



DAICEL Report 2020



Daicel Corporation

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DAICEL Report 2020

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Editorial Policies

The Daicel Group aims to achieve sustainable growth of both society and the Group through its long-term vision and medium-term strategies, which will be steadily implemented starting in FY2021/3. As a communication tool to gain more alliances and cooperation from our stakeholders for our efforts, we publish "Daicel Report 2020," which integrates financial and nonfinancial information.

Under the Sustainability section of our corporate website, we disclose comprehensive and detailed information on the Group's sustainability initiatives. As these reports are important tools for communicating with our various stakeholders, we keep in mind during the editing process that they must be easy to read, easy to understand, and proactive in terms of reporting on our CSR activities.

Sustainability section of the Daicel Group's website <https://www.daicel.com/en/sustainability/>

Entities within the Scope of Reporting

The report covers initiatives of Daicel Group companies and those of other companies as noted. The following terms are used in the report.

- Daicel/We/Our: Daicel Corporation
- Daicel Group/The Group: Daicel Corporation and its affiliates
- Group companies: Affiliates of Daicel Corporation

The following terms are used in the report on environmental and occupational safety and health.

- Daicel's business sites: Daicel's plants and research institutes as well as the business sites of domestic Group companies operating on the premises of Daicel's plants (not including the headquarters)
- Domestic Group companies: business sites of the domestic Group companies operating outside the premises of Daicel's business sites
- Overseas Group companies: business sites of Daicel's overseas Group companies

The scope of the Group companies for reporting varies depending on the content of the initiatives. Refer to the following websites for more details.

• Scope of reporting for human resources and governance data <https://www.daicel.com/en/sustainability/other/boundary.html>

• Scope of reporting for environmental and occupational safety and health data <https://www.daicel.com/en/sustainability/other/responsible.html>

Regarding the following companies reorganized as of July 1, 2020, their former company names are used in this report.

- Sales departments of Daicel FineChem Ltd., Daicel Polymer Ltd., and Daicel Value Coating Ltd. were integrated into a new company named Daicel Miraizu Ltd., which succeeded Daicel FineChem. Also, on the same day, the production departments of Daicel Polymer were transferred to Daicel's Multiple Production Company, and Daicel Polymer was dissolved.
- Daicel Polymer (Hong Kong) Ltd. changed its name to Daicel Miraizu (Hong Kong) Ltd.
- Daicel Polymer (Thailand) Co., Ltd. changed its name to Daicel Miraizu (Thailand) Co., Ltd.

Reporting Period

FY2020/3 (April 2019 to March 2020)

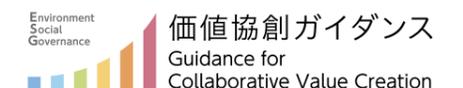
Note: Topics outside the specified period have been included.

Guidelines Used for Reference

- International Integrated Reporting Framework, International Integrated Reporting Council
- Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation, Ministry of Economy, Trade and Industry (METI)
- Sustainability Reporting Standards 2016/2018, GRI

Publication Schedule

July 2020 (previous edition: June 2019, next edition: June 2021)
The information released on our website may be updated as necessary, even after publication of the report in July 2020.



Disclaimer and Caution with Respect to Forward-Looking Statements

As the sole purpose of this report is the provision of information to readers, in no way does the Company intend to solicit readers to take a certain action through this publication. Although the Company compiled this report based on information available to it and deemed trustworthy at the time of its issuance, the content of the report inherently includes a number of risks and uncertainties. Accordingly, Daicel provides no guarantee to the accuracy or integrity of information therein. When readers intend to use any part of information contained in this report, they are advised to use their own discretion. Daicel shall bear no responsibility whatsoever to readers about damage, loss or other negative outcomes attributable to their investment decisions that relied on forecasts, numerical targets and other forward-looking statements featured in this report.

Conceptual Framework for Daicel Group Values

Basic Philosophy

We place great importance on the Basic Philosophy concept, and in future will continue to hold this concept without being influenced by changing times.

The company making lives better by co-creating value

Sustainable Value Together

Co-creating value ... Understanding and communicating together with various partners, to jointly create new value

Daicel Group Conduct Policy

We, the Daicel Group, have established the following Conduct Policy in order to realize our Basic Philosophy. Every member of the Daicel Group shall fully understand and voluntarily consider this Conduct Policy and shall put it into practice in a tangible way through their daily activities.

1. We shall not only comply with all laws and regulations but also act with high ethical standards and sound judgment.
2. We shall contribute to the development of society as good corporate citizens.
3. We shall offer safe, high-quality products and services that satisfy and gain the trust of our customers.
4. We shall contribute to the development of local communities by complying with international rules and each country's laws and regulations and by respecting local cultures and customs.
5. We shall willingly and justly disclose reliable corporate information.
6. We shall conduct honest trade in accordance with the basic principles of fair and free competition.
7. We shall work positively to conserve the natural environment and to ensure safety.
8. We shall properly manage corporate assets and information.
9. We shall respect the diversity, personality and individuality of every member connected to Daicel Group and shall contribute to realize a healthy and sound society that is free from discrimination and harassment.

Sustainable Management Policy

Upon a firm foundation of safety, quality and compliance, the Daicel Group will realize its basic philosophy by both contributing to the establishment of a sustainable society and pursuing business growth with integrity, tireless efforts and self-transformation.

We create and provide people with new values to achieve better quality of life.

We construct a circular process with all our stakeholders to make harmonious coexistence with the environment.

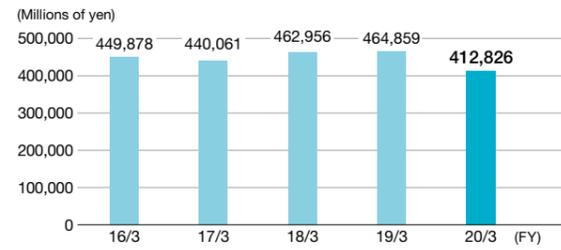
We promote “human-centered business management” that enables diverse employees to grow while establishing their own presence and achieving fulfillment.



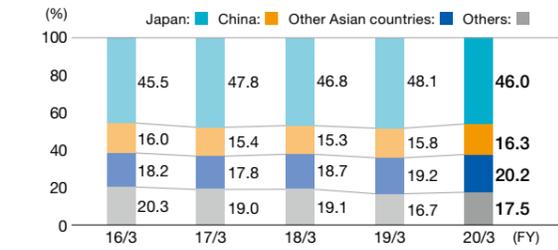
Financial/Non-Financial Highlights

Financial Highlights (Consolidated)

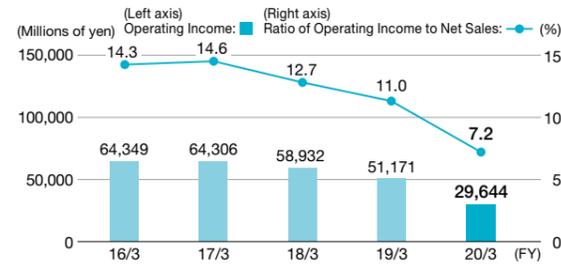
Net Sales



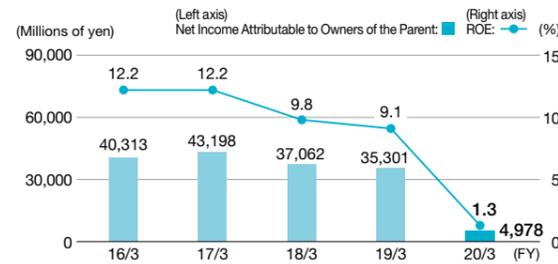
Net Sales Ratio by Region



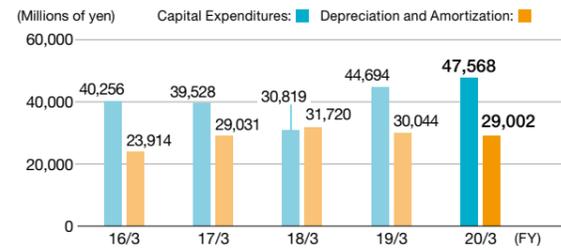
Operating Income / Ratio of Operating Income to Net Sales



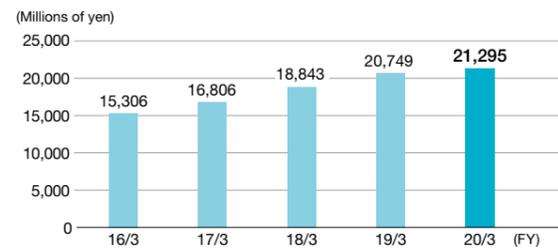
Net Income Attributable to Owners of the Parent and ROE



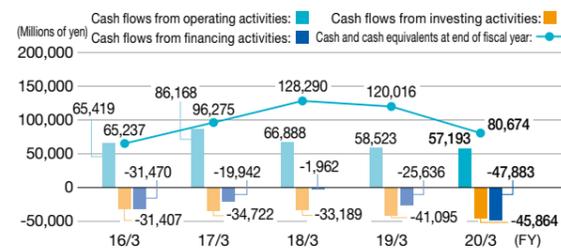
Capital Expenditures / Depreciation and Amortization



