Dojo in the year ended March 2016 to conduct more practical training, with the aim of passing on the maintenance techniques and skills needed by Daicel and improving the quality of engineering work. Not only Daicel employees, but also staff from partner companies undergo training here.

For example, we have developed a device that quantitatively measures the axial force of a bolt when tightening pipe flanges and introduced a skills accreditation system using this device. As a result, we have succeeded in substantially reducing the problem of leakage from pipe flanges. We are strengthening our safety and quality assurance by rolling out this kind of education and training throughout the company via the Maintenance Dojo, to enhance our human resource development in the field of equipment maintenance.

Daicel Highlights of the Year

RC Grand Prix winner at the Japan Chemical Industry Association 9th Responsible Care Awards

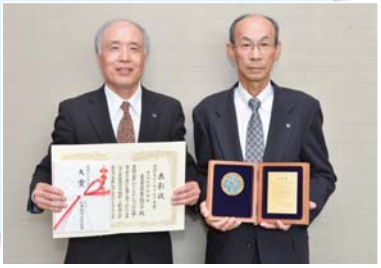
Daicel's Operation Training Center was awarded the RC Grand Prix by the Japan Chemical Industry Association (JCIA) at its Responsible Care Awards.

Responsible Care (RC) is a voluntary initiative by national and local chemical industries in more than 50 countries worldwide, aimed at ensuring environmental, health and safety performance throughout the life-cycle of chemicals, from their development to their manufacture, distribution, use, final consumption, and disposal. Those practicing RC seek to deepen trust on the part of society by disclosing the outcomes of activities and engaging in dialogue.

The JCIA established the Responsible Care Awards to recognize outstanding achievements and contributions, as a means of further advancing and expanding RC activities. The RC Grand Prix is the highest honor among them.

In 2002, the Company established the Operation Training Center and launched a human resource development program consistent with our unique approach to manufacturing: "Production Innovations the Daicel way." Since then, we have passed techniques and skills from one generation to the next, while developing the curriculum to encompass numerous courses. This award was conferred in recognition of our unique educational system and patient efforts in the area of human resource development.

Going forward, we will continue to value the fundamentals and steadily pass on techniques and skills, so that we can contribute to society through our dedication to high-quality manufacturing that ensures environmental, health and safety performance.



2015 4 April 5 May 6 June 7 July 8 August 9 September

Acquisition of treasury stock

After the Board of Directors passed a resolution to acquire treasury stock in November 2015, Daicel purchased around 2.15 million of its own shares for approximately ¥4.0 billion yen. The 3D-Ⅱ medium-term plan has set a target of achieving a shareholder return ratio of 30% and we will continue to aim to achieve a well-balanced allocation of profits going forward.

Launch of the labeled preparation business in India

Daicel launched a new business initiative involving the synthesis and sale of labeled preparations, to meet growing needs for the analysis of generic drugs and the like. We also established a new laboratory for these preparations in India in February 2016.

Our chiral business has bases in Japan, the U.S., France, China, and India and includes not only the sale of analysis columns, but also separation services and method development strategies. Labeled preparations are used in analysis required to prove that the active ingredients in generic drugs are bioequivalent to those in existing drugs. Through our expansion into this field, we will contribute to drug development by pharmaceutical companies not only within India, but also worldwide.

Second automobile airbag inflator manufacturing plant in the Americas begins operating

Daicel's second automobile airbag inflator production base in the Americas, Daicel Safety Systems America Arizona, Inc. (DSSA AZ), was completed and began operating. Daicel established this plant in the U.S. state of Arizona as part of a strategy to reinforce its automobile airbag inflator business.

DSSA AZ is sited adjacent to Special Devices, Inc. (SDI), a Group company that manufactures initiators of airbag inflator, enabling it to generate synergies in leveraging the personnel and know-how of SDI's management, as well as its manufacturing technologies.

Now that DSSA AZ has begun operating, Daicel will seek to expand sales to meet rising demand for airbag inflators in the Americas, covering North America—the world's largest airbag inflator market—and the rapidly growing markets of Central and South America.

10 October | 11 November | 12 December | **2016** | 1 January | 2 February | 3 March

Dispersible filler for dietary supplement tablets: DiSPERZiSTA* launched

In March 2016, Group company Daicel FineChem Ltd. launched DiSPERZiSTA: dispersible filler for manufacturing dietary supplements in the form of Orally Disintegrating Tablets (ODTs).

ODTs differ from conventional tablets in that they are designed to be dissolved on the tongue rather than swallowed whole and can be taken without water.

ODTs serve as an alternative dosage form for patients who have difficulty in swallowing, small children or the elderly. Highly rated for safety, convenience and reliability ODTs have become common in the pharmaceutical industry.

DiSPERZiSTA is designed to achieve compatibility with both high tablet hardness and rapid disintegration by the direct compression method of tablet production.

Previously, we launched GRANFILLER-D: pharma grade to the Japanese market in 2014. By providing the best solutions based on unique technologies, we continue to contribute to a better society and an improved quality of life.

* DiSPERZiSTA has been jointly developed by Daicel Corporation and Daicel FineChem Ltd.

The tablet with DiSPERZiSTA rapidly disintegrates into a creamy consistency.

At a Glance

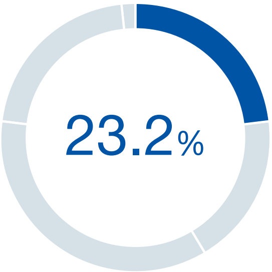
Business Segment

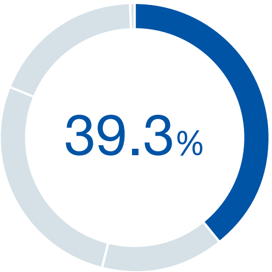
Sales: Total 449.9 billion yen

Operating Income: Total 64.3 billion yen

Cellulosic Derivatives

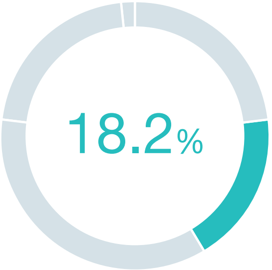
P17

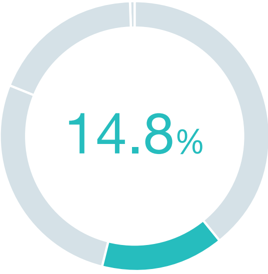




Organic Chemicals

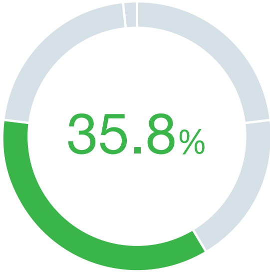
P18

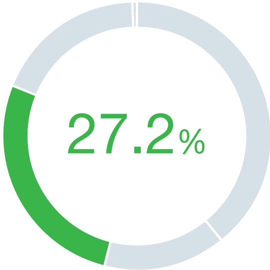




Plastics

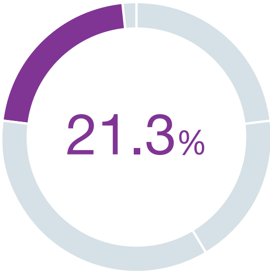
P19

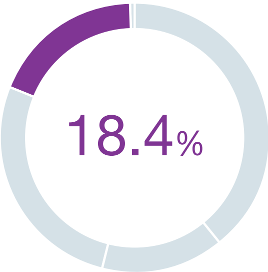




Pyrotechnic Devices

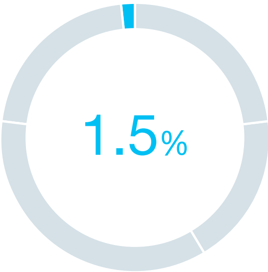
P20

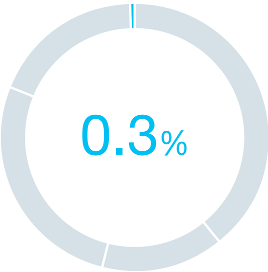




Others

P21





Major Products	Uses	Remarks
Cellulose acetate	LCD films, acetate fibers, photographic films, plastics	Overwhelming market share in the manufacture and sale of triacetyl cellulose (TAC) used in films for LCDs Stable supplier of acetate tow for cigarette filters to a number of leading cigarette manufacturers
Acetate tow	Cigarette filters	
Carboxymethyl cellulose (CMC) and other water-soluble polymers (WSP)	Foods, pharmaceuticals, cosmetics, adhesives, textiles, mud stabilizers, thickeners	
Acetate plastics	Frames for glasses, other products	
Celluloid		
Acetic acid and its derivatives	Cellulose acetate, vinyl acetate, pure terephthalic acid (PTA), solvents, pharmaceuticals	The only manufacturers of acetic acid in Japan World's largest manufacturer of chiral columns used for the separation of optical isomers
Chemicals products	Solvents, electronic materials, agricultural chemicals, pharmaceuticals	
Performance products	Electronic materials, cosmetics, polyurethane, epoxy resins, fine coating	
Chiral columns, separation services	Pharmaceuticals, chemical analysis	
Polyacetal (POM)	Electric and electronic parts, automotive parts IT and communication device parts, household appliances	The top rank in the world for POM; the top rank in Japan for PBT; the top rank on a global basis for LCP
Polybutylene terephthalate (PBT)		
Liquid Crystal Polymer (LCP)		
Polyphenylene sulfide (PPS)		
Cyclic-olefin copolymer (COC)		
ABS resins and alloys		
Polystyrene sheets and plastics products		
Functional coating films	Gas barrier films for packaging	
Airbag inflators	Automobile airbag systems, seat-belt pretensioners	The top manufacturer of automobile airbag inflators in Japan
Aircrew emergency escape systems, rocket motors, propellants	Uses for Japanese Self-Defence Forces	
Separation membrane modules	Water treatment	

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Review of Operations

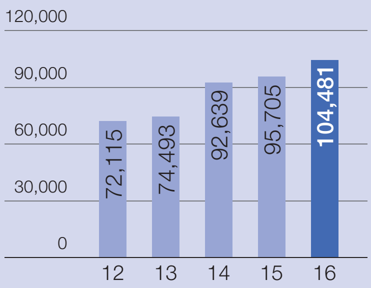
Cellulosic Derivatives

Operations

Years ended March 31	2012	2013	2014	2015	2016
	Millions of yen				
Sales to external customers	¥ 72,115	¥ 74,493	¥ 92,639	¥ 95,705	**¥104,481**
Intersegment sales	2,629	2,530	2,396	2,568	**2,176**
Total sales	74,744	77,023	95,035	98,273	**106,657**
Operating income	¥ 7,764	¥ 13,620	¥ 19,092	¥ 25,713	**¥ 29,668**
Total assets	¥ 80,657	¥ 85,793	¥ 94,879	¥110,584	**¥113,121**
Depreciation	9,963	7,578	7,632	6,168	**6,745**
Capital investments	3,053	5,936	7,120	14,915	**13,472**

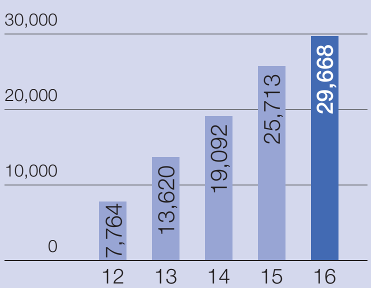
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Overview

The Cellulosic Derivatives Segment, which endeavors to further cultivate its cellulosic chemical technologies based on the celluloid manufacturing technologies in use since the establishment of Daicel, produces and sells a wide range of cellulosic derivatives.

Today, our lineup includes cellulose acetate, which is used for applications ranging from liquid crystal displays (LCD) and photographic films to cigarette filters and acetate fibers. This product, and acetate tow used in cigarette filters account for the majority of sales in the segment.

Daicel's strengths are its commanding share in the manufacture and sale of triacetyl cellulose (TAC) used in film for LCDs, as well as its integrated production system for acetic acid, cellulose acetate, and acetate tow.

Performance

Sales in the Cellulosic Derivatives segment amounted to ¥104,481 million, up 9.2% year on year. Segment operating income increased 15.4%, to ¥29,668 million.

Despite falling demand for LCD film applications, sales of cellulose acetate rose due to growing sales for other applications.

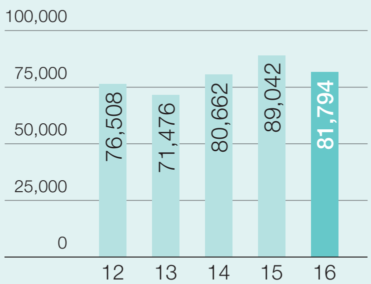
Although there was a worldwide slowdown in demand and inventory adjustment in the Chinese market, sales of cigarette filter tow grew due to a slight rise in the volume of sales and favorable foreign exchange rates.

Review of Operations

Organic Chemicals

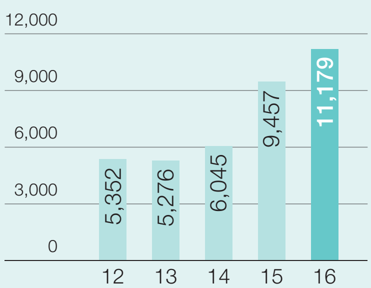
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Operations

Years ended March 31	2012	2013	2014	2015	2016
	Millions of yen				
Sales to external customers	¥ 76,508	¥ 71,476	¥ 80,662	¥ 89,042	¥ 81,794
Intersegment sales	15,054	15,103	18,984	17,518	13,732
Total sales	91,562	86,579	99,646	106,560	95,526
Operating income	¥ 5,352	¥ 5,276	¥ 6,045	¥ 9,457	¥ 11,179
Total assets	¥ 66,499	¥ 67,277	¥ 67,932	¥ 70,783	¥ 68,731
Depreciation	6,950	5,387	4,919	4,503	4,431
Impairment loss on fixed assets	375	53	—	—	—
Capital investments	4,553	3,844	3,836	6,363	5,801

Overview

The Organic Chemicals Segment consists of a number of businesses, including the organic chemical products business, primarily acetic acid; the organic performance products business, including peracetic acid derivatives; and the chiral separation business.

In the organic chemical products business, acetic acid is one of Daicel's mainstay products. Daicel manufactures acetic acid derivatives and other chemicals for a wide range of uses, including raw materials for the manufacture of synthetic fibers and plastics, solvents, basic ingredients used in pharmaceuticals and agrochemicals, and materials used in industry.

The organic perfomance products business manufactures and sells peracetic acid derivatives used in raw materials for industrial plastics and electronic materials. This business also manufactures and sells basic ingredients used in pharmaceuticals, agrochemicals and cosmetics that produced from our various chemical technologies and biotechnology-based healthcare materials.

We hold the top share worldwide in the chiral separation business, which includes the sale of columns used for separating the optical isomers that are a crucial part of the development of pharmaceuticals and various manufacturing processes; the sale of chiral stationary phase used in fractionation; and custom separation services.

Performance

In the Organic Chemicals segment, sales fell 8.1% year on year to ¥81,794 million, while operating income grew 18.2% to ¥11,179 million.

Sales of acetic acid, a mainstay product, decreased due to falling sales volumes resulting from the implementation of the regular biennial maintenance of our Aboshi Plant during the period under review, as well as deteriorating market conditions.

Sales of organic chemicals, such as acetic acid derivatives and solvents, also fell, affected by decreases in sales volumes of electronic materials, paint and other applications, as well as the impact of the drop in the crude oil price on selling prices.

Peracetic acid derivatives and other performance chemicals posted a slight increase in sales revenue supported by favorable exchange rates and other factors, despite sluggish sales of some products.

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

Review of Operations

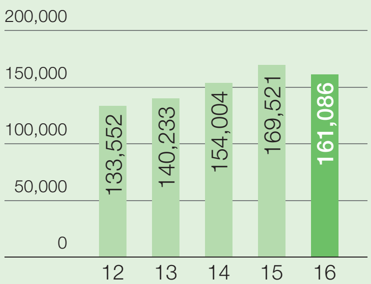
Plastics

Operations

Years ended March 31	2012	2013	2014	2015	2016
	Millions of yen				
Sales to external customers	¥ 133,552	¥ 140,233	¥ 154,004	¥ 169,521	**¥ 161,086**
Intersegment sales	12	7	2	5	**17**
Total sales	133,564	140,240	154,006	169,526	**161,103**
Operating income	¥ 9,870	¥ 11,177	¥ 11,047	¥ 15,913	**¥ 20,508**
Total assets	¥ 120,239	¥ 148,113	¥ 168,922	¥ 174,553	**¥ 166,728**
Depreciation	6,550	5,715	5,090	6,261	**5,574**
Amortization of goodwill	—	77	389	624	**477**
Capital investments	6,498	13,044	10,084	2,287	**4,296**

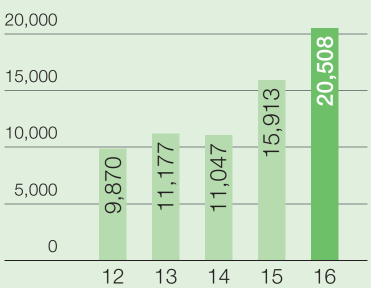
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Overview

The Plastics Segment consists of several businesses, notably the engineering plastics business, which includes polyacetal (POM), polybutylene terephthalate (PBT), polyphenylene sulfide (PPS), and liquid crystal polymers (LCP); the resin compound business, such as high performance polymer alloys; and the plastic processing business, such as polystyrene-based sheets, molded packages, and functional coating films.

Polyplastics Co., Ltd., a Daicel subsidiary, is responsible for the engineering plastics business. With the world's largest market share in engineering plastics like POM and LCP, Polyplastics supplies products for a wide range of applications mainly in the automobile and electronics industries but also for precision machinery, construction materials, and household appliances. The market for engineering plastics has been concentrated in the Asia-Pacific region but is now expanding worldwide.

Daicel Polymer Ltd., also a subsidiary, manufactures and markets plastic compounds and polystyrene sheets. Daicel Polymer focuses on supplying high performance products, such as polymer alloys that combine the advantages of two types of resin and reinforced grade using special fillers. The company meets increasingly sophisticated user needs and the needs of users expanding their global production through its close-knit network of operations in Japan, Hong Kong, Shanghai, Guangzhou, Singapore, and Thailand.

Performance

Sales in the Plastics segment fell 5.0% year on year to ¥161,086 million, while operating income grew 28.9% to ¥20,508 million.

Despite favorable foreign exchange rates, sales in Daicel's engineering plastics business—which includes polyacetal (POM), polybutylene terephthalate (PBT), and liquid crystal polymers (LCP)—fell, due to the Chinese economic slowdown, sluggish growth in production among Japanese automobile manufacturers, and poor sales in the electronic device sector.

With respect to the resin compound business, centering on ABS resins and engineering plastic alloy resins, we enjoyed growth in overseas sales and favorable foreign exchange rates, but domestic sales remained weak, so sales fell overall.

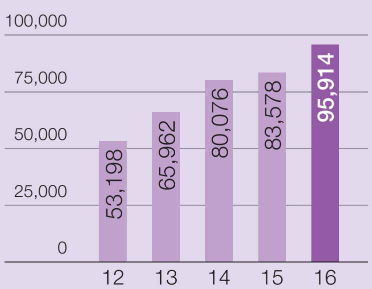
Sales in the resin processing business, including sheets, molded containers, and films, fell as a result of a decline in sheet sales.

Review of Operations

Pyrotechnic Devices

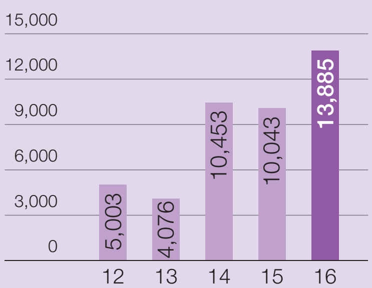
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Operations

	Millions of yen				
Years ended March 31	2012	2013	2014	2015	2016
Sales to external customers	¥ 53,198	¥ 65,962	¥ 80,076	¥ 83,578	¥ 95,914
Total sales	53,198	65,962	80,076	83,578	95,914
Operating income	¥ 5,003	¥ 4,076	¥ 10,453	¥ 10,043	¥ 13,885
Total assets	¥ 58,736	¥ 80,401	¥ 82,264	¥ 97,016	¥104,812
Depreciation	3,998	4,551	5,208	5,265	5,859
Amortization of goodwill	—	741	447	490	535
Capital investments	3,667	15,737	3,687	6,170	15,101

Overview

The Pyrotechnic Devices Segment consists of two main businesses: the motor vehicle safety device business, which handles inflators (gas-generating devices) for automobile airbags and seatbelt pretensioner gas-generating (PGG) devices, and the aerospace & defense business, made up mainly of pilot emergency escape systems, propellants, and rocket motors.

Daicel's automobile airbag inflators are highly regarded as essential components in airbag systems, a field in which technology is constantly advancing.

In the aerospace & defense business, we manufacture various kinds of gunpowder made from nitrocellulose, a raw material of celluloid, as well as composite propellants and rocket motors for missile applications. We also produce pyrotechnic products and pilot emergency escape systems that use the power of propellants to safely eject pilots from aircraft.

Performance

In the Pyrotechnic Devices segment, sales climbed 14.8% to ¥95,914 million. Segment operating income rose 38.2% to ¥13,885 million.

For the year, our motor vehicle safety device business, which includes automobile airbag inflators, achieved sales growth owing both to increased sales volumes of inflators and initiators (which ignite inflators) and to favorable exchange rates.

In the aerospace & defense business, which includes propellants, missile components, and products for pilot emergency escape systems, sales were up thanks to an increase in the volume of some products procured by the Ministry of Defense.

Review of Operations

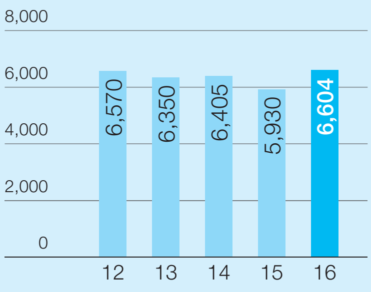
Others

Operations

Years ended March 31	2012	2013	2014	2015	2016
	Millions of yen				
Sales to external customers	¥ 6,570	¥ 6,350	¥ 6,405	¥ 5,930	¥ 6,604
Intersegment sales	9,480	9,784	9,571	9,793	10,135
Total sales	16,050	16,134	15,976	15,723	16,739
Operating income	¥ 1,020	¥ 797	¥ 286	¥ 30	¥ 181
Total assets	¥ 7,065	¥ 7,873	¥ 9,103	¥ 9,922	¥ 11,717
Depreciation	264	244	272	235	273
Capital investments	193	255	270	378	279

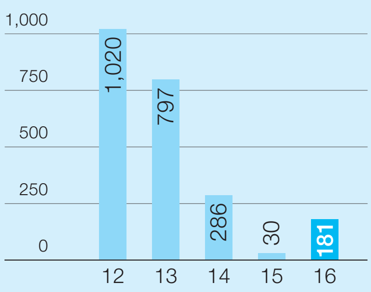
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Performance

Sales in this segment rose 11.4% to ¥6,604 million, and operating income surged 503.3% to ¥181 million.

The membrane business, including membrane modules for water treatment, posted growth in sales thanks to healthy demand in the medical sector.

The transportation and warehousing business and other business areas also experienced rising sales.

Research and Development

The Importance of R&D in Group Operations

Given Japan's lack of natural resources, to achieve continued profitable growth, chemical manufacturers must demonstrate their ability to deliver to the market a continuous stream of creative, highly distinctive products, embodying proprietary technologies. The Daicel Group recognizes that research and development is a key factor to this ability. For this reason, we consider R&D to be one of our most important management priorities.

Daicel aims to create new value for customers through its R&D activities. Our work is based on the core technologies we have amassed over the years in cellulose chemistry, organic synthesis chemistry, polymer chemistry, and pyrotechnic engineering.

R&D Activities for this Fiscal Year

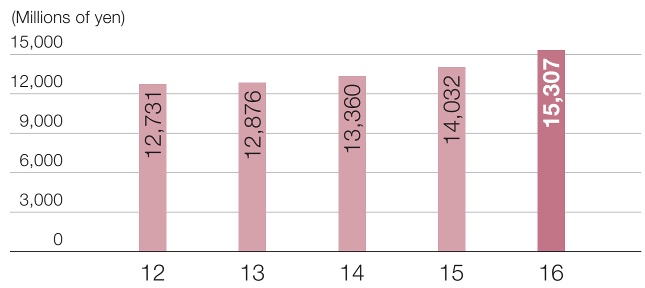
The Daicel Group (Daicel Corporation and consolidated subsidiaries) engages in R&D aimed at further expanding existing businesses and creating new ones.

As one of its efforts to develop new businesses, the Daicel Group is engaged in product and market development in the medical healthcare sector. To this end, Daicel is developing functional food materials such as Equol (anti-aging material derived from soybeans), for use in health foods.

Having purchased the health and amenity business of Unitika Limited on April 1, 2015 to accelerate our efforts to establish our healthcare business, we established a healthcare division within our R&D Headquarters.

Consolidated R&D expenses amounted to ¥15,307 million in the fiscal year ended March 2015. The Group has 1,070 employees, representing 10% of the Group's total employees, engaged in R&D activities.

Research and Development Expenses



R&D Initiatives by Business Segment

The main research themes, objectives and expenses for R&D undertaken by each of the business segments during the year under review are presented in the accompanying table. We plan to invest ¥17,000 million in R&D in the fiscal year ending March 2016.

Business Segment	R&D Main Themes	R&D Expenses
Cellulosic Derivatives	• Strengthening production technology and improving the quality and competitiveness of cellulose acetate and cigarette filter tow • Developing new applications and products based on existing products	¥ 894 million
Organic Chemicals	• Research into improving acetic acid manufacturing technologies; development of new organic derivatives; and development and commercialization of organic-designed products • Development of new optical isomer separation columns and products for use in separation and refining • Development of high-performance materials, such as LED encapsulants, light sources, and optical materials • Adapting process innovation technologies to manufacturing plants in order to strengthen competitiveness of existing products	¥ 3,184 million
Plastics	• Enhancement of quality and environmental suitability of engineering plastics; development of high-performance resins and polymer alloys; and product development of polystyrene	¥ 3,461 million
Pyrotechnic Devices	• R&D on new gas generants agents and new inflators for automobile airbags; and development of pilot emerging-escape systems and others • Application of pyrotechnic devices to develop products in new fields	¥ 3,084 million
Others	• Development of separation membranes and separation systems	¥ 247 million
Company-Wide R&D	• R&D on creation of new businesses; and basic research that cannot be allocated to any specific segment • Development of functional chemical products and functional films for the electronics market; and development of functional materials for advanced fields, such as the medical/healthcare fields	¥ 4,433 million

Corporate Governance

The Daicel Group seeks to increase corporate value by strengthening its corporate governance and endeavors to maintain sound company management by enhancing management transparency and fairness.

Corporate Governance Framework

Daicel is a company with a Board of Corporate Auditors. Also, by welcoming external directors and allowing them to provide opinions and advice based on their expertise, the Company is working to ensure that the decisions made by its Board of Directors are appropriate and the execution of director duties is effectively supervised. The Company has also adopted an executive officer system. The adoption of the executive officer system has enabled the Company to clearly separate its decision-making, supervisory and business execution functions. Such a clear division of roles has allowed us to bolster our business management structure and, consequently, corporate activities. In addition, Daicel has adopted an internal company system. Through this system, the Company is adhering strictly to a policy of integrated management with respect to the production, sales and R&D functions of existing businesses while improving productivity and strategic functions within its corporate divisions. In this manner, Daicel is reinforcing its product and technology development structure and systems across internal companies as well as horizontally across the Group as a whole.

Based on its corporate auditor system, the Company has established a corporate framework under which its Board of Directors makes management decisions in an efficient manner and fulfills its supervisory functions, and its Board of Corporate Auditors accomplishes its auditing functions. Such a framework has enabled us to keep reinforcing our corporate governance.

* Business divisions within the Company are essentially operated as independent companies. Functions that traverse each division are referred to as corporate departments. Corporate departments are not only a feature of the Company on a non-consolidated basis, but also serve a head office function across the Group as a whole on a consolidated basis.