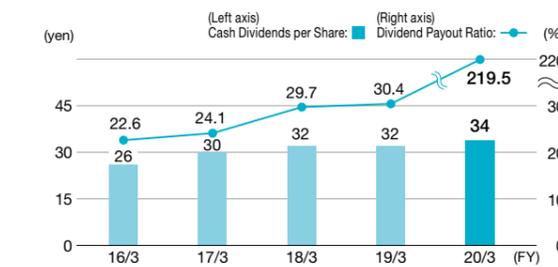
Research and Development Expenses



Cash Flows

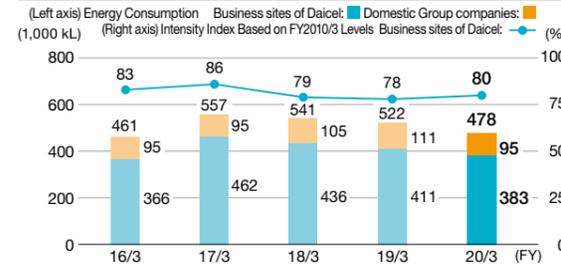


Cash Dividends per Share / Dividend Payout Ratio

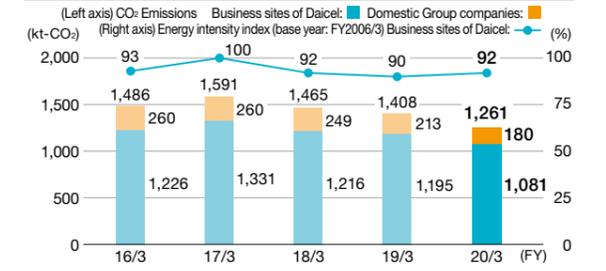


Non-Financial Highlights

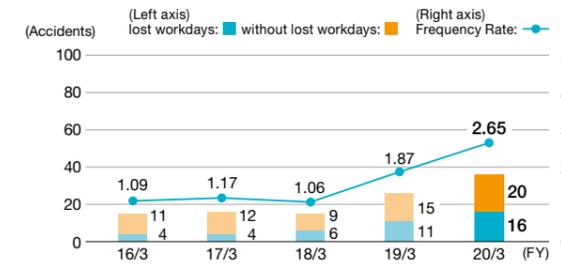
Energy Consumption and Intensity Index (Domestic)



CO₂ Emissions Attributable to Energy Consumption and the Intensity Index (Domestic)

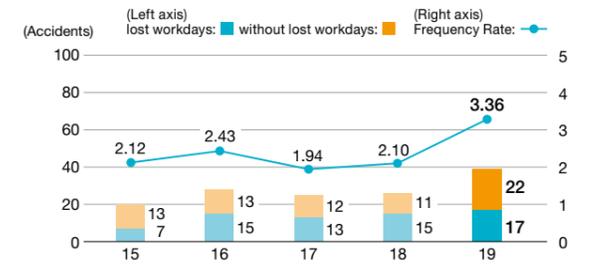


Occupational Accident Frequency Rate* (Domestic)



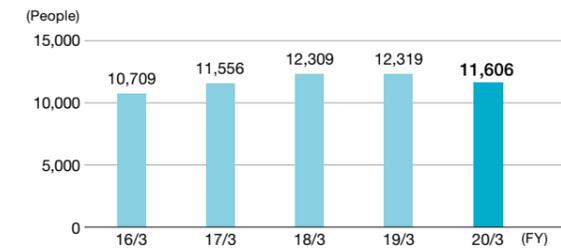
*Occupational Accident Frequency Rate = (number of people involved in an occupational accident / total actual working hours) × 1 million hours

Occupational Accident Frequency Rate (Overseas)

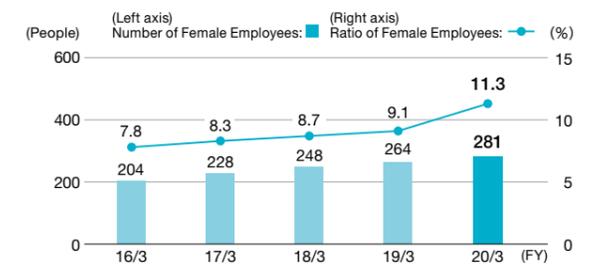


*The data collection period is January to December each year.

Number of Employees (Regular Employees, Consolidated)

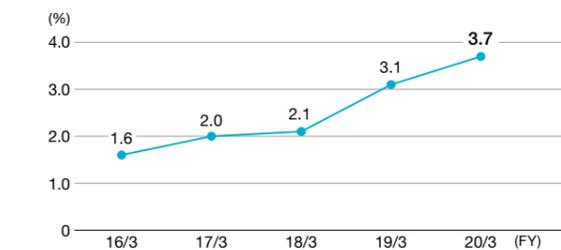


Number and Ratio of Female Employees (Regular Employees*, Non-Consolidated)



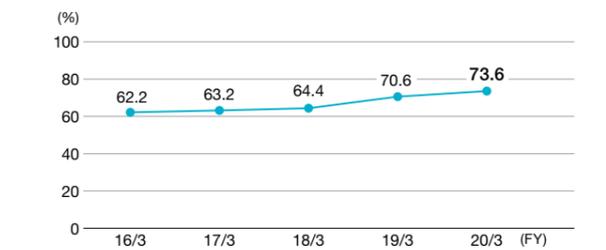
*Includes employees seconded to Group subsidiaries and other Group companies.

Ratio of Female Managers* (Non-Consolidated)



*Includes number of women in managerial positions and women in senior roles.

Annual Paid Leave Acquisition Ratio (Non-Consolidated)



Daicel in Every Aspect of Our Lives

While the majority of the Daicel Group's products are raw materials and ingredients that are not directly visible to consumers, they significantly benefit society through their extensive applications across a wide variety of products, such as automotive parts, electronic devices, cosmetics, and healthcare goods.

■ Medical & health care
 ■ Smart
 ■ Safety
 ■ Material
 ■ Engineering plastics
 ■ Other

Pharmaceuticals

Beyond delivering development and manufacturing solutions for pharmaceuticals, we also contribute to improving medication administration.



Pharmaceutical development and manufacturing

Orally disintegrating tablets (ODTs)

■ Chiral columns
 ■ Co-processed excipients

Hospitals

We contribute to providing clean water for medical use.



Pure water processing equipment for artificial dialysis

■ Pure water maker for artificial dialysis

Buildings



Exterior wall paints

■ caprolactone, epoxy compounds, and general-purpose solvents

Automotive Parts

We play a role in improving automotive safety, durability, and fuel efficiency as well as the automation and electrification of automobiles.



Automotive paints

■ Caprolactone and epoxy resins

Airbag systems

■ Inflators

Lithium-ion batteries

■ Carboxymethyl cellulose (CMC)



PHEV electricity supply connectors

■ Polybutylene terephthalate (PBT)

Electric cooling water pumps for PHEV engines

■ Polyphenylene sulfide (PPS)

Automotive sensors

■ Polybutylene terephthalate (PBT)

Office Automation Equipment



Drive gears for printers

■ Polyoxymethylene (POM)

External coverings

■ Polymer alloys with engineering plastics

Food Packaging Materials

Our packaging products feature barrier functions to extend shelf life and contribute to reducing food loss.



Packaging for snacks and other products

■ Barrier films for packaging

LCD TVs



LCDs

■ Cellulose acetate for LCD optical films (TAC)
■ Polymer for LCD resist

Supplements and Cosmetics

Our safe, high-quality cosmetics and healthcare materials provide a better quality of life to all our customers.



Healthcare product

■ Supplements

Cosmetics, shampoos, conditioners, and toothpastes

■ 1,3-Butylene glycol
■ CMC and hydroxyethyl cellulose (HEC)

Everyday Products

We provide a variety of products that bring increased safety, convenience, and usability to everyday living.



Housing materials

■ Flame-resistant ABS resin

Household articles

■ Improved sink-corner strainer

Combination faucets

■ Polyphenylene sulfide (PPS)

Eyeglass frames

■ Celluloid and acetate resin

Electronic Devices such as Smartphones

We contribute to the functional improvement and downsizing of electronic devices as they continue to evolve.



Narrow-pitch connectors

■ Liquid crystal polymer (LCP)

Display films

■ Anti-glare films

Optical materials/lenses

■ Wafer level lenses

Semiconductor manufacturing

■ High-purity solvents and resist monomers for semiconductors

Stadium Screens



LED display

■ Epoxy compounds

Value Creation Milestones

Since its founding in 1919, Daicel has steadily evolved by meeting the ever-changing demands of society. We are currently focused on developing products that can support sustainability across the globe. We have been creating value throughout a history of challenges and accomplishments for over a hundred years.

FY2020/3 Consolidated sales
¥412.8 billion

1919 to the 1950s

Very Early Years

Initially founded as a celluloid maker named Dainippon Celluloid, Daicel immediately contributed to Japan's industrial progress. The foundations of our cornerstone products, such as acetic acid and cellulose acetate, were established from the very beginning through our pursuit of fireproofing celluloid.



- 1919 Established Dainippon Celluloid, Co., Ltd.
- 1935 Constructed the Arai Plant and began producing acetic acid
- 1919 Constructed the Kawachi Sub-Plant of the Aboshi Chemical Plant (currently the Harima Plant)

1960s

Development of Petrochemicals

During the period of rapid economic growth in Japan, we entered the petrochemical business to expand our product line of chemicals. We also launched our engineering plastics business with the production of AS and ABS resins and polyacetal. Featuring outstanding durability and chemical resistance, our engineering plastics have since supported the downsizing of many products, including automobiles.



- 1961 Established Dainippon Kasei Co., Ltd. (currently the Ohtake Plant) Launched the petrochemical business
- 1964 Established Polyplastics Co., Ltd. Launched the engineering plastics business

1980s and 1990s

Entering Overseas Markets

To enhance our core business and surmount the structural recession that hit Japan in the late 1970s, we commercialized acetic acid using the methanol carbonylation process, which led to a realignment of the acetic acid sector. Our local subsidiaries in Europe, the US and Asia were established in the 1980s. We also set our sights on the pharmaceutical industry and accelerated our chiral separation business in the US and Europe.



- 1980 Commercialized acetic acid using the methanol carbonylation process
- 1984 Established Daicel (U.S.A.), Inc. (currently Daicel America Holdings, Inc.) and Daicel (Europa) GmbH
- 1989 Established Daicel Chemical (Asia), Pte. Ltd. (currently Daicel (Asia), Pte. Ltd.)
- 1990 Established Chiral Technologies, Inc.

2000 to present

Expansion of the Pyrotechnic Devices Business and "Daicel Way" Production Innovation across the Group

We established inflator production and sales sites in six countries. In Japan, we expanded our "Daicel Way" production innovation, which was originally established at the Aboshi Plant, across all our companies, accelerating our process innovation initiatives. In 2017, we opened Innovation Park to consolidate our R&D, engineering and production functions.



- 2000 Constructed the Integrated Production Center of the Aboshi Plant
- 2009 Began producing ethyl acetate using the esterification process
- 2017 Opened Innovation Park



Toward a Sustainable Society

We endeavor to develop products that make daily life healthier, safer and richer, and strive to manufacture them in ways that protect the environment, workers and the general public. Daicel is committed to realizing a sustainable society.