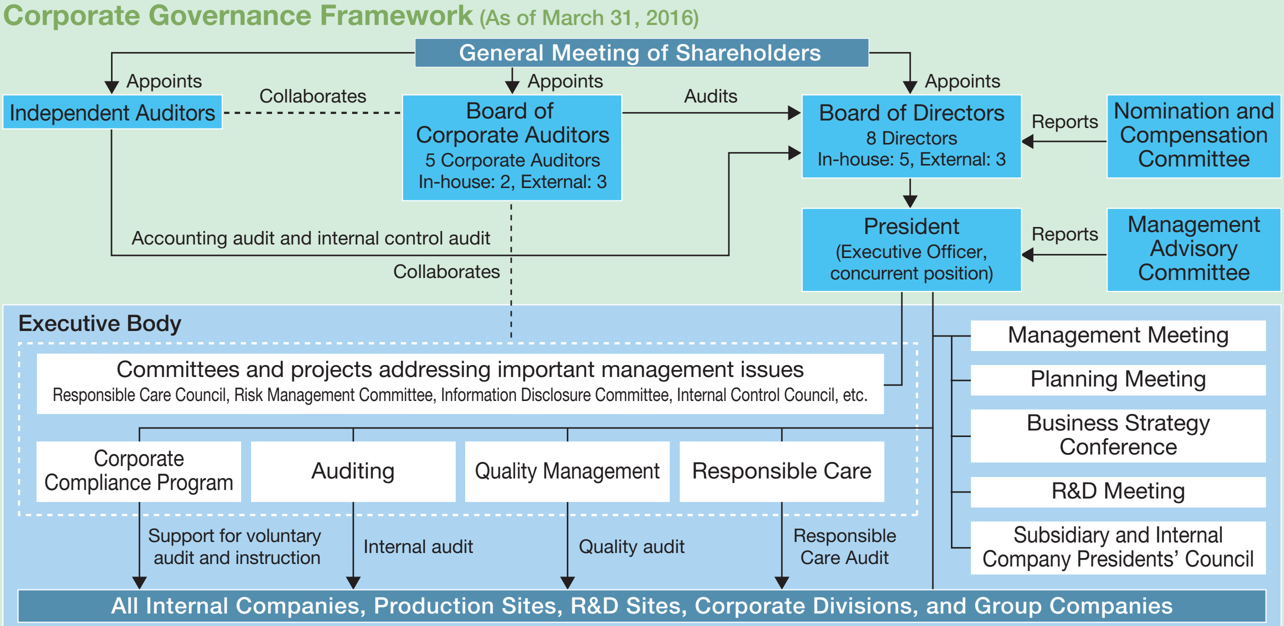
Board of Directors

Daicel's Board of Directors consists of eight directors, three of whom have been externally appointed. The Board of Directors meets, in principle, once a month to make decisions concerning important management issues in line with the regulations for the Board of Directors meetings. Furthermore, the Board of Directors supervises the execution of business and operating activities.

At Daicel, external directors are tasked with providing advice and supervisory functions based on their experience and expertise. All of the Company's external directors have been designated as independent directors, as defined under the Securities Listing Regulations of the Tokyo Stock Exchange in Japan.

The term of office for Daicel's directors is one year. Such a short term of office enables Daicel shareholders to increase their involvement in the appointment of directors. At the same time, it allows us to better clarify the management

Corporate Governance Framework (As of March 31, 2016)



Note: Executive officers include heads of internal companies, heads of internal companies, heads of sites, heads of corporate divisions, and the presidents of group companies, who administer corporate affairs.

responsibilities of our directors and thereby reinforce our corporate governance.

Board of Corporate Auditors

Daicel currently has five corporate auditors, three of whom have been externally appointed. All corporate auditors are required to attend Board of Directors' meetings. In addition, full-time corporate auditors are required to attend meetings of the Management Meeting, the Risk Management Committee and other important organizations, thereby auditing the overall management of corporate affairs.

Meanwhile, the Company's corporate auditors all together form the Board of Corporate Auditors. The Board of Corporate Auditors holds meetings to report, deliberate and make decisions on important issues relating to the Company's audits.

Corporate auditors regularly receive reports from the Company's internal auditing divisions (Such as the Auditing Office, the Responsible Care Office and Corporate Compliance Program Division) and independent accounting auditors. In addition, on an as needed basis, they collaborate—through the exchange of information and opinions—with the internal auditing division and the independent accounting auditors in promoting audits of the Company. Two of the three external corporate auditors have been designated as independent corporate auditors, as defined under the Securities Listing Regulations of the Tokyo Stock Exchange in Japan.

Also, as an organization to support audits by corporate auditors, the Company has established the Office of Corporate Auditors. The Office of Corporate Auditors has its own dedicated staff which is independent from the business divisions.

Management Meeting

Daicel has established the Management Meeting as a body to have deliberations and make decisions prior to its president implementing the basic corporate management policies formulated by the Board of Directors. The Management Meeting consists of the president, directors (excluding external directors), corporate auditors (excluding external corporate auditors) and the executive officers selected by the president as its members. The Management Meeting convenes, in principle, twice a month.

Nomination and Compensation Committee

A Nomination and Compensation Committee has been established. This committee is chaired by an external director and is comprised of external directors as well the Company's president. In addition to taking into consideration advice from the chairperson of the Board of Directors, the Nomination and Compensation Committee reports on the nomination of and compensation paid to directors and executive officers.

Management Advisory Committee

The Management Advisory Committee is in charge of deliberating such important corporate matters as the formulation of Group strategies and business restructuring based on such strategies. By doing so, the committee serves as an advisory body for President and CEO. The committee members consist of President & CEO, directors (excluding external directors) and executive officers designated by President & CEO. The committee convenes these members on an as needed basis.

Internal Control Systems

In accordance with its basic policies concerning the development of internal control systems formulated by the Board of Directors, the Daicel Group works to administer and enhance its efficient and effective internal control systems.

We believe that these systems help the Daicel Group sustain steady growth. To accurately grasp the status of the entire Group and as a forum to discuss initiatives aimed at ensuring the effective functioning of internal control systems, Daicel has established an Internal Control Council.

Risk Management Initiatives

Daicel established the Risk Management Committee in 2006 as an organization to coordinate and promote Companywide risk management activities. Since its establishment, the Risk Management Committee has guided the entire Company in aggressively conducting risk management activities.

Each department within the Company is taking stock of potential risks that could have a major impact on Daicel's ability to achieve its business targets. To fully assess the situation, the Company's risk countermeasures and initiatives are entered into an intranet database. Countermeasures and initiatives are designed to prevent the incidence of risk or to reduce any subsequent impact. Each department assigns a priority level to each risk and caries out countermeasures accordingly. Steps are also taken to regularly update the status and progress of countermeasure implementation, and any newly identified risks are promptly entered into the database. Utilizing this database, Daicel pursues a check, act, plan, and do (CAPD) cycle in conjunction with the risk management activities of each department. Similar risk management activities are undertaken by Group companies in Japan and overseas*.

The Risk Management Committee periodically confirms the status of countermeasure implementation by each department and Group company. Recommendations and support are then provided as considered appropriate. In addition, summary activity reports are submitted by each department at the end of each fiscal year. This process enables all appropriate parties to fully grasp the status of risk.

In fiscal 2015, Daicel implemented Group-wide risk countermeasures aimed at stepping up the prevention of insider trading and the management of important corporate information. The Company also confirmed the current status of capabilities and steps undertaken to ensure continued operations following a major disaster, thereby preparing Daicel Business Continuity Plan (BCP) with clarified definition of issues to be addressed. Looking ahead, the Company plans to carry out annual emergency drills and address issues identified in such drills by upgrading its BCP.

* Certain overseas Group companies are excluded from using the database.

Board of Directors and Auditors/ Executive Officers (As of June 17, 2016)

President
Misao Fudaba

Director
Masumi Fukuda

Board of Directors and Corporate Auditors

President
Misao Fudaba

Directors
Masumi Fukuda

Yoshimi Ogawa

Hisao Nishimura

Noboru Goto
President of Polyplastics Co., Ltd.

External Directors
Akishige Okada
Advisor of Sumitomo Mitsui Banking Corporation

Tadao Kondo
Advisor of Nippon Shokubai Co., Ltd.

Chiyoko Shimozaki
Professor of Human Resource Management Graduate School of Business Osaka City University

Corporate Auditors
Hiroyasu Masuda

Yuji Iguchi

External Corporate Auditors
Kunie Okamoto
Chairman of Nippon Life Insurance Company

Toshio Takano
Lawyer

Ryo Ichida
Certified Public Accountant

Executive Officers

Chief Executive Officer
Misao Fudaba

Senior Managing Executive Officers
Masumi Fukuda
Head of Corporate Support Center, Responsible for Corporate Compliance Program, Corporate Planning and Business Process Innovation

Masayuki Mune
Responsible for Topas Business Group, Raw Material Purchasing Center and Cellulose Company

Managing Executive Officers
Yoshimi Ogawa
Responsible for Quality Management Division, Responsible Care, Organic Chemical Products Company and Aerospace & Defense Systems/ Safety Systems Company

Hisao Nishimura
General Manager of R&D Headquarters, Responsible for New Business Planning and Intellectual Property Center

Takahiko Ando
General Manager of Production Technology Headquarters, Responsible for Engineering Center

Dieter Heckmann
President of CPI Company, President of Chiral Technologies Europe S.A.S., Chairperson of Chiral Technologies, Inc., Chairperson of Daicel Chiral Technologies (India) Pvt. Ltd., Chairperson of Daicel Chiral Technologies (China) Co., Ltd.

Executive Officers
Naohide Hakushi
General Manager of Himeji Production Sector and General Manager of Aboshi Plant

Hidekage Kojima
President of Cellulose Company

Tetsuaki Nonaka
Head of Quality Management Division and Assistant Head of Responsible Care

Satoshi Sakamoto
President of Daicel Safety Systems America Holdings, Inc., President of Special Devices, Inc., President of Daicel Safety Systems America Arizona, Inc.

Hisanori Imanaka
Head of Raw Material Purchasing Center

Koutaro Sugimoto
President of Daicel Logistics Service Co., Ltd.

Yasuhiro Sakaki
President of Aerospace & Defense Systems/Safety Systems Company, Chairperson of Daicel Safety Systems (Jiangsu) Co., Ltd.

Yukio Yoshino
President of Daicel Value Coating Ltd.

Takashi Ueno
General Manager of Arai Plant and President of Daicel Arai Chemical Ltd.

Yasuo Tsuji
General Manager of Ohtake Plant

Akihisa Takabe
Deputy General Manager of R&D Headquarters

Mikio Yagi
Vice President of Aerospace & Defense Systems/ Safety Systems Company and General Manager of Aerospace & Defense Systems Division

Naotaka Kawaguchi
Vice President of Aerospace & Defense Systems/ Safety Systems Company and General Manager of Harima Plant

Shinji Fujita
Deputy Head of Corporate Support Center

Kouichi Maruyama
President of Daicel Polymer Ltd.

Hitoshi Hayashi
President of Organic Chemical Products Company and General Manager of Marketing

Financial Section

Eleven Year Summary

Years ended March 31

	2006	2007	2008	2009
For the year:				
Net sales	¥ 335,520	¥ 381,423	¥ 416,990	¥ 377,980
Operating income	33,570	36,399	32,164	10,590
Income before income taxes	29,386	33,185	27,145	6,272
Net income attributable to owners of the parent	14,221	17,438	13,676	1,297
Amounts per common share (yen):				
Basic net income	¥ 39.16	¥ 48.19	¥ 37.86	¥ 3.62
Cash dividends applicable to the year	8.00	8.00	8.00	8.00
Capital expenditures	¥ 59,018	¥ 55,316	¥ 46,930	¥ 25,666
Depreciation and amortization	22,484	23,774	29,576	39,674
Research and development expenses	11,221	11,717	12,004	12,046
At year-end:				
Total current assets	¥ 172,344	¥ 206,670	¥ 207,834	¥ 185,547
Total assets	483,469	547,432	515,618	445,912
Total current liabilities	133,420	152,556	158,230	151,158
Total long-term liabilities	121,159	152,467	118,240	83,266
Total equity*1	197,780	242,409	239,148	211,488
Ratios:				
Current ratio (%)	129.2	135.5	131.3	122.8
Shareholders' equity ratio (%)*2	40.9	39.5	41.4	42.3
Return on assets (%)	3.2	3.4	2.6	0.3
Return on equity (%)	7.7	8.4	6.4	0.6
Ratio of net income to net sales (%)	4.2	4.6	3.3	0.3
Assets turnover (times)	0.7	0.7	0.8	0.8
Tangible fixed assets turnover (times)	1.8	1.8	1.9	1.8
Other information:				
Price range of common stock (yen):				
High	¥ 1,017	¥ 1,050	¥ 921	¥ 677
Low	516	739	488	298
Exchange rate at year-end (yen per U.S.$1)	¥ 117.00	¥ 118.00	¥ 100.00	¥ 98.00
Number of employees (at year-end)	6,248	7,034	7,685	7,803

*1: From 2007, Total shareholders' equity is being shown as Total equity.
*2: Shareholders' equity ratio = Total equity less Noncontrolling interests / Total assets

Millions of yen, except per share amounts and other information

	2010	2011	2012	2013	2014	2015	2016
	¥ 320,243	¥ 353,685	¥ 341,943	¥ 358,514	¥ 413,786	¥ 443,776	¥ 449,879
	20,856	32,711	20,426	26,197	37,912	51,304	64,350
	16,911	29,713	19,962	25,283	40,824	52,948	63,491
	11,070	16,803	11,827	15,373	22,844	31,253	40,313
	¥ 31.10	¥ 47.22	¥ 33.46	¥ 43.71	¥ 64.98	¥ 88.95	¥ 115.02
	10.00	10.00	10.00	12.00	15.00	21.00	26.00
	¥ 18,424	¥ 11,753	¥ 17,394	¥ 26,067	¥ 28,026	¥ 29,629	¥ 35,851
	37,782	33,529	28,849	24,605	24,257	24,520	24,959
	11,317	11,971	12,731	12,876	13,360	14,032	15,307
	¥ 180,232	¥ 197,909	¥ 197,170	¥ 232,201	¥ 261,046	¥ 279,788	¥ 276,828
	428,377	411,071	398,197	461,513	509,834	565,332	560,191
	102,167	90,746	101,828	113,226	115,894	112,573	102,667
	97,205	84,988	61,657	85,387	98,135	96,581	88,803
	229,005	235,337	234,712	262,900	295,805	356,178	368,721
	176.4	218.1	193.6	205.1	225.2	248.5	269.6
	48.1	51.6	54.7	52.2	52.7	57.3	60.2
	2.5	4.0	2.9	3.6	4.7	5.8	7.2
	5.6	8.0	5.5	6.7	9.0	10.5	12.2
	3.5	4.8	3.5	4.3	5.5	7.0	9.0
	0.7	0.8	0.8	0.8	0.9	0.8	0.8
	1.7	2.2	2.4	2.5	2.7	2.7	2.6
	¥ 655	¥ 679	¥ 563	¥ 787	¥ 933	¥ 1,648	¥ 1,922
	341	363	391	424	683	816	1,375
	¥ 93.00	¥ 83.00	¥ 82.00	¥ 94.00	¥ 103.00	¥ 120.00	¥ 113.00
	7,665	7,747	8,149	9,233	9,700	10,173	10,709

Management's Discussion and Analysis

Operating Results

Net Sales

In the fiscal year ended March 31, 2016, consolidated net sales amounted to ¥449.9 billion, up ¥6.1 billion, or 1.4%, from the previous year.