The Daicel Group's Products and their Social Value

Celluloid

Enrichment of daily life

As a pioneer in the field of plastics, we played an integral role in the development of the Japanese chemical industry.

- 1928 Started producing photographic film materials in response to the popularization of photography and movies



Cellulose acetate

Safety

- 1938 Commercialized cellulose acetate, offering a solution to flammability concerns associated with cellulose nitrate

Polyacetal

Conserving resources and energy

- 1964 Started producing polyacetal, a high-performance resin, supporting the downsizing of many products, including automobiles, while also reducing environmental impact



Acetic acid using the methanol carbonylation process

Realignment of the acetic acid sector

- 1980 Introduced the methanol carbonylation process to produce acetic acid, our core material, which led to the realignment of the acetic acid sector

Chiral columns

Safer medications

- 1982 Started producing chiral columns, which are used to separate substances that may otherwise cause adverse side effects



Automobile airbag inflators

Safety and security

- 1988 Started supplying the key component for automobile airbag systems that protect passengers in the event of a collision

Actranza™ lab.

Advanced medicine

We are working toward practical applications of new drug delivery systems, which utilize our pyrotechnic technology, for gene therapy and other advanced medicine.



Marine biodegradable cellulose acetate

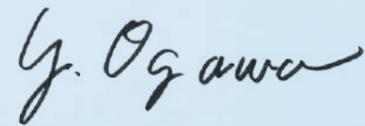
Solution for marine plastic

We have developed an eco-friendly, naturally derived cellulose acetate that can decompose in seawater twice as fast as conventional products.



Message from the President and CEO

We continue to innovate “**Monozukuri**”^{*} to achieve both a sustainable society and corporate growth.



Yoshiomi Ogawa
President and CEO, Daicel Corporation



^{*}Although the literal meaning of the Japanese word “Monozukuri” is “making things,” we have defined “Monozukuri” as creating new value through all corporate activities.

Encountering a Historic Turning Point

In the Group’s FY2020/3 results, operating profit was down for the fourth consecutive year. In addition to the slowing of the Chinese economy in the wake of intensifying U.S.-China trade friction, other factors adversely impacted the global economy and society. Blaming external factors for our declining performance, however, will not ensure the survival of Daicel’s business.

The current social environment is undergoing rapid change, and we thus face the challenge of staying afloat. The Sustainable Development Goals (SDGs) present opportunities for us to reassess the core of our business strategies, and new technologies such as AI and IoT are not only advancing automation and robotization but also overturning traditional societal structures and business models. In addition, the spread of COVID-19 has significantly impacted the lives and social functions of people around the world and is expected to trigger structural transformations in society and the economy.

We stand at a decisive turning point in our history, and the Daicel Group must transform itself in order to quickly and flexibly respond to these external factors. While the social environment remains unpredictable, we are nevertheless ready to face these challenges with the 12,000 employees working for the Daicel Group around the world and our various stakeholders.

Long-term Direction and Future Vision

Last year, amid these historical changes, we celebrated our 100th anniversary. During that milestone year, we started formulating the Group’s 4th long-term vision encompassing the new era along with our medium-term strategies for realizing this new vision. The global COVID-19 pandemic struck during these discussions and presented challenges we had never experienced. We have been witnessing how this pandemic has been changing people’s lives as well as corporate economic activities and our supply chain, and we have been reassured that our decision to focus on speed and flexibility turned out to be correct and timely.

In our new long-term vision “DAICEL VISION 4.0,” we focus on three areas: changing how work is done and how the company operates, combining technologies and skills to continually innovate manufacturing, and providing reliable and value-added manufacturing.

“Changing how the company operates” means going beyond the traditional concept of company boundaries and working with the entire supply chain to generate new value. The Daicel Group cannot operate in isolation. We need our customers and our suppliers, and when working on construction projects we work with partner companies. If we think beyond the boundaries of our company, our plant is just one process in a long supply chain made up of many manufacturing processes. To ensure that our supply chain is chosen, we believe that we must do more than just offer excellent cost performance and quick responses to our customers. We should put ourselves in their shoes, understand what they really need, and come up with the best solution for them. We will come across scenarios in which we actually do not have any products that suit their needs and therefore present them with competitors’ products. These scenarios offer opportunities for identifying our shortcomings and enable us to strengthen our manufacturing capabilities by developing new products that surpass the competition. Our goal is to go beyond organizational boundaries in this way and flexibly leverage the capabilities of our cross-value chain to establish supply and value chains that deliver greater value to society and in which everyone shares a sense of achievement and accomplishment.

Our second focus is to continually innovate manufacturing. To strengthen our manufacturing capabilities, we must work on both our “know-why,” that is, the technologies based on theories and analysis, and “know-how,” the skills based on insight and experience. During our implementation of “DAICEL Production Innovation,” I was involved in analyzing plant operations as an engineer. I soon realized that a theory-based analysis was not sufficient for capturing the massive on-site expertise that has been accumulated over the years. These categories of on-site know-how often come about from taking action to address a lack of technical capabilities. Analyzing these kinds of know-how offers opportunities for improving our technology and leads to innovation. And when new or improved technology is introduced, new elements of expertise are introduced and accumulated as well. The strength of Japan’s manufacturing is at the center of this synergy between technologies and skills and how they interact to create an upward spiral of progress. This same principle can be applied to global businesses and expanded to encompass our overseas plants too. I truly believe that engineers and frontline operators who can think beyond the boundaries of their responsibilities and work together to holistically strengthen our manufacturing

Message from the President and CEO

capabilities are crucial to the company's survival.

Our third focus is to continually provide and enhance reliable, value-added manufacturing. For society to accept the nature and value of our manufacturing, every product must clearly reflect a sense of safety and quality. While this may seem obvious, it is extremely important to remain diligent and focused, even on obvious things. In addition, in order to contribute to creating a sustainable society, we need to both develop products that advance society toward this goal and ensure our manufacturing process itself is friendly to people and the environment. To this end, we are working on forming a biomass product tree during product development and implementing an energy-offset process for reducing energy and resource consumption. Since our establishment, we have been working very closely with Cellulose, a naturally derived material, and have extensively explored its capabilities. We can leverage our expertise in Cellulose and turn it into a functional material that offers non petroleum-based solutions to society. We believe that this approach to new product development will naturally define and shape Daicel brand manufacturing. In the energy-offset process, our ultimate goal is to operate manufacturing processes that result in no loss of energy, in which the overall energy input does not exceed overall output. I recognize that this is a very ambitious goal; nevertheless, we are committed to this goal and to creating processes that can harmoniously coexist with the global environment.

Human-Centered Management

Our goal is to contribute to the creation of sustainable society and at the same time expand the Daicel Group's business. The achievement of these objectives must be based on

a foundation of vital principles, that is, safety, quality and compliance, and through integrity, hard work and our own transformation. To this end, we established the Sustainability Management Policies. These were drawn from Human-Centered Management and are intended to enhance our corporate value by ensuring happiness for workers, an environment that fosters happiness, and happiness for society and all people.

We believe that the happiness of each employee and their families is essential for bringing happiness to society as a whole. This belief forms the basis of our Sustainability Management Policies. A company is made up of people, those who happen to live in the same era and have been brought together to work for the same company. It is said that people spend more than one-third of their lives at work. Therefore, it makes perfect sense to ensure that their workplaces are happy places. A workplace in which employees can pursue their ambitions and apply their capabilities brings a sense of happiness, and this, in turn, makes their families happy. We need our workplaces to be environments in which employees feel enthusiastic about what they do and enjoy the changes they bring to the company. This leads to the company's growth, and our growth, in turn, brings even more happiness to their lives.

For many years, we have been advocating the need for a workplace environment in which everyone can excel, regardless of age, gender, nationality or disability. Every opportunity I get, I tell employees not to assume that working in plants is too dangerous for people with disabilities. Why not consider fully accident-proofing our plants to make them completely safe for anyone to work in? Times may change, but our basic management principle remains the same. Our human-centered management values each and every employee, and we hope to achieve success together.

In April 2020, we became a signatory of the United Nation's Global Compact. The Daicel Group is committed to maintaining a global perspective as we focus on our "Human-Centered Management" and aligning ourselves with the UN Global Compact's ten principles. We truly believe that this leads to our own growth and contribution toward a sustainable society.

We aspire to become a company that brings happiness to people's lives by sharing, resonating and co-creating new value with a diverse set of partners. In this context, we thank all our stakeholders for their continued guidance and support and look forward to continuing to share our progress in the coming years.

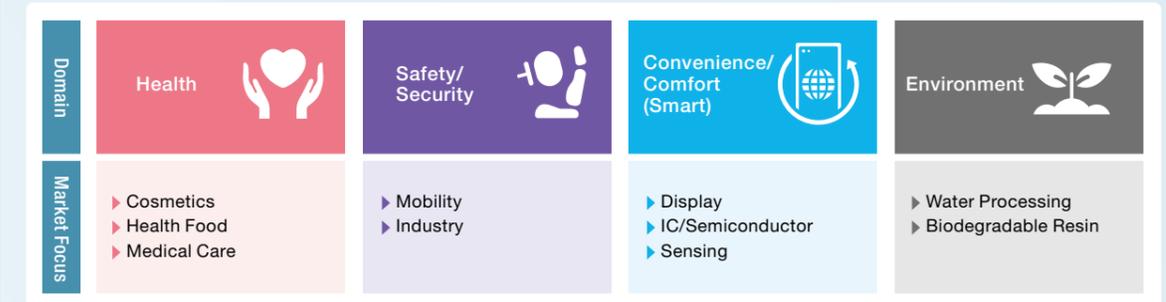
Long-Term Vision "DAICEL VISION 4.0"

The Long-Term Vision "DAICEL VISION 4.0" is a set of guidelines to ensure that society always views the Daicel Group as a reputable and reliable corporation. These guidelines clearly indicate our future vision and confirm our commitment and determination to change, even if that requires us to transform our business model and company framework.

Our Goals

| | | |
|---------------------|---|---|
| Sustainable Product | Contributing to happiness of people and society | ▶ Pursue happiness |
| Sustainable Process | Achieving goals with environmentally- and people-friendly methods | ▶ Remove the existing company/plant framework ▶ Form biomass product tree ▶ Energy offset process |
| Sustainable People | Giving employees a sense of fulfillment | ▶ Boldly delegate authority ▶ Lighter corporate role |

Four Domains of Happiness and Market Focus



Growth & Acceleration Strategy

Operations for goal achievement

Operation-I (OP-I) Original DAICEL

The area including domains on which we focus in addition to current businessness

- Transformation of the business structure (Selection and concentration of the business → Shifting to value providing type of organization)
- Transformation to asset light
- Structural reforms to accelerate the growth of OP-II/III

Operation-II (OP-II) New DAICEL

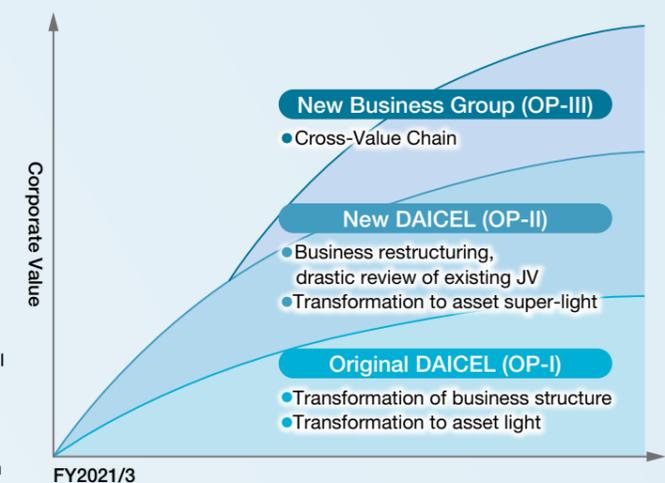
Peripheral areas of existing business to be expanded through M&A or collaboration

- Business restructuring, drastic review of existing JV
- Transformation to asset super-light
- A company creating high added value that can aim at OP-III

Operation-III (OP-III) New Business Group

Cross-Value Chain that brings a vertical integration type of supply chain along with horizontal integration

- Not limited to M&A, constructing the number one supply chain with various connections



Value Creation Process

We will provide even greater value for society and contribute to people's everyday happiness by pursuing businesses in the four domains of health, safety and security, convenience and comfort, and the environment and by dramatically advancing our operational infrastructure through digital transformation.

Basic Philosophy

The company making lives better by co-creating value

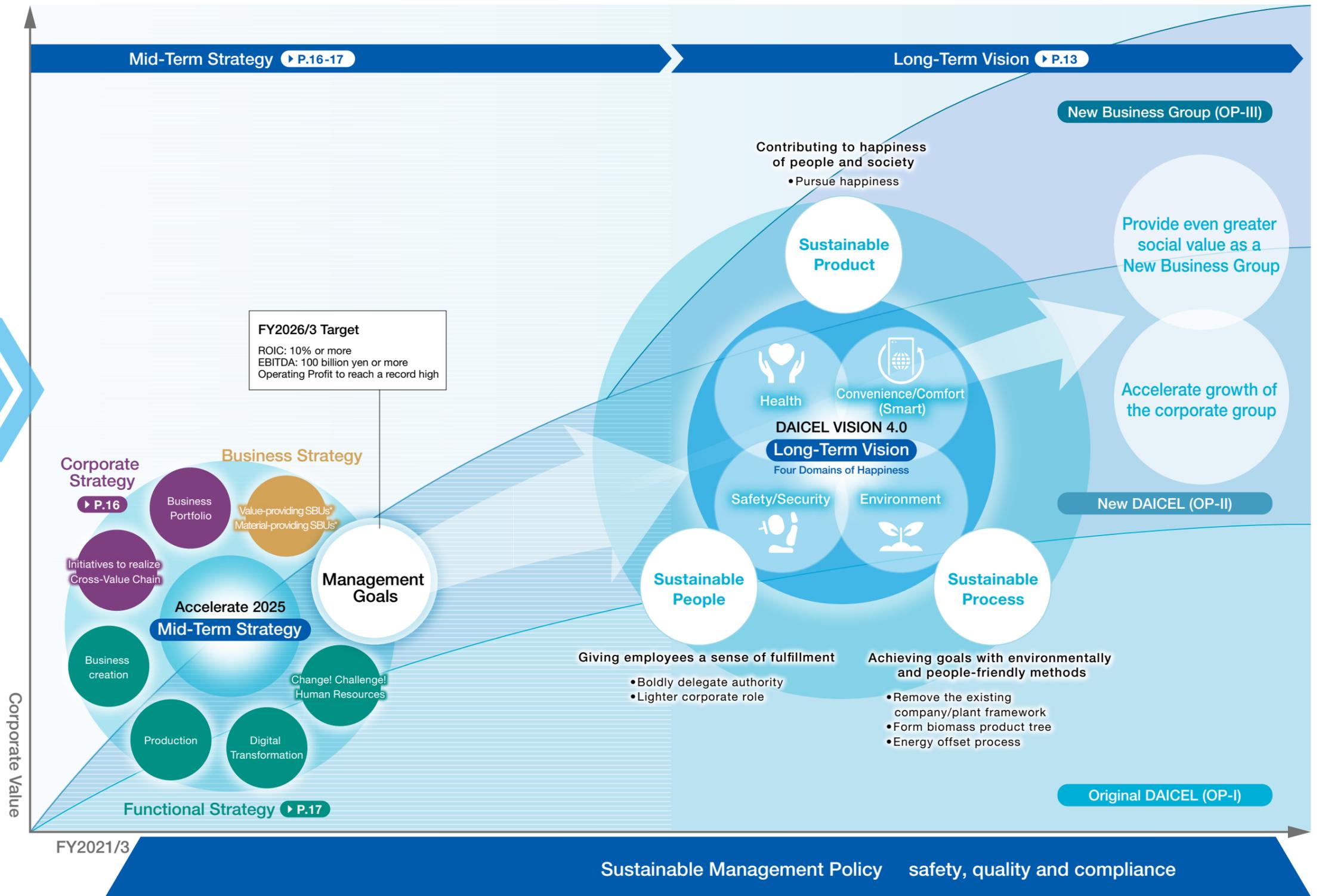
Sustainable Value Together

Trends in Social Change

- Population growth and ongoing aging of society
- Evolution of digital technologies (IoT, AI)
- Pursuit of safety and security
- Response to climate change, prevention of environmental pollution
- Global social change, diverse values

Daicel's Strengths = Source of Value Creation

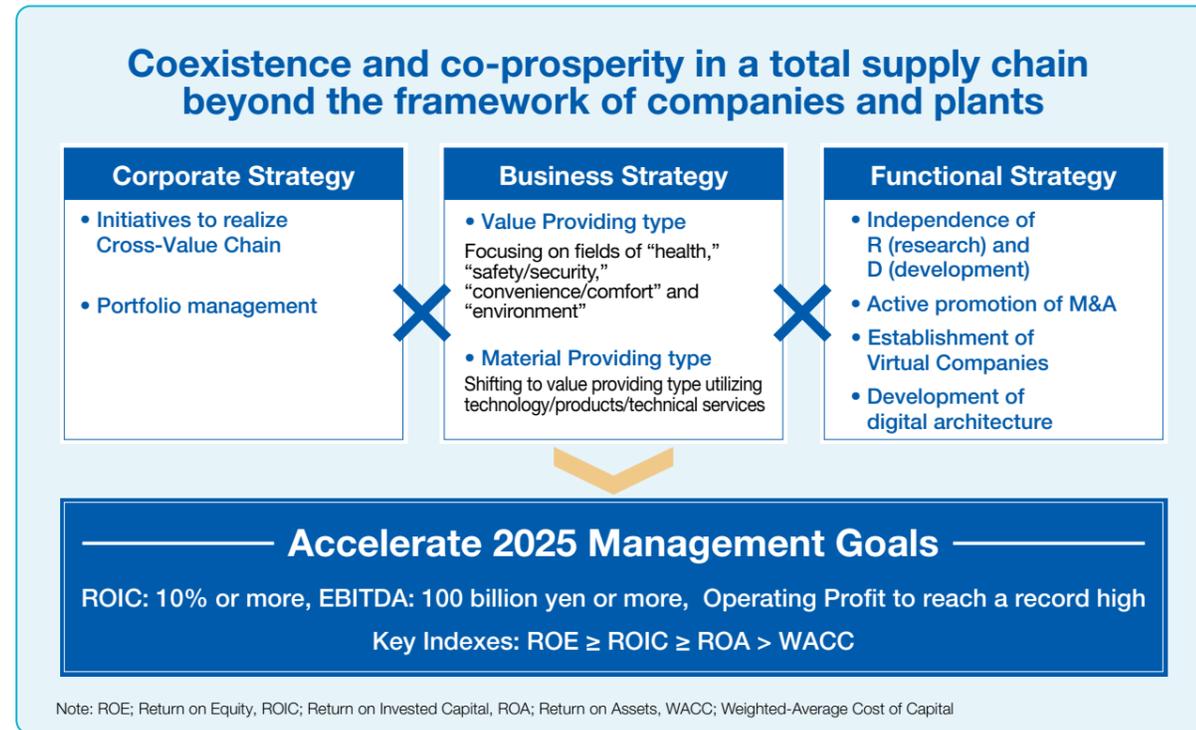
- Distinctive organic synthesis technologies ranging from biotechnology to precision synthesis
- Unique cellulose technology and pyrotechnics
- Wide product line from engineering plastics to general purpose resin
- A system to utilize know-how with IoT and AI (DAICEL Production Innovation)
- Diversified global workforce