The increase was due to a rise in sales volume and foreign exchange factors.

The fluctuation of the yen against the U.S. dollar during the year had an estimated ¥22.2 billion positive effect on net sales, compared with the previous fiscal year.

The main factors boosting net sales were as follows. In the Cellulosic Derivatives Segment, sales rose ¥8.8 billion year on year, owing mainly to growth in sales of cellulose acetate and foreign exchange factors. In the Pyrotechnic Devices Segment, sales rose ¥12.3 billion, due largely to growth in sales of automobile airbag inflators and foreign exchange factors.

Gross Profit

Gross profit amounted to ¥133.8 billion, up ¥17.7 billion, or 15.2%, from the previous year. The gross margin thus climbed 3.5 percentage points, to 29.7%.

Key factors included higher sales volume and foreign exchange factors.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥69.5 billion, up ¥4.6 billion, or 7.1%, from the previous year.

This was due mainly to increases in technological research expenses and labor costs. The ratio of SG&A expenses to net sales edged up 0.8 percentage points, to 15.4%.

Operating Income

Operating income jumped ¥13.0 billion, or 25.4%, to ¥64.3 billion, and the operating margin rose 2.7 percentage points, to 14.3%.

The fluctuation of the yen against the U.S. dollar during the year had an estimated ¥8.5 billion positive effect on operating income, compared with the previous fiscal year.

The main factors were as follows. In the Cellulosic Derivatives Segment, operating income increased ¥4.0 billion, due largely to increased sales volumes and foreign exchange factors. In the Organic Chemicals Segment, operating income rose ¥1.7 billion, owing mainly to a fall in raw material costs and foreign exchange factors. In the Plastics Segment, operating income grew ¥4.6 billion, thanks largely to a fall in raw material costs and foreign exchange factors. In the Pyrotechnic Devices Segment, operating income climbed ¥3.8 billion, due primarily to increased sales volumes and foreign exchange factors.

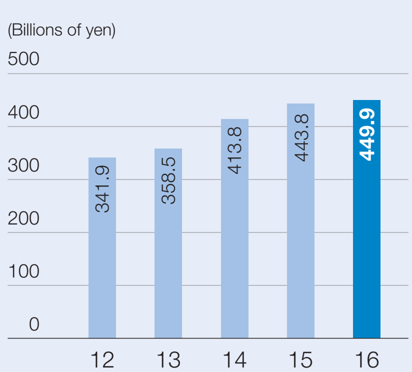
Other Income (Expenses)

Other expenses amounted to ¥0.9 billion, up ¥2.5 billion from the previous fiscal year. (Other income in the previous fiscal year was ¥1.6 billion) This was due primarily to a deterioration in profit and loss resulting from changes in exchange rates.

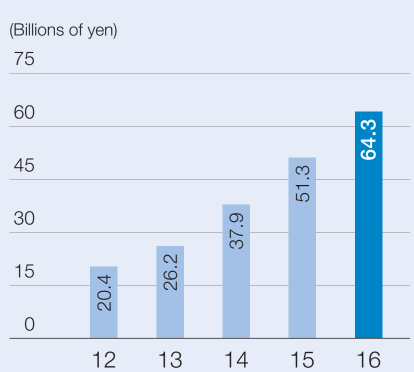
Income before Income Taxes

Income before income taxes totaled ¥63.5 billion, up ¥10.5 billion, or 19.9%, from the previous year.

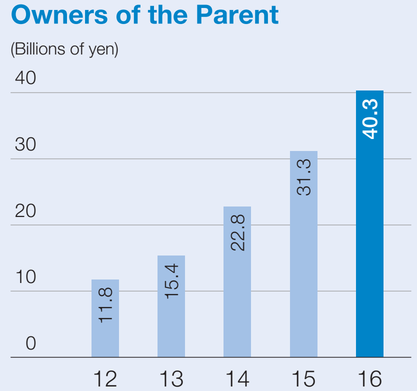
Net Sales



Operating Income



Net Income Attributable to Owners of the Parent



Income Taxes

The effective tax rate after application of tax-effect accounting decreased 5.1 percentage points, to 26.7%.

Net Income Attributable to Noncontrolling Interests

Net income attributable to noncontrolling interests for the year rose ¥1.4 billion, or 28.9%, to ¥6.2 billion.

Net Income Attributable to Owners of the Parent

Net income attributable to owners of the parent for the year increased ¥9.1 billion, or 29.0%, to ¥40.3 billion.

Return on equity (ROE) rose 1.7 percentage points, to 12.2%.

Per Share Information

Net income per share totaled ¥115.02, up ¥26.07 from the previous year.

Reflecting increases in both consolidated revenue and earnings, the Company paid annual cash dividends of ¥26.00 per share (including a ¥13.00 interim dividend), up ¥5.00 from the previous year. The dividend payout ratio was 22.6%.

Financial Position

Assets

As of March 31, 2016, total assets stood at ¥560.2 billion, down ¥5.1 billion, or 0.9%, from a year earlier.

The decrease stemmed mainly from falls in inventories and the market value of investment securities.

Liabilities

Total liabilities amounted to ¥191.5 billion, down ¥17.7 billion, or 8.4%, from a year earlier.

The decrease was due mainly to repayment of short-term debt and long-term debt due to be repaid within a year.

Equity

Total equity at fiscal year-end amounted to ¥368.7 billion.

Total shareholders' equity (total equity minus noncontrolling interests) was ¥337.4 billion, and the shareholders' equity ratio was 60.2%.

Cash Flows

Cash and cash equivalents at the fiscal year-end stood at ¥65.2 billion, down ¥1.5 billion, or 2.2%, from a year earlier.

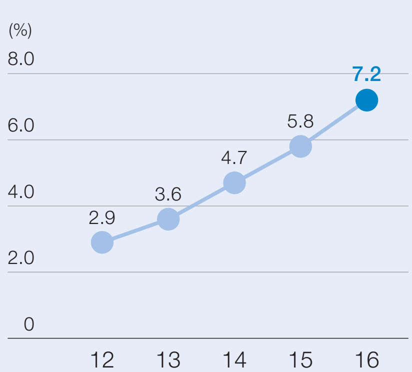
Cash from Operating Activities

Net cash provided by operating activities amounted to ¥65.4 billion, compared with ¥57.4 billion in the previous fiscal year. Factors increasing cash flow included ¥63.5 billion in income before income taxes and ¥25.0 billion in depreciation and amortization. Factors decreasing cash flow included ¥20.9 billion in income taxes paid.

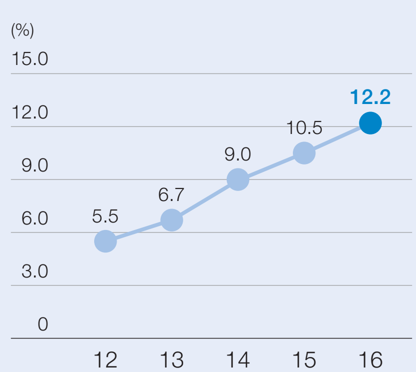
Cash from Investing Activities

Net cash used in investing activities totaled ¥31.4 billion, compared with ¥30.3 billion in the previous fiscal year. The primary factor was purchases of property, plant and equipment, totaling ¥34.7 billion.

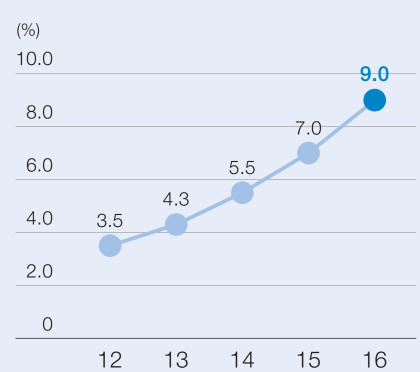
Return on Assets



Return on Equity



Ratio of Net Income to Net Sales



Cash from Financing Activities

Net cash used in financing activities was ¥31.5 billion, compared with net cash used in financing activities of ¥29.2 billion in the previous year. Factors decreasing cash flow included ¥8.4 billion in repayments of long-term debt and ¥9.1 billion in dividends paid.

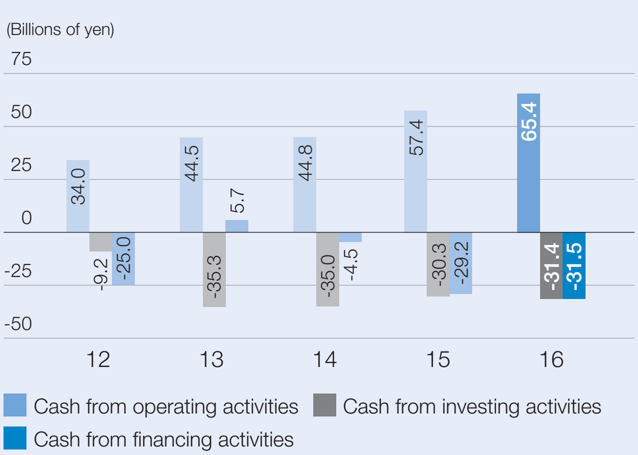
Business Risks

Business risks that may potentially have significant influence on investor decisions include not only risks common to industrial sectors, such as changes in macroeconomic and political conditions, but also the following types of factors. Items listed in this annual report do not necessarily comprise all of the risks related to the business of the Daicel Group.

Trends in Currency Exchange Rates

The Company's ratio of overseas sales to consolidated net sales is on the increase overall (54.5% in the fiscal year ended March 2016), and the Company's results are becoming more easily influenced by exchange rate fluctuations. We generally believe that depreciation of the yen has a positive effect on our performance, while appreciation of the yen has a negative effect on our performance. Though the Company executes exchange contracts and other risk hedging activities, this does not guarantee that exchange risks can be completely avoided.

Cash Flows



Risks in Expanding Overseas Business Operations

The Company is broadening its overseas business development, centered on China and the rest of Asia, as well as in North America, Europe, and elsewhere. However, risks are inherent in the case of overseas operations, such as unforeseen legal and regulatory changes, vulnerability of industrial infrastructure, difficulties hiring and retaining qualified employees, and social or political instability caused by acts of terrorism and war. In the event that any of these risks arise and cause disruption to overseas business operations, there is the possibility that the Daicel Group's consolidated performance and business plans would be affected.

Risks in Procuring Raw Materials

The Daicel Group engages in stable procurement of raw materials by purchasing from multiple suppliers and works hard to secure adequate supplies necessary for its production activities. Despite purchasing from multiple suppliers, however, the Group may become reliant on a limited number of suppliers for certain special raw materials. Alternatively, supplies may be suspended due to events affecting a supplier, such as natural disaster, accident, or bankruptcy. Also, a sharp increase in demand could lead to a supply shortage. Any of these cases could have a negative effect on the Group's performance.

Fluctuations in Raw Material (Methanol) Price

The Daicel Group purchases a large volume of methanol, the raw material for its core products, such as acetic acid and polyacetal. We apply mechanisms to regularly purchase methanol at a relatively low price, such as entering long-term contracts and investing in methanol producing companies. Upswings in the methanol market may negatively affect Group performance.

Fluctuations in Other Raw Material Prices

Concerning raw material and fuel price increases, the Daicel Group has been switching to raw materials and fuels that are less expensive and more stable in price, reducing costs through improved manufacturing, and revising product sales prices. However, there is a limit as to how much can be absorbed. In the event of escalating costs that exceed certain limits, there is the possibility that this would have a negative impact on Group performance.

Quality Guarantee and Product Liability

The Daicel Group has established a quality guarantee structure and strives to assure product safety and prevent defects. As a precaution, we also carry product liability insurance. However, in cases where products manufactured by the Company are found to be the cause of damage, the Company's performance may be negatively impacted.

Industrial Accidents

The Company routinely conducts safety and disaster prevention activities and strives daily to assure the safety of its manufacturing plants and other facilities. However, in cases where fires, explosions, or other industrial accidents or disasters occur, the Company's performance may be negatively affected.

Earthquakes and Natural Disasters

One of the Group's primary manufacturing facilities, the Fuji Plant of Polyplastics Co., Ltd., is in a region that requires reinforced countermeasures for disaster prevention related to the anticipated Tokai earthquake. We conduct earthquake-training drills and take countermeasures to protect equipment there. We also practice disaster preparedness and emergency training drills at other facilities. However, in the event that signifi cant damage is incurred by a natural disaster, Group results may be negatively affected.

Risks from Product and Technological Obsolescence

Depending on the industry, product cycles are rapid and there is a possibility that sales volumes decrease from initial expectations, R&D expenses not be recouped and income from Daicel's businesses deteriorate. Moreover, intense pressure to reduce sales prices cannot always be sufficiently covered by cost reductions, which also could cause income from Daicel's businesses to decline.

Risks from Violent Market Fluctuations

In the event of excess of supply caused by such factors as large-scale plants being constructed by other companies, or a drastic decline in demand caused by abnormal economic conditions, there is the possibility that Daicel's income from its businesses could deteriorate.

Risks Related to Intellectual Property

As stated in its Code of Conduct, the Daicel Group strives to maintain and protect its intellectual property (IP) rights and shall not infringe on the IP rights held by third parties. Based on this, the Group meticulously investigates IP-related information and adopts a strategic approach to the acquisition and management of IP rights, as well as to the conclusion and management of IP-related contracts. However, it is possible that the Group may be subject to an unexpected warning or litigation about infringement of third party IP rights, or a third party may infringe on the Group's IP rights without permission. Any of these cases could have a negative effect on the Group's performance.