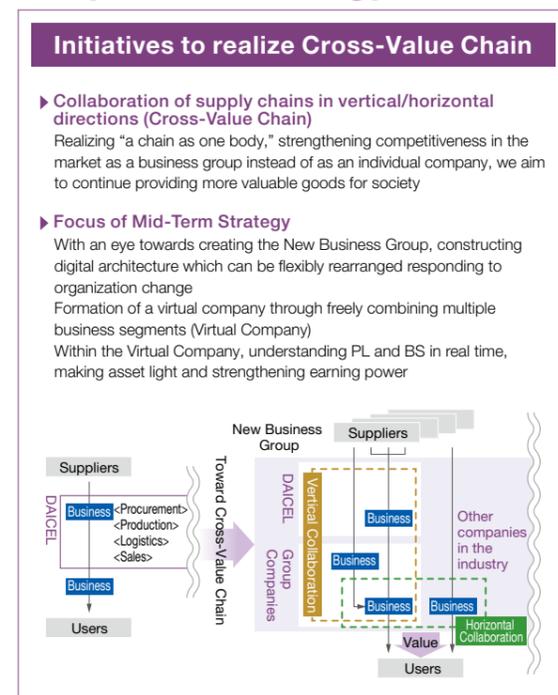
*SBU: Strategic Business Unit

Accelerate 2025 Mid-Term Strategy

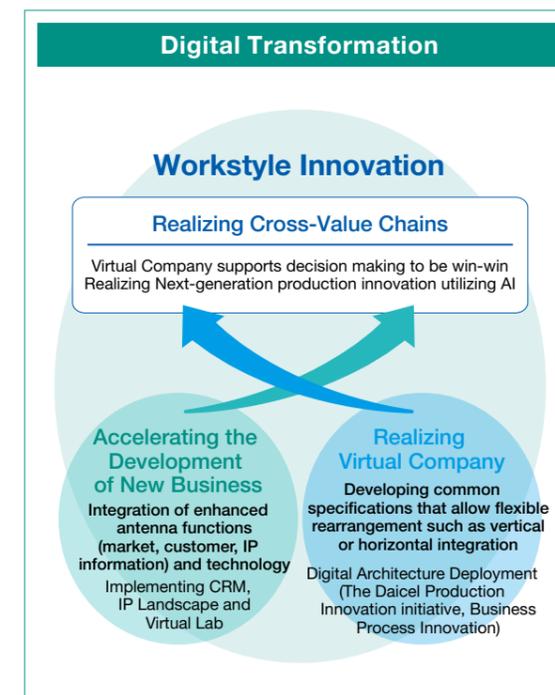
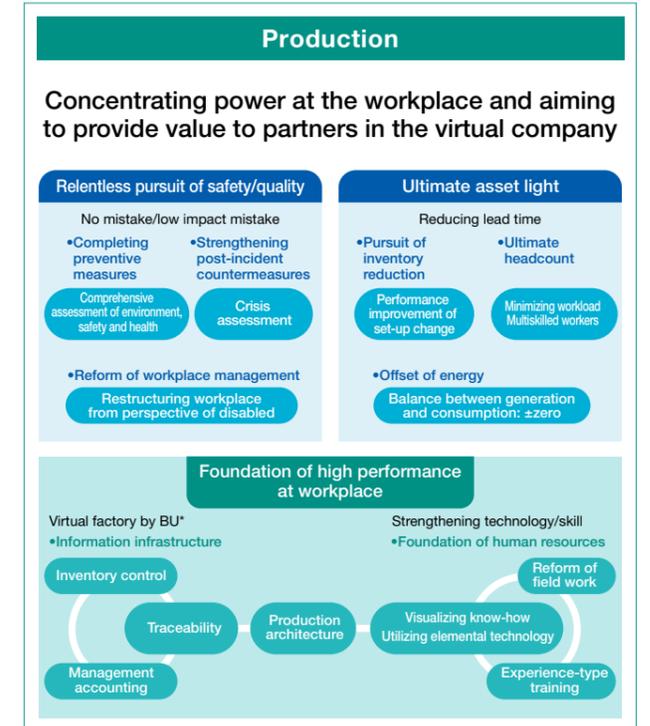
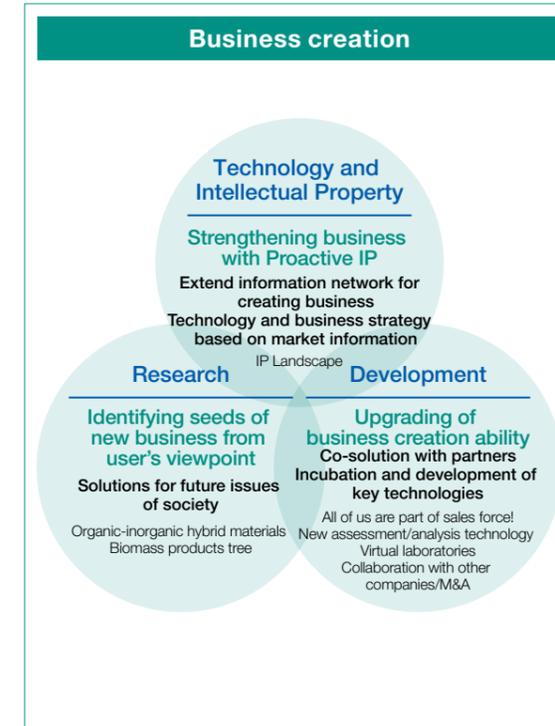
We will execute our Accelerate 2025 Mid-Term Strategy, consisting of the corporate strategy, SBU-specific business strategies, and functional strategy, to evolve into a new business group that goes beyond the conventional concept of a company achieving the goals of Operation-III.



Corporate Strategy



Functional Strategy



*BU: Business Unit

Our SDG Focus and Initiatives

Setting safety, quality and compliance as management foundation, Daicel is implementing sustainable management by reforming itself to seek concurrent achievement of a sustainable society and the Group's business expansion. Tackling the SDGs is therefore a key medium- to long-term management task.

Here are the approaches we have been taking, led by the Corporate Sustainability department, newly established in June 2019, to weave our SDG priorities into our new long-term vision and medium-term strategy.



Determining Daicel's priority SDGs

We use the SDG Compass and its five steps to instill the understanding of our contribution to the SDGs across the company. In FY2020/3, we determined our priority SDGs and set specific goals.



STEP 1 Understanding the SDGs

We believe it is vitally important for every Daicel Group employee to understand the significance of the SDGs and to act voluntarily or take action accordingly. The Corporate Sustainability department has adopted the following strategies to promote a thorough understanding by every Group employees. In May 2020, a special 74-member team (as of June 2020) of so-called "SDGs Ambassadors" was set up to encourage self-motivated, grassroot SDG activities that cross the boundaries of worksites and job types or positions.

■ Company-wide campaign for raising knowledge and awareness of the SDGs



■ Dissemination via the intranet and company newsletters



■ Distribution of SDG badges and seals



STEP 2 Defining priorities based on our long-term vision and medium-term strategy

We defined our priority SDGs, out of the 17 goals and 169 targets, based on alignment with our business operations and sustainability initiatives already in place with due consideration for the following aspects.



STEP 3 Setting goals

Based on our SDG priorities, we set the following medium-term focus points, initiatives and KPIs. We pursue the KPIs through our CAPD cycle*1.

*1 Instead of the conventional PDCA cycle, we use a CAPD cycle for our improvement activities to prevent failing to notice an important fact in an activity starting with planning.

Our SDG focus and initiatives for FY2021/3

| | SDGs | Focus | Initiatives | KPIs |
|-------------------------------|---|--|--|---|
| Product | 3 GOOD HEALTH AND WELL-BEING, 6 CLEAN WATER AND SANITATION, 7 AFFORDABLE AND CLEAN ENERGY, 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE, 11 SUSTAINABLE CITIES AND COMMUNITIES, 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 14 LIFE BELOW WATER | Products that contribute to a prosperous society | Shift to value-delivery business**2 ▶ Health: healthcare and medical products ▶ Safety/Security: pyrotechnic devices in the mobility and industry sectors ▶ Convenience/Comfort displays, IC/semiconductor, and sensing ▶ Environment: energy-saving raw materials, biomass products, biodegradable resins, and water treatment membranes | ▶ Increasing sales of value-delivery products |
| | 12 RESPONSIBLE CONSUMPTION AND PRODUCTION, 14 LIFE BELOW WATER, 15 LIFE ON LAND | Building a circular value chains | Establishing a biomass product trees ▶ Using plant-derived natural resources ▶ Making better use of unused natural resources ▶ Expanding the use of biotechnology | ▶ Substantially enhancing target biomass products ▶ Constantly researching key topics related to the biomass product trees |
| | 7 AFFORDABLE AND CLEAN ENERGY, 13 CLIMATE ACTION | Significantly reduced greenhouse gas (GHG) emissions | Study and implementation of measures to reduce GHG emissions across the entire value chain ▶ Constructing an energy offset processes ▶ Developing an energy-saving manufacturing processes ▶ Switching to renewable energy sources | ▶ Planning a measure for a 30% reduction (FY2019/3 baseline) of GHG emissions for FY2031/3 (Scope 1, 2) |
| | 4 QUALITY EDUCATION, 5 GENDER EQUALITY, 8 DECENT WORK AND ECONOMIC GROWTH | Human-centered business management | Creating a working environment in which everyone can develop their skills with a sense of ownership and accomplishment ▶ Diversified human resource and skill development ▶ Creating a workplace environment to support diversified human resources ▶ Bold empowerment and appointment ▶ Simple and flexible personnel system to encourage taking on challenges and recognizing significant performance ▶ Establishing regionally optimized company rules and regulations | ▶ Establishing indices for measuring employee sense of ownership and accomplishment ▶ Establishing teleworking as a standard working style ▶ Health and Productivity Management: continue holding the White 500 certification |
| 17 PARTNERSHIPS FOR THE GOALS | Co-creation of values with a wide variety of partners | ▶ Collaboration with universities or other research institutions ▶ Vertical and horizontal collaboration with other companies | — | |

**2 The domains of health, safety/security, convenience/comfort and the environment are defined in DAICEL VISION 4.0, our long-term vision, as the four triggers for happiness and also represent our focus markets.

STEP 4 STEP 5 Integrating SDGs into management, reporting and communicating

We integrate our priority SDGs into our management plans and practices so all employees can pursue them as part of their business activities. We encourage ourselves to attain all these goals by announcing progress on our website and engaging in dialogue with our stakeholders.

Daicel Business Overview

FY2020/3 Net Sales (consolidated)
Total: **¥412.8 billion**

FY2020/3 Operating Income (consolidated)
Total: **¥29.6 billion***

| Businesses | Products |
|---|---|
| <p>Medical / Healthcare</p> <p>▶ P. 22</p>  <p>Net sales ¥15.1 billion Composition ratio 3.7%</p> <p>Operating income ¥1.3 billion Composition ratio 2.9%</p> | <p>Cosmetics: 1,3-Butylene glycol (1,3-BG), polyglycerin, and other raw materials for cosmetics</p> <p>Health Foods: Naturally derived health food materials and supplements, including equol and konjac ceramide</p> <p>CPI: Chiral columns, chiral reagents, and analysis services</p> |
| <p>Smart</p> <p>▶ P. 24</p>  <p>Net sales ¥25.3 billion Composition ratio 6.1%</p> <p>Operating income ¥3.4 billion Composition ratio 7.4%</p> | <p>Display: Cellulose acetate (TAC) for LCD optical films, and high-performance optical films</p> <p>IC/Semiconductor: Resist materials and solvents for electronic materials</p> <p>Sensing: Lens modules, silver nano ink, and organic semiconductor devices</p> |
| <p>Safety</p> <p>▶ P. 26</p>  <p>Net sales ¥74.8 billion Composition ratio 18.1%</p> <p>Operating income ¥3.3 billion Composition ratio 7.3%</p> | <p>Mobility: Automobile airbag inflators and resin compound products (for car use)</p> <p>Industry: Gas generators for seat belt pretensioners (PGG) and civilian-use pyrotechnics such as Pyro-Fuses</p> |
| <p>Materials</p> <p>▶ P. 28</p>  <p>Net sales ¥109.4 billion Composition ratio 26.5%</p> <p>Operating income ¥15.8 billion Composition ratio 34.7%</p> | <p>Acetyl: Acetic acid, acetic acid derivatives (organic chemicals such as ethyl acetate), cellulose acetate (other than that for optical films for LCDs), and acetate tow</p> <p>Chemical: Cycloaliphatic epoxy, caprolactone derivatives, alkylamines, and ketene derivatives</p> |
| <p>Engineering Plastics</p> <p>▶ P. 30</p>  <p>Net sales ¥176.1 billion Composition ratio 42.7%</p> <p>Operating income ¥20.9 billion Composition ratio 45.9%</p> | <p>Engineering plastics: Polyoxymethylene (POM), polybutylene terephthalate (PBT), polyphenylene sulfide (PPS), liquid crystal polymer (LCP), and cyclic olefin copolymer (COC)</p> <p>Resin compounds (non-car use): AS resin, ASB resin, and Long fiber-reinforced plastics</p> <p>Plastic molding: Barrier films for packaging, polystyrene sheets, and molded containers</p> |
| <p>Other</p>  <p>Net sales ¥12.1 billion Composition ratio 2.9%</p> <p>Operating income ¥0.8 billion Composition ratio 1.8%</p> | <p>Membrane: Reverse osmosis membranes, ultrafiltration membrane products, and water treatment systems</p> <p>Aerospace & Defense systems: Defense-related products</p> |

*Consolidated operating income is calculated by subtracting a corporate expense of ¥15.9 billion.

Medical / Healthcare



We supply safe, high-quality raw materials for healthcare products and offer solutions for drug development for today's society, which values quality of life* more than ever before.

*Material wealth as well as the general level of satisfaction in life, including psychological wellbeing.

TOPICS

Newly Launched WELLMETHOD®, a “Well-Aging” Brand for Women, and Released a New Supplement Soy Equol®

We launched a new brand WELLMETHOD® for women and opened a brand website in December 2019.

The website focuses on women who experience certain aging patterns and offers useful and information from friendly

supervisors and writers. Through this branding effort, we will communicate the evolution of Daicel's Healthcare Business inside and outside the company and further develop the brand into a trendsetter.

■ Brand website for WELLMETHOD®



In January 2020, a new product named Soy Equol® was released by WELLMETHOD®. Soy Equol® is a supplement designed for women who want to balance their hormone containing equol an intestinal metabolite of soybean isoflavones. We developed it, focusing on easiness of intake for women from various perspectives.

We will develop WELLMETHOD® into a comprehensive healthcare brand that will always be there for women, and support them to be active in their own fields.



Business Overview

Our Healthcare Business, consisting of the Cosmetics and Health Foods businesses, handles the manufacturing and sales of high-quality raw materials for cosmetics, health food products, and nutritional supplements. The main product of the Cosmetics Business is a raw material called 1,3-Butylene glycol (1,3-BG), widely used as a moisturizing agent and highly regarded in Asian markets for being odor-free. The Health Foods Business makes optimal use of its natural-material extraction and bioconversion technologies to create and deliver unique nutritional raw materials and supplements such as konjac-derived ceramide and

soybean-derived equol.

In the chiral separation business, we mainly provide chiral columns and chiral stationary phases (CSPs) for separation and purification of optical isomers in pharmaceutical development and manufacturing processes, as well as chiral separation services in five regions of the world: Japan, the US, Europe, China, and India. Our chiral column maintains a high market share around the world. We are expanding our solution domains into the rapidly growing biologics discovery areas through a network built in the small-molecule drug field.

Business Environment

- Growth of the cosmetics market
- Growth of the supplement market because of increased health awareness
- Intensified drug-discovery needs and growing macromolecule drug market

Strategies

- Promote 1,3 BG with stable supply through multiple production bases, and the world's No. 1 quality to meet future higher demand
- Raising recognition of Daicel among target populations and widening the variety of products
- Expanding the macromolecule drug development support business

SDGs Relevant to these Segments



Performance Highlights (Consolidated)

Net sales (FY2020/3)

¥15.1 billion

Operating income (FY2020/3)

¥1.3 billion

Business Overview of FY2020/3

While exports of 1,3-BG to Asian markets proceeded favorably, sales by the Cosmetics Business decreased year-on-year as demand from overseas tourists slowed. Sales by the Health Foods Business increased thanks to growth in sales of equol. Sales of chiral stationary phases (CSPs) decreased, while net sales by the CPI Business remained at the same level as the previous year because of increased sales from a new project.

Although cosmetics, one of our main markets, can be contracted on a short-term basis due to the COVID-19 pandemic, the market will grow over the medium to long term, particularly in Asian countries. In preparation for higher demand for 1,3-BG, we constructed a new plant at the Aboshi Plant with the expectation that having two production sites would strengthen business continuity and enable us to grow sales even further.

Smart



Providing solutions with the technologies and products required by the electronic materials market to support society and technological innovation.

Business Overview

Cellulose acetate (TAC) for optical films for LCDs, for which Daicel commands a large share of the global market, is made and sold by the Display Business. By making the best use of original materials and compound techniques, the business also makes and sells high-performance optical films for in-car displays, educational displays, smartphones, and tablets.

The IC/Semiconductor Business develops and produces high-performance resist materials and solvents for electronic materials used in the manufacturing processes of semiconductors and displays, which play an essential role in advancing semiconductor functionality.

Products manufactured and sold by the Sensing Business include thin, bendable, low-power-consumption film sensors, organic semiconductors, small yet high-performance wafer-level lenses made with high heat-resistant resin, and silver nano inks used for printing low resistance circuits on various kinds of films. All these products have contributed to the development of the sensor market, which is growing along with the heightened demand for sensor-based visualization in the wake of the broadening use of 5G, IoT, and AI.

Business Environment

- Growing demand for displays in China and emerging economies
- Full-scale advent of the 5G, IoT, and AI era
- Increasing demand for visualization and sensing technologies

Strategies

- Developing products with unique features ahead of market trends
- Carrying out global and e-marketing campaigns
- Reinforcing production techniques toward higher quality and more constant cost competitiveness
- Maximizing value through co-creation and collaboration

SDGs Relevant to these Segments



Performance Highlights (Consolidated)

Net sales (FY2020/3)

¥25.3 billion

Operating income (FY2020/3)

¥3.4 billion

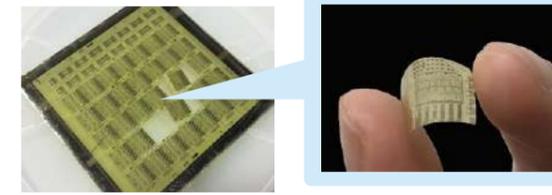
TOPICS

Daicel Acquired PI-CRYSTAL to Help Drive the AI/IoT Revolution

In January 2020, Daicel acquired PI-CRYSTAL, Inc., a start-up with organic semiconductor technology developed at the University of Tokyo.

Unlike conventional silicon/inorganic semiconductors, organic semiconductors are flexible and foldable. Moreover, organic semiconductors use less power than silicon devices. Demand for organic semiconductors is therefore

■ PI-CRYSTAL's organic semiconductor



Flexible organic semiconductor made with a film-coating technology developed solely by PI-CRYSTAL

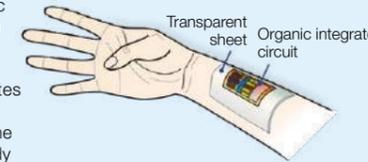
expected to grow in the fields of IoT sensors and displays. By using cutting-edge film-coating technology as its core technology, PI-CRYSTAL develops, produces, and sells high-performance organic semiconductor devices.

Printed electronics, which are printing techniques for creating electrical circuits and devices, represent a key focus for Daicel, and we have grown the business through external collaborations. PI-CRYSTAL has been one of our partners since its founding in 2013, and we have worked together to develop a method for applying Daicel's printed electronics materials and products for organic semiconductor devices. By combining our material development techniques with their state-of-the-art organic semiconductor technology, we are gaining the capability to mass-produce organic integrated circuits for sensors, indispensable for advancing AI and IoT, and for digital signage solution, toward commercializing our printed electronics products.

■ Expected applications

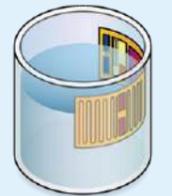
1 Healthcare sensor device

Mounting an organic integrated circuit on a transparent sheet attachable to the human body facilitates the gathering of information about the subject such as body temperature.



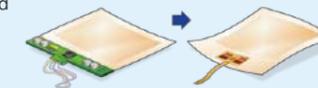
2 Device affixable to curved part surfaces

The device will improve the accuracy of laboratory instruments for chemical and medical use. Since it can be affixed to plastic parts, it can be downsized for in-car IC sensors.



3 For downsizing electronic components

It also enables part modules to be thinner and more flexible.