Risks Related to Environmental Regulations

Through its energy-saving and resource-saving initiatives, the Daicel Group works hard to prevent further global warming, reduce the environmental impact of its activities—by effectively using resources and reducing waste, for example—and handle chemical substances in an appropriate manner. Due to tightening of environmental regulations, however, the Group may be forced to make capital expenditures or business reorganizations in order to achieve legal compliance, which could have a negative effect on the Group's performance.

Risks Related to Information Security

In the conduct of its business, the Daicel Group holds large quantities of confidential and personal information. The Group is building management frameworks and conducting employee training programs to ensure appropriate handling of such information, and also constantly introduces and updates its security software to address the changing IT environment. However, unpredictable and unauthorized access by outside parties could cause such information to be leaked or altered, which could have a negative effect on the Group's performance.

Outlook for Fiscal Year Ending March 2017

Amid these circumstances, regarding the Daicel Group's business forecast for the fiscal year ending March 31, 2017, while sales volumes of cigarette filter tow, automobile airbag inflators and other products are expected to grow, further appreciation of the yen from what was seen in the current fiscal year is assumed. Taking these assumptions into consideration, we forecast sales of ¥444.0 billion, operating income of ¥61.0 billion, ordinary income of ¥63.5 billion and net income attributable to owners of the parent of ¥40.0 billion.

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2016 and 2015

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 65,237	¥ 66,738	$ 577,319
Marketable securities (Notes 3 and 14)	280	1,531	2,477
Receivables (Notes 14 and 16):			
Trade notes	3,188	2,767	28,212
Trade accounts	80,485	79,796	712,257
Unconsolidated subsidiaries and associated companies	3,451	4,007	30,540
Allowance for doubtful receivables	(104)	(115)	(920)
Inventories (Note 4)	104,887	107,101	928,204
Deferred tax assets (Note 10)	4,891	5,772	43,283
Other current assets	14,513	12,191	128,433
Total current assets	276,828	279,788	2,449,805
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 17):			
Land	27,110	27,794	239,912
Buildings and structures	149,581	149,062	1,323,726
Machinery and equipment	557,373	557,030	4,932,504
Construction in progress	36,778	23,605	325,469
Total	770,842	757,491	6,821,611
Accumulated depreciation	(595,265)	(590,595)	(5,267,832)
Net property, plant and equipment	175,577	166,896	1,553,779
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	69,064	76,619	611,186
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	11,443	12,551	101,265
Deferred tax assets (Note 10)	858	1,045	7,593
Net defined benefit asset (Notes 2.j and 7)	5,595	6,440	49,513
Other assets	20,826	21,993	184,301
Total investments and other assets	107,786	118,648	953,858
TOTAL	¥ 560,191	¥ 565,332	$ 4,957,442

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 7,197	¥ 13,482	$ 63,690
Current portion of long-term debt (Notes 6, 14 and 16)	5,362	8,578	47,451
Payables (Notes 2.t and 14):			
Trade notes	182	187	1,611
Trade accounts	47,906	47,773	423,947
Nontrade accounts	11,598	9,259	102,637
Construction	8,434	4,095	74,637
Unconsolidated subsidiaries and associated companies	2,229	3,845	19,726
Income taxes payable (Notes 10 and 14)	6,939	10,468	61,407
Other current liabilities (Notes 2.t, 10 and 16)	12,820	14,886	113,452
Total current liabilities	102,667	112,573	908,558
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 14 and 16)	58,710	64,897	519,558
Net defined benefit liability (Notes 2.j and 7)	11,774	10,689	104,195
Asset retirement obligations (Note 8)	1,091	1,093	9,655
Deferred tax liabilities (Note 10)	14,786	18,706	130,850
Other long-term liabilities	2,442	1,196	21,609
Total long-term liabilities	88,803	96,581	785,867
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 20)			
EQUITY (Notes 9 and 22):			
Common stock— authorized, 1,450,000,000 shares; issued, 364,942,682 shares in 2016 and 2015	36,275	36,275	321,018
Capital surplus	31,579	31,579	279,460
Retained earnings	242,658	211,479	2,147,416
Treasury stock— at cost 15,770,285 shares in 2016 and 13,622,163 shares in 2015	(10,389)	(6,386)	(91,938)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	31,500	35,014	278,761
Deferred gain (loss) on derivatives under hedge accounting	(147)	(88)	(1,301)
Foreign currency translation adjustments	5,885	14,675	52,080
Defined retirement benefit plans	63	1,619	558
Total	337,424	324,167	2,986,054
Noncontrolling interests	31,297	32,011	276,963
Total equity	368,721	356,178	3,263,017
TOTAL	¥ 560,191	¥ 565,332	$ 4,957,442

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2016, 2015 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2016	2015	2014	2016
NET SALES (Note 16)	¥ 449,879	¥ 443,776	¥ 413,786	$ 3,981,230
COST OF SALES (Note 11)	316,050	327,628	316,207	2,796,903
Gross profit	133,829	116,148	97,579	1,184,327
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	69,479	64,844	59,667	614,858
Operating income	64,350	51,304	37,912	569,469
OTHER INCOME (EXPENSES):				
Interest and dividend income	2,368	1,803	1,560	20,956
Gain on sales of investment securities	2,719	53	1,923	24,062
Subsidies from municipal governments (Note 17)	794	500	99	7,027
Equity in earnings of unconsolidated subsidiaries and associated companies	1,094	1,172	726	9,681
Interest expense	(1,131)	(1,377)	(1,114)	(10,009)
Foreign exchange gain (loss)	(2,066)	1,822	1,734	(18,283)
Loss on dispositions of property, plant and equipment	(4,311)	(2,539)	(1,744)	(38,150)
Impairment loss on fixed assets		(91)		
Loss on claim compensation (Note 18)	(1,557)		(515)	(13,779)
Loss on closure of business facilities (Note 19)			(680)	
Reduction of cost of property, plant and equipment (Note 17)	(562)	(475)	(66)	(4,973)
Other—net	1,793	776	989	15,866
Other income (expenses)—net	(859)	1,644	2,912	(7,602)
INCOME BEFORE INCOME TAXES	63,491	52,948	40,824	561,867
INCOME TAXES (Notes 2.t and 10)**:**				
Current	16,630	15,696	10,732	147,168
Deferred	305	1,155	4,086	2,699
Total income taxes	16,935	16,851	14,818	149,867
NET INCOME	46,556	36,097	26,006	412,000
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	6,243	4,844	3,162	55,248
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 40,313	¥ 31,253	¥ 22,844	$ 356,752

	Yen			U.S. Dollars (Note 1)
PER SHARE INFORMATION (Notes 2.r and 12)**:**				
Basic net income	¥ 115.02	¥ 88.95	¥ 64.98	$ 1.02
Cash dividends applicable to the year	26.00	21.00	15.00	0.23

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2016, 2015 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2016	2015	2014	2016
NET INCOME	¥ 46,556	¥ 36,097	¥ 26,006	$ 412,000
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21):				
Unrealized gain (loss) on available-for-sale securities	(3,564)	14,603	5,612	(31,540)
Deferred gain (loss) on derivatives under hedge accounting	(94)	(219)	406	(832)
Foreign currency translation adjustments	(10,504)	11,167	7,926	(92,956)
Defined retirement benefit plans	(1,579)	3,784		(13,973)
Share of other comprehensive income (loss) in associates	(736)	988	1,237	(6,513)
Total other comprehensive income (loss)	(16,477)	30,323	15,181	(145,814)
COMPREHENSIVE INCOME	¥ 30,079	¥ 66,420	¥ 41,187	$ 266,186
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	¥ 26,394	¥ 59,308	¥ 34,607	$ 233,575
Noncontrolling interests	3,685	7,112	6,580	32,611

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2016, 2015 and 2014

		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	Noncon-trolling Interests	Total Equity
BALANCE, APRIL 1, 2013	351,716,616	¥ 36,275	¥ 31,579	¥ 164,928	¥ (6,025)	¥ 15,002	¥ (185)	¥ (609)		¥ 240,965	¥ 21,935	¥ 262,900
Net income attributable to owners of the parent				22,844						22,844		22,844
Cash dividends, ¥13.00 per share				(4,573)						(4,573)		(4,573)
Repurchase of treasury stock	(364,778)				(324)					(324)		(324)
Disposal of treasury stock	181		0		0					0		0
Net change in the year						5,515	264	5,984	¥ (2,063)	9,700	5,258	14,958
BALANCE, MARCH 31, 2014 (April 1, 2014, as previously reported)	351,352,019	36,275	31,579	183,199	(6,349)	20,517	79	5,375	(2,063)	268,612	27,193	295,805
Cumulative effect of accounting change				2,329						2,329	(130)	2,199
BALANCE, APRIL 1, 2014 (as restated)	351,352,019	36,275	31,579	185,528	(6,349)	20,517	79	5,375	(2,063)	270,941	27,063	298,004
Net income attributable to owners of the parent				31,253						31,253		31,253
Cash dividends, ¥17.00 per share				(5,973)						(5,973)		(5,973)
Repurchase of treasury stock	(31,530)				(37)					(37)		(37)
Disposal of treasury stock	30		0		0					0		0
Effect of change in closing period of certain consolidated subsidiaries				671		(21)	(22)	(702)	3	(71)	(1,426)	(1,497)
Net change in the year						14,518	(145)	10,002	3,679	28,054	6,374	34,428
BALANCE, MARCH 31, 2015	351,320,519	36,275	31,579	211,479	(6,386)	35,014	(88)	14,675	1,619	324,167	32,011	356,178
Net income attributable to owners of the parent				40,313						40,313		40,313
Cash dividends, ¥26.00 per share				(9,134)						(9,134)		(9,134)
Repurchase of treasury stock	(2,148,198)				(4,003)					(4,003)		(4,003)
Disposal of treasury stock	76		0		0					0		0
Change in the parent's ownership interest due to transactions with noncontrolling interests											(540)	(540)
Net change in the year						(3,514)	(59)	(8,790)	(1,556)	(13,919)	(174)	(14,093)
BALANCE, MARCH 31, 2016	349,172,397	¥ 36,275	¥ 31,579	¥ 242,658	¥ (10,389)	¥ 31,500	¥ (147)	¥ 5,885	¥ 63	¥ 337,424	¥ 31,297	¥ 368,721

	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	Noncon-trolling Interests	Total Equity
BALANCE, MARCH 31, 2015	$ 321,018	$ 279,460	$ 1,871,496	$ (56,513)	$ 309,858	$ (779)	$ 129,867	$ 14,327	$ 2,868,734	$ 283,283	$ 3,152,017
Net income attributable to owners of the parent			356,752						356,752		356,752
Cash dividends, $0.23 per share			(80,832)						(80,832)		(80,832)
Repurchase of treasury stock				(35,425)					(35,425)		(35,425)
Disposal of treasury stock		0		0					0		0
Change in the parent's ownership interest due to transactions with noncontrolling interests										(4,779)	(4,779)
Net change in the year					(31,097)	(522)	(77,787)	(13,769)	(123,175)	(1,541)	(124,716)
BALANCE, MARCH 31, 2016	$ 321,018	$ 279,460	$ 2,147,416	$ (91,938)	$ 278,761	$ (1,301)	$ 52,080	$ 558	$ 2,986,054	$ 276,963	$ 3,263,017

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2016, 2015 and 2014

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2016	2015	2014	2016
OPERATING ACTIVITIES:				
Income before income taxes	¥ 63,491	¥ 52,948	¥ 40,824	$ 561,867
Adjustments for:				
Income taxes—paid (Note 2.t)	(20,897)	(10,792)	(11,507)	(184,928)
Depreciation and amortization	24,959	24,520	24,257	220,876
Impairment loss on fixed assets		91		
Amortization of goodwill	1,012	1,114	836	8,956
Loss on dispositions of property, plant and equipment	4,311	2,539	1,744	38,150
Gain on sales of investment securities	(2,719)	(53)	(1,923)	(24,062)
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,094)	(1,172)	(726)	(9,681)
Reduction of cost of property, plant and equipment	562	475	66	4,973
Subsidies from municipal governments	(794)	(500)	(99)	(7,027)
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(4,988)	2,802	(4,825)	(44,142)
Increase in inventories	(1,317)	(12,064)	(3,323)	(11,655)
Decrease (increase) in notes and accounts payable	1,326	(6,681)	2,511	11,735
Other—net	1,567	4,186	(3,057)	13,867
Net cash provided by operating activities	65,419	57,413	44,778	578,929
INVESTING ACTIVITIES:				
Net decrease (increase) in time deposits	641	(294)	483	5,673
Net decrease (increase) in short-term investment securities	(398)	3,600	(3,633)	(3,522)
Capital expenditures	(35,851)	(29,629)	(28,026)	(317,265)
Payment for purchases of investment securities	(24)	(3,910)	(3,711)	(212)
Proceeds from sales and redemption of investment securities	5,622	2,118	3,238	49,752
Proceeds from sales of property, plant and equipment	1,433	559	463	12,681
Payment for purchases of securities of an associated company			(2,911)	
Increase in finance receivables	(414)	(222)	(41)	(3,664)
Collection of finance receivables	108	13	7	956
Subsidies from municipal governments	794	500	99	7,027
Other—net	(3,318)	(3,018)	(953)	(29,364)
Net cash used in investing activities	(31,407)	(30,283)	(34,985)	(277,938)
FINANCING ACTIVITIES:				
Net change in short-term bank loans	(5,930)	(2,167)	(6,223)	(52,478)
Proceeds from issuance of long-term debt	383	5,000	1,015	3,389
Repayments of long-term debt	(8,415)	(25,313)	(13,355)	(74,469)
Proceeds from issuance of bonds			19,894	
Dividends paid	(9,106)	(5,973)	(4,573)	(80,584)
Dividends paid to noncontrolling interests	(3,859)	(740)	(906)	(34,150)
Payment for purchases of treasury stock	(4,003)	(37)	(324)	(35,425)
Payment for acquisition of interests in a subsidiary from noncontrolling interests	(541)			(4,787)
Net cash used in financing activities	(31,471)	(29,230)	(4,472)	(278,504)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(4,042)	4,813	4,015	(35,770)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,501)	2,713	9,336	(13,283)
INCREASE IN CASH AND CASH EQUIVALENTS FROM CHANGE IN CLOSING PERIOD OF CONSOLIDATED SUBSIDIARIES		1,451		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	66,738	62,574	53,238	590,602
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 65,237	¥ 66,738	¥ 62,574	$ 577,319

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. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

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 ¥113 to $1, the approximate rate of exchange at March 31, 2016. 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, 2016, include the accounts of the Company and its 59 significant (58 in 2015 and 2014) 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 (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's subsidiary, Polyplastics Co., Ltd. acquired 100% of shares of LCP Leuna Carboxylation Plant GmbH on August 31, 2012, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 5 years.

Investments in one (one in 2015 and 2014) unconsolidated subsidiary and seven (seven in 2015 and 2014) 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—** In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that 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—"FASB ASC") 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 (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.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—**In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments" which was subsequently revised in line with the revisions to PITF No. 18 above. The standard 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—**In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest—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. Under the previous accounting standard, 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 an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet—In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income —

In the consolidated statement of income, "income before minority interest" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination—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. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, 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.

(e) Acquisition-related costs—Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred in the prospectively.

There was no impact from these accounting changes.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

e. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposit and mutual funds investing in bonds that represent short-term investments, 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 after April 1, 1998, 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 12 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 and 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. Actuarial gains and losses are amortized on a straight-line basis over 10 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.

In May 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (net defined benefit liability) or asset (net defined benefit asset).
(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income, and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments.
(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014, and for (c) above, effective April 1, 2014.

k. Asset Retirement Obligations—In March 2008, the ASBJ issued ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as 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 increase or a decrease in 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 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—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be 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.

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. 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.

s. Accounting Changes and Error Corrections—In December 2009, the ASBJ issued 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 under this standard and guidance are 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.

t. Reclassifications—Prior to April 1, 2015, the nontrade accounts were included in the other current liabilities section among the current liabilities section in the consolidated balance sheet. Since during this fiscal year ended March 31, 2016, as the amount increased significantly, such amount is disclosed separately in the payables among the current liabilities section in the consolidated balance sheet as of March 31, 2016. The amount included in the other current liabilities as of March 31, 2015, was ¥9,259 million.

Prior to April 1, 2015, the prior periods were disclosed separately in income taxes in the consolidated statement of income. Since during this fiscal year ended March 31, 2016, as the amount was not material, such amount is included in the current in income taxes in the consolidated statement of income as of March 31, 2016. The amount disclosed in the income taxes as of March 31, 2015 and 2014, was ¥850 million and ¥131 million, respectively.

Prior to April 1, 2015, the income taxes—refunded was disclosed separately in operating activities in the consolidated statement of cash flows. Since during this fiscal year ended March 31, 2016, as the amount was not material, such amount is included in the income taxes—paid in operating activities in the consolidated statement of cash flows as of March 31, 2016. The amount included in the income taxes—paid as of March 31, 2015 and 2014, was ¥1,283 million and ¥130 million, respectively.

u. New Accounting Pronouncement

Tax Effect Accounting—On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current:			
Government and corporate bonds	¥ 280	¥ 1,531	$ 2,477
Non-current:			
Equity securities	¥ 68,934	¥ 76,208	$ 610,035
Government and corporate bonds	126	407	1,116
Other	4	4	35
Total	¥ 69,064	¥ 76,619	$ 611,186

The costs and aggregate fair values of marketable and investment securities at March 31, 2016 and 2015, were as follows:

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 23,526	¥ 44,343	¥ (176)	¥ 67,693
Debt securities	251	0		251

	Millions of Yen			
	2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 24,755	¥ 50,082	¥ (0)	¥ 74,837
Debt securities	1,754	1	(0)	1,755

	Thousands of U.S. Dollars			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 208,195	$ 392,416	$ (1,558)	$ 599,053
Debt securities	2,221	0		2,221

Securities whose fair values are not readily determinable as of March 31, 2016 and 2015, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Available-for-sale:			
Equity securities	¥ 1,241	¥ 1,371	$ 10,982
Debt securities	155	183	1,372
Other	4	4	35
Total	¥ 1,400	¥ 1,558	$ 12,389

Proceeds from sales of available-for-sale securities for the years ended March 31, 2016, 2015 and 2014, was ¥5,645 million ($49,956 thousand), ¥6,518 million and ¥3,238 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥2,719 million ($24,062 thousand) for the year ended March 31, 2016.

4. INVENTORIES

Inventories at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Finished products	¥ 51,974	¥ 53,632	$ 459,947
Semi-finished products and work in process	14,819	18,162	131,142
Raw materials and supplies	38,094	35,307	337,115
Total	¥ 104,887	¥ 107,101	$ 928,204

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, 2016 and 2015, was ¥517 million ($4,575 thousand) and ¥335 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, 2015	Increase/Decrease	March 31, 2016	March 31, 2016
¥ 3,748	¥ (602)	¥ 3,146	¥ 12,539

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2014	Increase/Decrease	March 31, 2015	March 31, 2015
¥ 3,411	¥ 338	¥ 3,749	¥ 14,598

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2015	Increase/Decrease	March 31, 2016	March 31, 2016
$ 33,168	$ (5,327)	$ 27,841	$ 110,965

Notes:

1) Increase and decrease of items related to rental properties are not disclosed for this fiscal year 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, 2016 and 2015, 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 rates of short-term bank loans at March 31, 2016 and 2015, was 1.10% and 1.33%, respectively.

Long-term debt at March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
1.69% bonds due 2019	¥ 10,000	¥ 10,000	$ 88,496
0.412% bonds due 2018	10,000	10,000	88,496
1.05% bonds due 2023	10,000	10,000	88,496
Unsecured loans from banks and other financial institutions, due through 2025, with interest rates ranging from 0.56% to 5.50% for 2016 (from 0.55% to 6.98% for 2015)	34,072	43,475	301,521
Total	64,072	73,475	567,009
Less current portion	(5,362)	(8,578)	(47,451)
Long-term debt, less current portion	¥ 58,710	¥ 64,897	$ 519,558

At March 31, 2016, annual maturities of long-term debt were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 5,362	$ 47,451
2018	4,426	39,170
2019	13,717	121,389
2020	18,211	161,159
2021	3,209	28,398
2022 and thereafter	19,147	169,442
Total	¥ 64,072	$ 567,009

7. RETIREMENT AND PENSION PLANS

Years Ended March 31, 2016 and 2015

(1) The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year (as previously reported)	¥ 31,269	¥ 34,342	$ 276,717
Cumulative effect of accounting change		(3,413)	
Adjusted balance at beginning of year (as restated)	31,269	30,929	276,717
Current service cost	1,707	1,705	15,106
Interest cost	408	404	3,611
Actuarial losses	2,931	(238)	25,938
Benefits paid	(1,395)	(1,650)	(12,345)
Others	(349)	119	(3,088)
Balance at end of year	¥ 34,571	¥ 31,269	$ 305,939

(2) The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 29,876	¥ 23,349	$ 264,389
Expected return on plan assets	349	282	3,088
Actuarial gains	465	5,155	4,115
Contributions from employer	1,773	2,111	15,690
Benefits paid	(870)	(1,112)	(7,699)
Others	(130)	91	(1,149)
Balance at end of year	¥ 31,463	¥ 29,876	$ 278,434

(3) The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 2,776	¥ 2,673	$ 24,566
Retirement benefit cost	318	363	2,814
Benefits paid	(172)	(267)	(1,522)
Contributions from employer	(49)	(50)	(434)
Others	111	57	983
Balance at end of year	¥ 2,984	¥ 2,776	$ 26,407

(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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Funded defined benefit obligation	¥ 35,269	¥ 31,973	$ 312,115
Plan assets	(32,025)	(30,439)	(283,407)
	3,244	1,534	28,708
Unfunded defined benefit obligation	2,848	2,635	25,204
Net liability arising from defined benefit obligation	¥ 6,092	¥ 4,169	$ 53,912

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Net defined benefit liability	¥ 11,687	¥ 10,609	$ 103,425
Net defined benefit asset	(5,595)	(6,440)	(49,513)
Net liability arising from defined benefit obligation	¥ 6,092	¥ 4,169	$ 53,912

Note: Including defined benefit obligation under the simplified method.

(5) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥ 1,707	¥ 1,705	$ 15,106
Interest cost	408	404	3,611
Expected return on plan assets	(349)	(282)	(3,088)
Recognized actuarial losses	106	423	938
Amortization of transitional obligation	318	363	2,814
Balance at end of year	¥ 2,190	¥ 2,613	$ 19,381

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses (gains)	¥ (2,343)	¥ 5,786	$ (20,735)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥ (330)	¥ 2,013	$ (2,920)

(8) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	31%	31%
Equity investments	51	52
General accounts of insurance companies	7	8
Others	11	9
Total	100%	100%

Note: Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2016 and 2015, was 14% 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, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.6%	1.3%
Expected rate of return on plan assets	1.2%	1.2%
Lump-sum election rate	82.4%	82.3%

(10) The amount of contributions to defined contribution plans for subsidiaries is ¥365 million ($3,230 thousand).

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Net defined benefit liability" in the consolidated balance sheets. The amounts was ¥87 million ($770 thousand) and ¥80 million at March 31, 2016 and 2015, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥ 1,093	¥ 1,098	$ 9,673
Reconciliation associated with passage of time	10	10	88
Reduction associated with settlement of asset retirement obligations	(10)	(5)	(88)
Other	(2)	(10)	(18)
Balance at end of year	¥ 1,091	¥ 1,093	$ 9,655

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. 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 cannot do so because it 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 also 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 shareholders' 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 shareholders' 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 33% for the year ended March 31, 2016, 36% for the year ended March 31, 2015, and 38% for the year ended March 31, 2014. Foreign subsidiaries are subject to income tax of the countries in which they operate.

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, 2016, 2015 and 2014, was as follows:

	2016	2015	2014
Normal effective statutory tax rate	33%	36%	38%
Increase or decrease of valuation allowance	(1)	(0)	(0)
Tax difference of foreign countries	(2)	(4)	(4)
Equity in earnings of associated companies	(1)	(1)	(1)
Amortization of goodwill	1	1	1
Tax credit primarily for research and development costs	(3)	(2)	(2)
Effect of subsidiary merger			2
Effect of tax rate reduction	1	1	0
Other – net	(1)	1	2
Actual effective tax rate	27%	32%	36%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 31% and for the fiscal year beginning on or after April 1, 2018, to approximately 30%. The effect of these changes was to decrease net deferred tax liabilities by ¥451 million ($3,991 thousand) and to increase unrealized gain on available-for-sale securities by ¥676 million ($5,982 thousand), and income taxes-deferred by ¥226 million ($2,000 thousand). The impact on deferred gain (loss) on derivatives under hedge accounting was not material.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Accrued enterprise taxes	¥ 531	¥ 762	$ 4,699
Accrued bonuses	1,604	1,651	14,195
Net defined benefit liability	4,792	4,233	42,407
Investment securities	85	42	752
Tax loss carryforwards	2,439	2,751	21,584
Intercompany profits	2,449	2,609	21,673
Other	4,963	4,814	43,920
Less valuation allowance	(2,843)	(3,688)	(25,159)
Deferred tax assets	¥ 14,020	¥ 13,174	$ 124,071
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 12,430	¥ 14,768	$ 110,000
Tax purpose reserves regulated by Japanese tax law	781	658	6,912
Undistributed earnings of foreign subsidiaries	4,714	4,515	41,717
Securities contributed to employees' retirement benefit trust	2,666	2,822	23,593
Intangible fixed assets	1,671	2,015	14,788
Other	995	492	8,804
Deferred tax liabilities	¥ 23,257	¥ 25,270	$ 205,814
Net deferred tax liabilities	¥ 9,237	¥ 12,096	$ 81,743

At March 31, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥6,268 million ($55,469 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2017	¥ 201	$ 1,779
2018		
2019		
2020		
2021		
2022 and thereafter	6,067	53,690
Total	¥ 6,268	$ 55,469

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥15,307 million ($135,460 thousand), ¥14,032 million and ¥13,360 million for the years ended March 31, 2016, 2015 and 2014, 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 average number of common shares in the computation was 350,498,782; 351,334,634; and 351,554,150 for the years ended March 31, 2016, 2015 and 2014, 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		Thousands of U.S. Dollars
	Millions of Yen		
	2016	2015	2016
Due within one year	¥ 1,022	¥ 824	$ 9,044
Due after one year	2,431	1,837	21,514
Total	¥ 3,453	¥ 2,661	$ 30,558

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 their ongoing operations. Derivatives are used, not 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 detail 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, 2016.

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 currecy 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 loans and bonds payable.