4 Lighter and more flexible large-size digital signage

The use of active-matrix elements composed of PI-CRYSTAL's organic semiconductor can make digital signage with a large-size LED display flexible and very lightweight.

Business Overview of FY2020/3

Sales by the Display Business declined from the previous year due to decreased sales volume of TAC, although the sales of high-performance car-use optical films rose. Sales by the IC/Semiconductor Business decreased year-on-year due to a weak semiconductor market. Sales by the Sensing Business increased year-on-year thanks to the sales growth of wafer-level lenses.

The wider introduction of 5G and self-driving technology

will encourage a rebound in the semiconductor market. And the trend toward smaller, high-performance electronic devices will require more sophisticated materials. To meet the needs of customers, we are advancing our resist materials to support the microfabrication of semiconductors and honing our techniques for solvents for electronic materials and other unique products.

Safety



Continuing to provide innovative safety and security to society on the foundation of know-how cultivated in pyrotechnics and vehicle safety industry .

TOPICS

Safe, Reliable Pyro-Fuses Suitable for Use in Cars and Industry

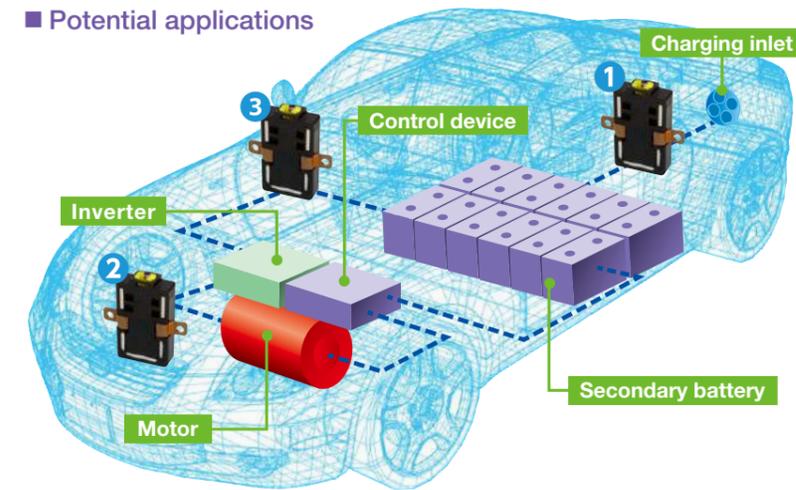
With highly reliable techniques, honed through the development and production of airbag inflators, we are developing and producing Pyro-Fuses that instantaneously interrupt electrical currents.

Electric vehicles, expected soon to appear on roads in great numbers, use high-voltage batteries. Certain measures are therefore required to protect occupants from the risk of electrical shock in case of an accident or malfunction and to prevent secondary hazards. In this context, Pyro-Fuses

are expected to alleviate safety concerns as a solution for interrupting the electric circuits in the event of an emergency and isolating the vehicle's battery.

We will launch a wide variety of Pyro-Fuses that prevent abnormal heating and catching fire in the event of an earthquake or fire as well as for industrial uses such as for batteries and systems for storing and transmitting renewable energy.

Potential applications



- 1 Overcharging**
- 2 Circuit malfunction**
- 3 Accident**

Interrupts electricity in an emergency to prevent additional hazards

Applications other than for vehicles

Our Pyro-Fuses can also be used for safety gear, renewable energy, and in medical care.



Business Overview

We have cultivated a wealth of pyrotechnic device technologies over the course of our longstanding operations, which started with the production of cellulose nitrate, a raw material of celluloid. Applying these technologies, our Safety Business manufactures and sells automotive safety devices such as automobile airbag inflators (gas generation devices), which protect the lives of occupants and pedestrians by inflating airbags within milliseconds after a collision, and gas generators for seat belt pretensioners (PGG).

Our automobile airbag inflators are highly regarded as the

key component of airbag systems that continue to advance. We operate in seven countries including Japan, the US, China, Thailand, Poland, South Korea, and India so that we can flexibly respond to rapidly changing automotive industries worldwide. Our Pyro-Fuses, which safely, instantaneously, and pyrotechnically interrupt high-voltage and high-current electricity in the event of an emergency, are expected to be used in many products that will be automated by AI, not to mention the already burgeoning electric vehicle industry.

Business Environment

- Global slowdown of automobile production
- Technological advances in self-driving cars
- Stricter automotive safety standards in emerging countries

Strategies

- Thorough productivity enhancement and streamline operations at overseas bases to improve profitability
- Adopting next-generation technology
- Sales expansion of business in Europe, USA and India through strengthening collaboration with module makers
- Development of new use of pyrodevices beyond the automotive market

SDGs Relevant to these Segments



Performance Highlights (Consolidated)

Net sales (FY2020/3)

¥74.8 billion

Operating income (FY2020/3)

¥3.3 billion

Business Overview of FY2020/3

The sales volume of automobile airbag inflators, our mainstay product, was maintained at the same level as in the previous year despite the negative impact of the COVID-19 pandemic, while sales by the entire Safety Business decreased year-on-year because the supply of replacement products for recalls by other companies came to an end.

We have been restructuring our global production for

inflators to improve profitability of the business. As part of this effort, we transferred some operations to other sites and, as a result, posted a fixed asset impairment loss. We will accelerate our efforts to raise earnings, which include further cost reductions and the development of competitive new products.

Materials



Delivering diverse solutions to global needs through the unique functions of our fine chemical materials.

Business Overview

We are Japan's only acetic acid producer. The Acetyl Business's main products include organic compounds such as acetic acid and its derivatives; cellulose acetate, made from cellulose derived from wood pulp or cotton; and acetate tow, obtained by spinning cellulose acetate. Our acetic acid and its derivatives are used in a wide range of fields, such as synthetic fibers, raw materials for plastics, pharmaceutical agricultural chemicals, and various solvents. Our acetate tow used for cigarette filters has a large global market share.

Cellulose acetate is attracting attention as an environmentally friendly and sustainable raw materials.

The Chemical Business's peracetic acid derivatives such as cycloaliphatic epoxy and caprolactone are produced by a unique synthetic reaction. They are used as urethane materials for semiconductors and paints for automobiles. Other chemicals in this Business Unit include amine and ketene chemicals, which are the raw materials for paints, adhesives, pharmaceuticals, agriculture, etc.

Business Environment

- Intensifying competition among sellers of acetate tow for cigarette filters as global demand for cigarettes wanes
- Rising expectations for environmentally friendly materials to address marine plastic pollution
- Intensifying competition as our materials become increasingly multi-purpose

Strategies

- Improving profitability and competitiveness of existing businesses through cost reductions
- Launching an eco-centered plastic business to create new growth drivers
- Product differentiation through enhanced functionality and added value

SDGs Relevant to these Segments



Performance Highlights (Consolidated)

Net sales (FY2020/3)

¥109.4 billion

Operating income (FY2020/3)

¥15.8 billion

TOPICS

Biodegradable Materials Expected to Address Concerns over Marine Plastic Pollution

We propose the use of biodegradable raw materials such as cellulose acetate and our caprolactone derivative Placel in order to effectively address plastic pollution, which is damaging the world oceans.

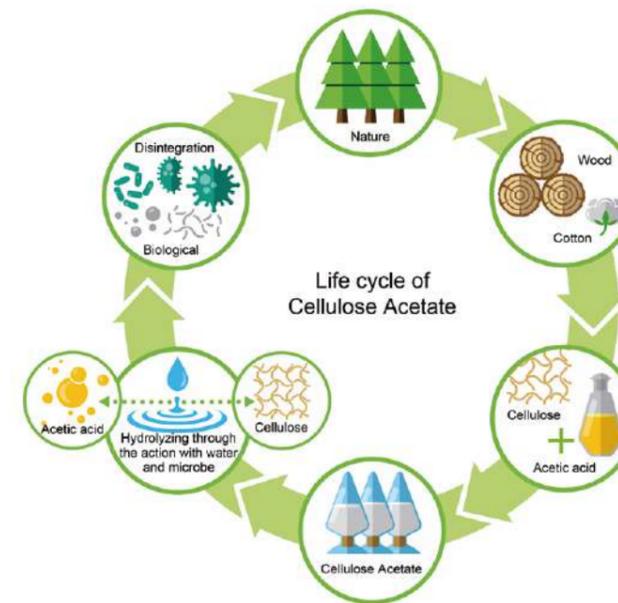
Cellulose acetate is a biodegradable and environmentally friendly polymer material made from a plant-derived natural polymer "cellulose", and "acetic acid" which exists in nature as well. The discarded cellulose acetate is decomposed into water and carbon dioxide by microorganisms that exist naturally not only in soil and waste but also in the ocean. It is also possible to adjust the disassembly rate with Daicel's technology.

Pracel is one of the caprolactone derivatives which is

biodegradable in soil and marine. It has long been used in a wide range of applications such as hot melt adhesives. In recent years, it has attracted attention in the bioplastics field due to its high compatibility with various polymers and its ease of molding.

It is known that petroleum-based plastics take decades to hundreds of years to decompose. By using cellulose acetate or Pracel, which decomposes in a few months to a few years, as an alternative to conventional plastics, it can be a solution to the marine plastic problem. We will accelerate collaboration with our partners and continue to contribute to the realization of a sustainable society.

Cellulose acetate life-cycle



Representative applications of cellulose acetate and placel

| | |
|-------------------|---|
| Cellulose acetate | Packing containers, fibers, pellets for plastic processing, films for protecting films, cosmetics (foundations) |
| Placel | Agricultural multi-purpose films, paper cups, compostable bags |



Textiles



Compostable bags

Business Overview of FY2020/3

Sales of cellulose acetate and its derivatives, the main products of the Acetyl Business, decreased year-on-year due to a slumping market and declining sales volume in Japan and overseas, primarily resulting from China's economic slowdown. The sales volume and profits from acetate tow for cigarette filters, another mainstay product, increased following the successful expansion of market share among

key customers as well as the acquisition of new customers. However, Chemical Business profits decreased year-on-year because the increased sales volume of cycloaliphatic epoxy supported by an ongoing supply shortage was offset by the declining sales volume of core products including caprolactone due to sluggish demand in China, which in turn is attributable to the U.S.-China trade friction.