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 semi-annual 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 adequate volumes 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 of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 65,237	¥ 65,237	¥
Marketable securities	280	280	
Receivables	87,124	87,124	
Investment securities	67,664	67,664	
Total	¥ 220,305	¥ 220,305	¥
Short-term bank loans	¥ 7,197	¥ 7,197	
Payables	70,349	70,349	
Income taxes payable	6,939	6,939	
Long-term debt	64,072	65,392	¥ (1,320)
Total	¥ 148,557	¥ 149,877	¥ (1,320)

	Millions of Yen		
March 31, 2015	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 66,738	¥ 66,738	¥
Marketable securities	1,531	1,531	
Receivables	86,570	86,570	
Investment securities	75,061	75,061	
Total	¥ 229,900	¥ 229,900	¥
Short-term bank loans	¥ 13,482	¥ 13,482	
Payables	65,159	65,159	
Income taxes payable	10,468	10,468	
Long-term debt	73,475	74,661	¥ (1,186)
Total	¥ 162,584	¥ 163,770	¥ (1,186)

March 31, 2016	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 577,319	$ 577,319	$
Marketable securities	2,477	2,477	
Receivables	771,009	771,009	
Investment securities	598,796	598,796	
Total	$ 1,949,601	$ 1,949,601	$
Short-term bank loans	$ 63,690	$ 63,690	
Payables	622,558	622,558	
Income taxes payable	61,407	61,407	
Long-term debt	567,009	578,690	$ (11,681)
Total	$ 1,314,664	$ 1,326,345	$ (11,681)

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

March 31, 2016	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 6,058	$ 53,611

March 31, 2015	Carrying Amount
	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 6,602

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

March 31, 2016	Millions of Yen			
	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	¥ 65,237			
Receivables	87,124			
Marketable securities and investment securities:				
Government bonds	29	¥ 117	¥ 9	¥
Corporate bonds	250			
Other				
Total	¥ 152,640	¥ 117	¥ 9	¥

March 31, 2015	Millions of Yen			
	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	¥ 66,738			
Receivables	86,570			
Marketable securities and investment securities:				
Government bonds	128	¥ 118	¥ 36	¥
Corporate bonds	1,400	250		
Other				
Total	¥ 154,836	¥ 368	¥ 36	¥

March 31, 2016	Thousands of U.S. Dollars			
	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	$ 577,319			
Receivables	771,009			
Marketable securities and investment securities:				
Government bonds	257	$ 1,035	$ 80	$
Corporate bonds	2,212			
Other				
Total	$ 1,350,797	$ 1,035	$ 80	$

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

March 31, 2016	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥ 30,038		¥ 969	¥ 969
Selling Euro	3,153		10	10
Buying U.S.$	2,374		(31)	(31)
Buying Japanese yen	31		(0)	(0)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	1,053	¥ 984	(121)	(121)
Receiving U.S.$, paying KRW	982	982	46	46

March 31, 2015	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥ 27,328		¥ (117)	¥ (117)
Selling Euro	3,085		8	8
Buying U.S.$	23,487		516	516
Buying Japanese yen	37		(0)	(0)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	1,193	¥ 1,053	(287)	(287)
Receiving U.S.$, paying KRW	1,084	1,084	(14)	(14)

March 31, 2016	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	$ 265,823		$ 8,575	$ 8,575
Selling Euro	27,903		88	88
Buying U.S.$	21,009		(274)	(274)
Buying Japanese yen	274		(0)	(0)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	9,319	$ 8,708	(1,071)	(1,071)
Receiving U.S.$, paying KRW	8,690	8,690	407	407

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2016	Millions of Yen			
	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	¥ 12,712	¥ 10,432	¥ (250)

March 31, 2015	Millions of Yen			
	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	¥ 15,437	¥ 13,123	¥ (150)

March 31, 2016	Thousands of U.S. Dollars			
	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	$ 112,496	$ 92,319	$ (2,212)

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

The Company sells cellulose acetate and polymer to FUJIFILM Corporation, whose president has served as one of the Company's directors since June 2005. Because the Company's director resigned at the Company's annual general meeting for fiscal year ended March 31, 2014, the amount of sales was described for three months on or after April 1, 2014 and the balance of notes and accounts receivable was described as of June 30, 2015.

The sales to FUJIFILM Corporation for the years ended March 31, 2016, 2015 and 2014, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2016	2015	2014	2016
Sales	¥	¥ 4,482	¥ 18,531	$

The balances due from FUJIFILM Corporation at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Notes and accounts receivable	¥	¥ 3,289	$

The Company had unsecured loans from Nippon Life Insurance Company, whose chairman has served as one of the corporate auditors since June 2010.

The balances due to Nippon Life Insurance Company at March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Long-term debt	¥ 3,150	¥ 4,425	$ 27,876
Current portion of long-term debt	1,275	1,275	11,283
Interest expense payable	4	5	35

The interest rates of the loans were reasonably determined in accordance with market interest rates.

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. A 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. LOSS ON CLAIM COMPENSATION

During the year ended March 31, 2016, one consolidated subsidiary in Thailand received a complaint related to products. Accordingly, the Companies recorded ¥1,557 million ($13,779 thousand) of loss on claim compensation as other expense.

During the year ended March 31, 2014, one consolidated subsidiary in China received a complaint related to products. Accordingly, the Companies recorded ¥515 million of loss on claim compensation as other expense.

19. LOSS ON CLOSURE OF BUSINESS FACILITIES

During the year ended March 31, 2014, one consolidated subsidiary in Germany closed pilot plant facilities. Accordingly, the Companies recorded ¥680 million of loss on closure of business facilities as other expense.

20. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2016, for loans guaranteed amounted to ¥402 million ($3,558 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

21. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2016, 2015 and 2014, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2016	2015	2014	2016
Unrealized gain (loss) on available-for-sale securities:				
Gains arising during the year	¥ (3,173)	¥ 20,338	¥ 9,022	$ (28,080)
Reclassification adjustments to profit or loss	(2,742)	(53)	(1,923)	(24,265)
Amount before income tax effect	(5,915)	20,285	7,099	(52,345)
Income tax effect	2,351	(5,682)	(1,487)	20,805
Total	¥ (3,564)	¥ 14,603	¥ 5,612	$ (31,540)
Deferred gain (loss) on derivatives under hedge accounting:				
Adjustments arising during the year	¥ (227)	¥ (367)	¥ 192	$ (2,009)
Reclassification adjustments to profit or loss	127	150	236	1,124
Amount before income tax effect	(100)	(217)	428	(885)
Income tax effect	6	(2)	(22)	53
Total	¥ (94)	¥ (219)	¥ 406	$ (832)
Foreign currency translation adjustments — Adjustments arising during the year	¥ (10,504)	¥ 11,167	¥ 7,926	$ (92,956)
Defined retirement benefit plans:				
Adjustments arising during the year	¥ (2,450)	¥ 5,363	¥	$ (21,681)
Reclassification adjustments to profit or loss	107	423		946
Amount before income tax effect	(2,343)	5,786		(20,735)
Income tax effect	764	(2,002)		6,762
Total	¥ (1,579)	¥ 3,784	¥	$ (13,973)
Share of other comprehensive income in associates — Gains arising during the year	¥ (736)	¥ 988	¥ 1,237	$ (6,513)
Total other comprehensive income	¥ (16,477)	¥ 30,323	¥ 15,181	$ (145,814)

22. SUBSEQUENT EVENTS

(1) Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2016, was approved at the shareholders' general meeting of the Company held on June 17, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥13 ($0.12) per share	¥ 4,539	$ 40,168

(2) Acquisition and Cancellation of Treasury Stocks

The Company resolved and executed acquisition of treasury stock in accordance with Article 156 of the Companies Act, as applied pursuant to Article 165 (3) of the same act as well as the cancellation of treasury stock in accordance with Article 178 of the same act at the Board of Directors' meeting held on May 11, 2016.

1) Objective

In order to improve shareholder returns and execute flexible capital policy corresponding to changes in the business environment.

2) Details of the acquisition of treasury stock
   (a) Class of stock to be acquired:
       Common stock
   (b) Number of stocks to be acquired:
       Limited to 3,000,000 stocks
       (0.86% of the total number of outstanding stocks (excluding treasury stock))
   (c) Total amount of stocks to be acquired:
       Limited to ¥4,000 million ($35,398 thousand)
   (d) Acquisition period:
       From May 12, 2016 to September 30, 2016
   (e) Acquisition method:
       Tender offer at Tokyo Stock Exchange

3) Details of the cancellation of treasury stock
   (a) Class of stock to be canceled:
       Common stock
   (b) Number of stocks to be canceled:
       15,000,000 stocks
       (4.11% of the total number of outstanding stocks before the cancellation)
   (c) Effective date of cancellation:
       May 20, 2016
   (d) Number of stocks after cancellation:
       349,942,682 stocks

23. 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								
	Reportable Segment								
Year Ended March 31, 2016	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥104,481	¥ 81,794	¥161,086	¥ 95,914	¥443,275	¥ 6,604	¥449,879		¥449,879
Intersegment sales or transfers	2,176	13,732	17		15,925	10,135	26,060	¥ (26,060)	
Total sales	¥106,657	¥ 95,526	¥161,103	¥ 95,914	¥459,200	¥ 16,739	¥475,939	¥ (26,060)	¥449,879
Segment profit	¥ 29,668	¥ 11,179	¥ 20,508	¥ 13,885	¥ 75,240	¥ 181	¥ 75,421	¥ (11,071)	¥ 64,350
Segment assets	113,121	68,731	166,728	104,812	453,392	11,717	465,109	95,082	560,191
Depreciation	6,745	4,431	5,574	5,859	22,609	273	22,882	1,033	23,915
Investments in associated companies	7,806	140	2,572		10,518		10,518		10,518
Amortization of goodwill			477	535	1,012		1,012		1,012
Increase in property, plant and equipment	13,472	5,801	4,296	15,101	38,670	279	38,949	1,307	40,256

Year Ended March 31, 2015	Millions of Yen								
	Reportable Segment				Total	Others	Total	Reconciliations	Consolidated
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices					
Sales to external customers	¥ 95,705	¥ 89,042	¥169,521	¥ 83,578	¥437,846	¥ 5,930	¥443,776		¥443,776
Intersegment sales or transfers	2,568	17,518	5		20,091	9,793	29,884	¥ (29,884)	
Total sales	¥ 98,273	¥106,560	¥169,526	¥ 83,578	¥457,937	¥ 15,723	¥473,660	¥ (29,884)	¥443,776
Segment profit	¥ 25,713	¥ 9,457	¥ 15,913	¥ 10,043	¥ 61,126	¥ 30	¥ 61,156	¥ (9,852)	¥ 51,304
Segment assets	110,584	70,783	174,553	97,016	452,936	9,922	462,858	102,474	565,332
Depreciation	6,168	4,503	6,261	5,265	22,197	235	22,432	977	23,409
Investments in associated companies	9,013	140	2,539		11,692		11,692		11,692
Amortization of goodwill			624	490	1,114		1,114		1,114
Increase in property, plant and equipment	14,915	6,363	2,287	6,170	29,735	378	30,113	516	30,629

Year Ended March 31, 2014	Millions of Yen								
	Reportable Segment				Total	Others	Total	Reconciliations	Consolidated
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices					
Sales to external customers	¥ 92,639	¥ 80,662	¥154,004	¥ 80,076	¥407,381	¥ 6,405	¥413,786		¥413,786
Intersegment sales or transfers	2,396	18,984	2		21,382	9,571	30,953	¥ (30,953)	
Total sales	¥ 95,035	¥ 99,646	¥154,006	¥ 80,076	¥428,763	¥ 15,976	¥444,739	¥ (30,953)	¥413,786
Segment profit	¥ 19,092	¥ 6,045	¥ 11,047	¥ 10,453	¥ 46,637	¥ 286	¥ 46,923	¥ (9,011)	¥ 37,912
Segment assets	94,879	67,932	168,922	82,264	413,997	9,103	423,100	86,734	509,834
Depreciation	7,632	4,919	5,090	5,208	22,849	272	23,121	548	23,669
Investments in associated companies	8,370	139	2,485		10,994		10,994		10,994
Amortization of goodwill			389	447	836		836		836
Increase in property, plant and equipment	7,120	3,836	10,084	3,687	24,727	270	24,997	620	25,617

Year Ended March 31, 2016	Thousands of U.S. Dollars								
	Reportable Segment				Total	Others	Total	Reconciliations	Consolidated
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices					
Sales to external customers	$ 924,611	$ 723,841	$1,425,540	$ 848,796	$ 3,922,788	$ 58,442	$ 3,981,230		$3,981,230
Intersegment sales or transfers	19,257	121,522	150		140,929	89,690	230,619	$ (230,619)	
Total sales	$ 943,868	$ 845,363	$1,425,690	$ 848,796	$ 4,063,717	$ 148,132	$ 4,211,849	$ (230,619)	$3,981,230
Segment profit	$ 262,549	$ 98,929	$ 181,487	$ 122,876	$ 665,841	$ 1,601	$ 667,442	$ (97,973)	$ 569,469
Segment assets	1,001,071	608,239	1,475,469	927,540	4,012,319	103,690	4,116,009	841,433	4,957,442
Depreciation	59,690	39,212	49,327	51,851	200,080	2,416	202,496	9,141	211,637
Investments in associated companies	69,080	1,239	22,761		93,080		93,080		93,080
Amortization of goodwill			4,221	4,735	8,956		8,956		8,956
Increase in property, plant and equipment	119,221	51,336	38,018	133,637	342,212	2,469	344,681	11,567	356,248

(Notes)

1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥11,071 million ($97,973 thousand), ¥9,852 million and ¥9,010 million for the years ended March 31, 2016, 2015 and 2014, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.

(2) The unallocated corporate assets included in "Reconciliations" amounted to ¥98,318 million ($870,071 thousand), ¥105,661 million and ¥90,247 million for the years

ended March 31, 2016, 2015 and 2014, 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 ¥3,236 million ($28,638 thousand), ¥3,187 million and ¥3,512 million for the years ended March 31, 2016, 2015 and 2014, 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 are equal to those in the consolidated statements of income.

Related Information

1. Information about Products and Services

	Millions of Yen					
	2016					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 104,481	¥ 81,794	¥ 161,086	¥ 95,914	¥ 6,604	¥ 449,879

	Millions of Yen					
	2015					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 95,705	¥ 89,042	¥ 169,521	¥ 83,578	¥ 5,930	¥ 443,776

	Millions of Yen					
	2014					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 92,639	¥ 80,662	¥ 154,004	¥ 80,076	¥ 6,405	¥ 413,786

	Thousands of U.S. Dollars					
	2016					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	$ 924,611	$ 723,841	$1,425,540	$ 848,796	$ 58,442	$3,981,230

2. Information about Geographical Areas

(1) Sales

Millions of Yen				
2016				
Japan	Asia		Other	Total
	China	Other		
¥ 204,777	¥ 72,107	¥ 81,695	¥ 91,300	¥ 449,879

Millions of Yen				
2015				
Japan	Asia		Other	Total
	China	Other		
¥ 217,875	¥ 68,916	¥ 81,491	¥ 75,494	¥ 443,776

Millions of Yen				
2014				
Japan	Asia		Other	Total
	China	Other		
¥ 214,389	¥ 55,458	¥ 79,200	¥ 64,739	¥ 413,786

Thousands of U.S. Dollars				
2016				
Japan	Asia		Other	Total
	China	Other		
$ 1,812,186	**$ 638,115**	**$ 722,965**	**$ 807,964**	**$ 3,981,230**

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

(2) Property, Plant and Equipment

Millions of Yen				
2016				
Japan	Asia		Other	Total
	Malaysia	Other		
¥ 115,407	**¥ 17,249**	**¥ 26,514**	**¥ 16,407**	**¥ 175,577**

Millions of Yen				
2015				
Japan	Asia		Other	Total
	Malaysia	Other		
¥ 108,970	¥ 20,426	¥ 25,771	¥ 11,729	¥ 166,896

Millions of Yen				
2014				
Japan	Asia		Other	Total
	Malaysia	Other		
¥ 101,009	¥ 21,873	¥ 23,858	¥ 10,298	¥ 157,038

Thousands of U.S. Dollars				
2016				
Japan	Asia		Other	Total
	Malaysia	Other		
$ 1,021,301	**$ 152,646**	**$ 234,637**	**$ 145,195**	**$ 1,553,779**

3. Information on Impairment Losses of Fixed Assets for Each Reportable Segment

	Millions of Yen						
	2016						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment losses of assets	**¥**	**¥**	**¥**	**¥**	**¥**	**¥**	**¥**

	Millions of Yen						
	2015						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment losses of assets	¥	¥	¥	¥	¥	¥ 91	¥ 91

	Millions of Yen						
	2014						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment losses of assets	¥	¥	¥	¥	¥	¥	¥

	Thousands of U.S. Dollars						
	2016						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment losses of assets	$	$	$	$	$	$	$

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

	Millions of Yen						
	2016						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥	¥ 477	¥ 535	¥	¥	¥ 1,012
Goodwill at March 31, 2016			688	3,007			3,695

	Millions of Yen						
	2015						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥	¥ 624	¥ 490	¥	¥	¥ 1,114
Goodwill at March 31, 2015			1,172	3,747			4,919

	Millions of Yen						
	2014						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥	¥ 389	¥ 447	¥	¥	¥ 836
Goodwill at March 31, 2014			1,631	3,667			5,298

	Thousands of U.S. Dollars						
	2016						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	$	$	$ 4,221	$ 4,735	$	$	$ 8,956
Goodwill at March 31, 2016			6,088	26,611			32,699

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, 2016 and 2015, 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, 2016, 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, 2016 and 2015, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2016, 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 17, 2016

Member of
Deloitte Touche Tohmatsu Limited

Principal Subsidiaries and Affiliates

Domestic Operations

	Principal business
Kyodo Sakusan Co., Ltd.	Manufacture and sale of acetic acid Joint-venture company with JNC Corporation and KH Neochem Co., Ltd.
Dainichi Chemical Corp.	Manufacture and sale of electronic materials of which the metal content or foreign matters is controlled, industrial-use coating resins and fine chemicals
Daicel Arai Chemical Ltd.	Manufacture, sale and other manufacturing-related works subcontracted from Daicel Corporation and its group companies
Polyplastics Co., Ltd.	Manufacture and sale of polyacetal resin, polybutylene terephthalate (PBT) resin, liquid crystal polymer, and polyphenylene sulfide resin Joint-venture company with Celanese Netherlands Holdings B.V.
WinTech Polymer Ltd.	Manufacture and sale of polybutylene terephthalate (PBT) resin and glass fiber-reinforced PET (FR-PET) resin Joint-venture company with Teijin Limited
PTM Holdings Co., Ltd.	Wholly-owning company of PTM Engineering Plastics (Nantong) Co., Ltd. Joint-venture company with Mitsubishi Gas Chemical Co., Inc., Korea Engineering Plastics Co., Ltd. and Ticona Limited Liability Company
PolyplaService Co., Ltd.	Sale of packing and product materials
Daicel Polymer Ltd.	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
DM Novafoam Ltd.	Manufacture and sale of foamed plastics Joint-venture company with Mitsui Chemicals, Inc.
Daicel Pack Systems Ltd.	Manufacture and sale of vacuum- and pressure-molded plastics, industrial and food packaging, and paper and plastic buffers
Daicel Value Coating Ltd.	Manufacture and sale of barrier films Custom coating business
Daicel Safety Systems Inc.	Manufacture of inflators for automobile airbags
Daicel Pyrotechnics Ltd.	Manufacture and sale of shotgun shells for sport shooting and hunting
Daicen Membrane-Systems Ltd.	Manufacture and sale of separation membranes, including ultrafiltration membrane modules, and design, manufacture, and sale of equipment and systems related to ultrafiltration membrane modules Joint-venture company with Central Filter Mfg. Co., Ltd. and Daicen Maintenance & Engineering Co., Ltd.
Daicel Logistics Service Co., Ltd.	Warehousing and transportation
Daicel FineChem Ltd.	Sale of water-soluble polymers, synthetic resins, and other industrial products, and manufacture, processing, and sale of resin-based construction materials as well as floor coverings and exterior furnishings Manufacture and sale of celluloid, acetate plastics products, and household products
Daicel Aboshi Sangyo Co., Ltd.	Manufacture, sale and other manufacturing-related works subcontracted from Daicel Corporation and its group companies
Daicel Ohtake Sangyo Co., Ltd.	Manufacture-related works subcontracted from Daicel Corporation and its group companies
Kyoei Shokusan Co., Ltd.	Life and non-life insurance, and travel agency for Daicel Corporation and its group companies
Daicel-Evonik Ltd.	Manufacture and sale of polyamide 12 resin and PEEK resin Joint-venture company with Evonik Japan Co., Ltd.
Daicel-Allnex Ltd.	Manufacture and sale of ultraviolet and electron beam curable resins Joint-venture company with Allnex Belgium SA/NV
Kyodo Polymer Co., Ltd.	Manufacture and sale of synthetic resins, including ABS copolymer resins Joint-venture company with Techno Polymer Co., Ltd.
Toyo Styrene Co., Ltd.	Manufacture and sale of polystyrene general and special products, polystyrene compound, acrylonitrile/styrene copolymers excluding those for ABS Joint-venture company with Denka Co., Ltd. and Nippon Steel & Sumikin Chemical Co., Ltd.
Toyama Filter Tow Co., Ltd.	Manufacture of acetate tow used in cigarette filters Joint-venture company with Mitsubishi Rayon Co., Ltd.

International Operations

	Country of the location	Principal business
Daicel ChemTech, Inc.	U.S.A.	Trading of products in North America
Daicel Nanning Food Ingredients Co., Ltd.	China	Manufacture and sale of sorbic acid and potassium sorbate
Chiral Technologies, Inc.	U.S.A.	Sale of optical resolution columns and provision of technical services related to the chiral chemical business
Chiral Technologies Europe S.A.S.	France	Sale of optical resolution columns and provision of technical services related to the chiral chemical business
Daicel Chiral Technologies (China) Co., Ltd.	China	Sale of optical resolution columns and provision of technical services related to the chiral chemical business
Daicel Chiral Technologies (India) Pvt. Ltd.	India	Sale of optical resolution columns and provision of technical services related to the chiral chemical business
Polyplastics Taiwan Co., Ltd.	Taiwan	Manufacture and sale of engineering plastics
Polyplastics Asia Pacific Sdn. Bhd.	Malaysia	Manufacture and sale of engineering plastics
Polyplastics China Ltd.	Hong Kong	Sale of engineering plastics
Polyplastics Marketing (T) Ltd.	Thailand	Sale of engineering plastics
Polyplastics Asia Pacific Singapore Pte. Ltd.	Singapore	Sale of engineering plastics
Polyplastics Trading (Shanghai) Ltd.	China	Sale of engineering plastics
PTM Engineering Plastics (Nantong) Co., Ltd.	China	Manufacture and sale of engineering plastics
Polyplastics (Shanghai) Ltd.	China	Sale of engineering plastics
Polyplastics Korea Ltd.	South Korea	Sale of engineering plastics
Polyplastics (Nantong) Ltd.	China	Manufacture and sale of engineering plastics
Polyplastics USA, Inc.	U.S.A.	Sale of engineering plastics
Polyplastics Europe GmbH	Germany	Sale of engineering plastics
LCP Leuna Carboxylation Plant GmbH	Germany	Manufacture and sale of hydroxybenzoic acid and potassium sulfate
Polyplastics Marketing Mexico, S.A. de C.V.	Mexico	Sale of engineering plastics
Topas Advanced Polymers GmbH	Germany	Manufacture and sale of cyclic olefin copolymer
Topas Advanced Polymers, Inc.	U.S.A.	Sale of cyclic olefin copolymer
Shanghai Daicel Polymers, Ltd.	China	Manufacture of flame-resistant ABS, ABS alloy resins and other products
Daicel Polymer (Hong Kong) Ltd.	Hong Kong	Sale of flame-resistant ABS, ABS alloy resins and other products
Daicel Polymer (Thailand) Co., Ltd.	Thailand	Sale of flame-resistant ABS, ABS alloy resins and other products
Daicel Safety Systems America, LLC	U.S.A.	Manufacture and sale of automobile airbag inflators
Daicel Safety Systems (Thailand) Co., Ltd.	Thailand	Manufacture and sale of automobile airbag inflators
Daicel Safety Systems Europe Sp. z o. o.	Poland	Manufacture and sale of automobile airbag inflators
Daicel Safety Systems (Jiangsu) Co., Ltd.	China	Manufacture and sale of automobile airbag inflators
Daicel Safety Technologies America, Inc.	U.S.A.	Manufacture of gas-generating agents for automobile airbags
Daicel Safety Technologies (Thailand) Co., Ltd.	Thailand	Manufacture and sale of automobile airbag initiators and seatbelt pretensioner gas-generating devices
Daicel Safety Systems Korea, Inc.	South Korea	Manufacture and sale of automobile airbag inflators
Daicel Safety Tube Processing, Inc.	U.S.A.	Manufacture of components for automobile airbag inflators
Daicel Safety Systems America Arizona, Inc.	U.S.A.	Manufacture and sale of automobile airbag inflators
Special Devices, Inc.	U.S.A.	Manufacture and sale of automobile airbag initiators and seatbelt pretensioner gas-generating devices
Special Devices (Thailand) Co., Ltd.	Thailand	Manufacture and sale of automobile airbag initiators and seatbelt pretensioner gas-generating devices
Daicel Safety Systems America Holdings, Inc.	U.S.A.	Management of manufacturing and sales bases of automobile safety parts business in the North America
Daicel Trading (Shanghai) Ltd.	China	Trading of products in China
Daicel (China) Investment Co., Ltd.	China	Management of manufacturing and sales bases in China and R&D
Daicel America Holdings, Inc.	U.S.A.	Holding company of the group companies in the North America
Daicel (Asia) Pte. Ltd.	Singapore	Trading of products in Asia
Daicel (Europa) GmbH	Germany	Trading of products in Europe
Xi'an Huida Chemical Industries Co., Ltd.	China	Manufacture and sale of acetate tow used in cigarette filters
Ningbo Da-An Chemical Industries Co., Ltd.	China	Manufacture and sale of cellulose acetate and acetic anhydride

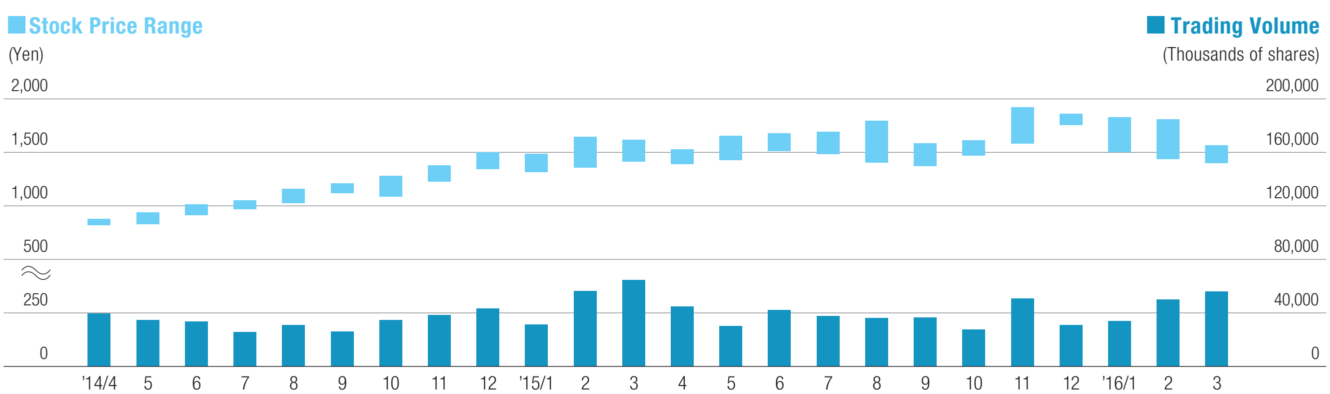
Corporate Data (As of March 31, 2016)

Incorporated	September 8, 1919
Common Stock	
Authorized:	1,450,000,000 shares
Issued:	364,942,682 shares*
Capital:	¥36,275 million
Listings:	Tokyo Stock Exchange
Transfer Agent:	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Number of Shareholders	17,489
Independent Auditor	Deloitte Touche Tohmatsu LLC
Osaka Head Office	Grand Front Osaka Tower-B, 3-1, Ofuka-cho, Kita-ku, Osaka, 530-0011, Japan Tel: +81-6-7639-7171 Fax: +81-6-7639-7181
Tokyo Head Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-8230, Japan Tel: +81-3-6711-8111 Fax: +81-3-6711-8100

* With the cancellation of 15 million shares of treasury stocks in May 20, 2016, total shares outstanding as of May 20, 2016 came to 349,942,682.

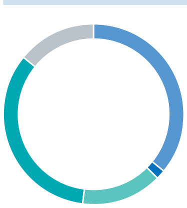
Stock Information (As of March 31, 2016)

Stock Price Range & Trading Volume



Note: Stock price and trading volume reflect Company shares traded on the Tokyo Stock Exchange.

Composition of Shareholders



	Thousands of shares	%
Financial institutions	131,408	36.0
Securities companies	5,317	1.5
Other domestic corporations	52,911	14.5
Foreign investors	124,093	34.0
Individual & other investors	51,211	14.0

Note: Treasury stock is included in the "Individual & other investors" category.

Major Shareholders (Top10)

	Number of shares unit: 1,000 shares	% of total shares issued
Japan Trustee Services Bank, Ltd. (Trust Account)	27,675	7.92
The Master Trust Bank of Japan, Ltd. (Trust Account)	18,289	5.23
Nippon Life Insurance Company	17,403	4.98
FUJIFILM Corporation	17,271	4.94
Toyota Motor Corporation	15,000	4.29
Sumitomo Mitsui Banking Corporation	7,096	2.03
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,503	1.86
Daicel Trading-Partner Shareholding Association	5,295	1.51
STATE STREET BANK AND TRUST COMPANY 505225	5,010	1.43
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	4,742	1.35

DAICEL CORPORATION

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