Engineering plastics



Supporting the sustainable development of society by offering plastics with special features such as mechanical strength and resistance to heat and chemicals.

Business Overview

Polyplastics Co., Ltd. is a leading engineering plastics company with 32 locations in 11 countries. It manufactures polyoxymethylene (POM), with the top worldwide market share, and liquid crystal polymer (LCP), and its technical solution capabilities, based on sample data and many years of expertise, are one of its greatest strengths. Polyplastics solutions have contributed to lighter automobiles with more electric components and higher performance electric devices.

Daicel Miraizu Ltd.* handles high-performance products

such as polymer alloys, created by blending multiple resins with different properties, and high functional plastics reinforced with special fillers. It is also in the plastics compound business, which is responding to increasingly sophisticated user needs, and in the plastic processing business, which supplies barrier films for food packaging.

*As of July 1, 2020, the sales divisions of Daicel FineChem Ltd., Daicel Polymer Ltd. and Daicel Value Coating Ltd. were integrated into Daicel Miraizu Ltd., a new company, which succeeded Daicel FineChem Ltd.

Business Environment

- Worldwide slowdown of car production
- Ongoing development of next-generation mobility using self-driving and energy-saving technologies
- Changes in infrastructure, devices, and services due to the introduction of 5G

Strategies

- Creating new products for sustainable growth
- Stabilizing product supply and innovating techniques to prepare for growth in market scale
- Developing high-quality, high-value added materials to increase market share in premium markets
- Strengthening global technical solutions and supply chains

SDGs Relevant to these Segments



Performance Highlights (Consolidated)

| | |
|-----------------------|-----------------------------|
| Net sales (FY2020/3) | Operating income (FY2020/3) |
| ¥176.1 billion | ¥20.9 billion |

TOPICS

Contribution to Circular Economy with PET Bottle labels that float on water

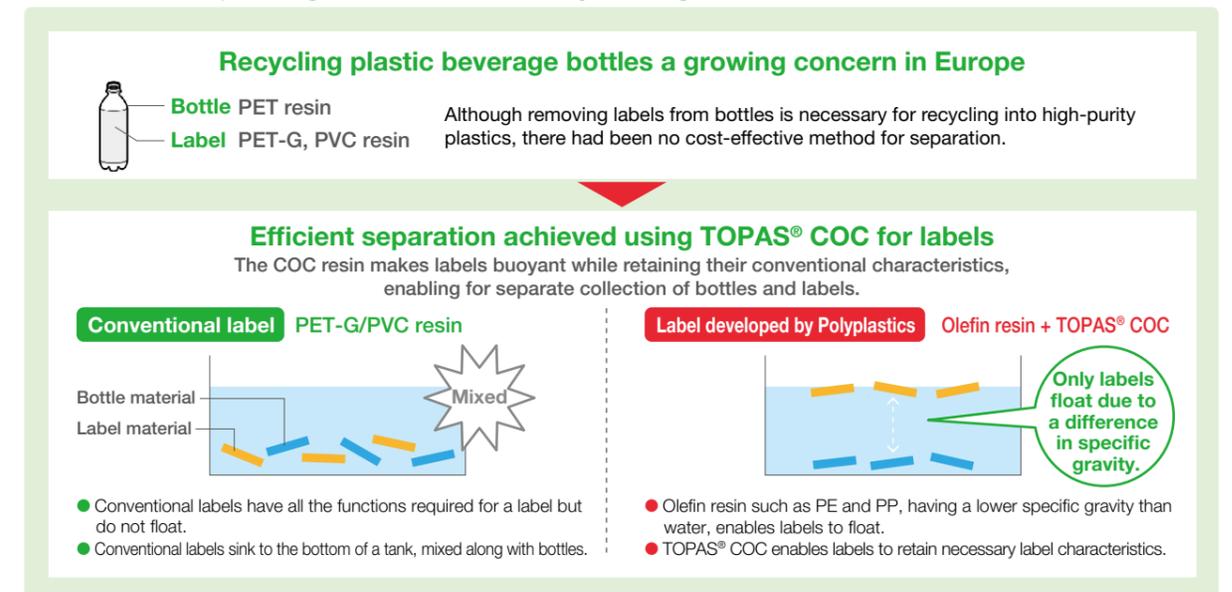
While plastics are highly convenient and essential for modern society, they also become a cause of marine litter and global warming. To solve these issues, the easily recyclable material for plastic beverage bottle labels was developed by Polyplastics.

Since the raw materials used for plastic bottle bodies, caps, and labels differ, recycling plastic beverage bottles requires separating by resin type. In Europe, recycling plants are equipped with a machine that removes labels from the bodies, and consumers must peel off the labels before disposal. Still, such approaches are rather ineffective in terms of both cost and results. As the search for a more efficient solution continues, a spotlight has been cast on a method for separately collecting plastic bottles and labels by making labels that are buoyant in water. The method had been unfeasible since conventional labels, which have a

higher specific gravity than water, do not float. Labels using TOPAS® COC (cyclic olefin copolymer), a material developed by Polyplastics, fit this strategy because they do float in water, enabling bottles and labels to be collected separately, simply by placing bottle flakes in water and thereby accelerating the recycling process, while at the same time retaining the printability, shrinkability, and adhesiveness of conventional labels. Moreover, although TOPAS® is different from polypropylene (PP) or polyethylene terephthalate (PET), labels made of TOPAS® can be recycled as an olefin material.

As the demand for TOPAS® COC rapidly grows, it has become necessary to enhance our supply system for the product. To realize the stable supply of high-quality products, we plan to boost current production capacity by 50% in early FY2022/3 and introduce new facilities in FY2023/3.

Method for separating labels from bottles by floating them in water



Business Overview of FY2020/3

The engineering plastics segment provides a variety of synthetic resin products, from high-performance engineering plastics for cars and electronics to barrier films for packaging. Sales by this segment declined overall year-on-year due to China's economic slowdown and the COVID-19 pandemic, which also constrained demand for engineering plastics,

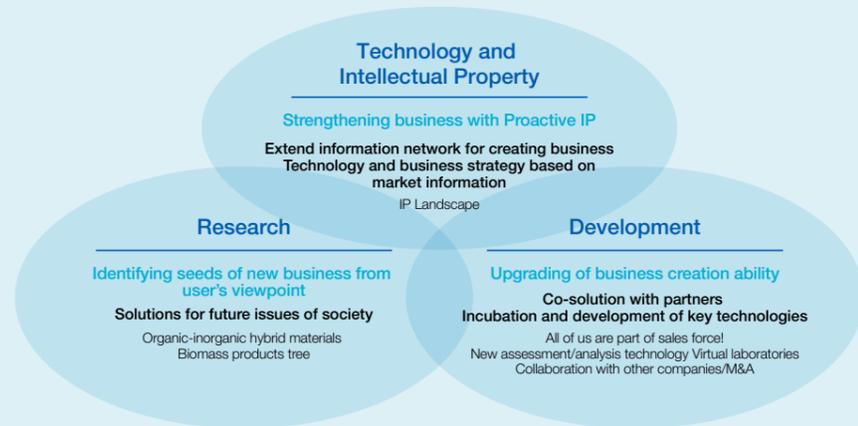
our main products, in the car parts market and markets for smartphones and other high-value added goods. Nevertheless, the sales volume of our engineering plastics remained at the same level as the previous year thanks to the growth in sales of general-purpose grade products and expanded applications.

Innovation and Business Development

The Daicel Group will pursue the following strategies under its new Mid-Term Management Strategy, "Accelerate 2025."

- **Achieve Independence in R (research: identifying the seeds of new businesses from the user's viewpoint) and D (development: upgrading the ability to create businesses)**
- **Create businesses through the interaction of Proactive IP, which functions as an antenna for development and business creation, R (research), and D (development)**

With these strategies we will aggressively create new businesses through collaboration with the Intellectual Property Center, Research Center, Innovation and Business Development Headquarters, and individual Business Units (BUs).



Proactive IP (Aggressive Action on Intellectual Property)

The Intellectual Property Center does not limit itself to applying for and obtaining rights; we also take aggressive action in this area to bolster Daicel's business operations by utilizing intellectual property from a global perspective in order to secure a competitive market advantage, acquire core technologies, and contribute to business creation. In business creation, we conduct a holistic analysis to visualize a vast amount of information on intellectual property and markets to analyze and predict key processes and technologies. We accelerate innovation by conducting an IP landscape analysis that enables us to select new business themes for allocating management resources and establishing new business models.

Independence of R and D

R (Research)

The Research Center set up under the president in October 2019 plays a key role in R (research) for solving future social issues by identifying the seeds of new businesses from the user's viewpoint. The Center serves the functions of both think tank and research that link Daicel's products and technologies with social needs. It is responsible for the planning and research of new hybrid materials that combine the organic materials technology cultivated by Daicel and the inorganic materials technology of others. The center takes the lead in exploring and designing new functions and technologies through open innovation between industry, government, and academia. In view of worsening environmental problems, we are also seeking to form a biomass products tree based on our materials and technologies that contributes to a circular society.

D (Development)

We pursue D (development) to upgrade our business creation ability to turn seeds into solutions that meet actual needs. We are accelerating our drive to create new businesses under a value providing model through collaboration between the Business Development Headquarters and individual Strategic Business Units. The headquarters was set up in October 2019 as part of our organizational reform, with an integrated system for performing functions ranging from planning and developing new products to mass production and business creation. United under the slogan "All of us are part of the sales force!" every employee engages with the market and is involved in upgrading our business plans as we strive to meet customer needs while seeking to acquire and develop the necessary technology by working with outside players. Furthermore, we derive optimal solutions for issues that arise at each stage, from R&D through production, by utilizing virtual labs, simulation technology, and new evaluation and analytics technologies that help reduce development times and costs.

Sustainability Management

Sustainability Promotion

Basic Approach

The Daicel Group's daily activities are guided by its basic philosophy of making people's lives better by co-creating value. In a world where the values of people are changing significantly day by day toward the realization of a sustainable society, the Group has sought to clarify its management policy by laying out the Sustainable Management Policy. Under this, while we prioritize safety, quality, and compliance as the most important foundation, we seek to concurrently achieve a sustainable society and the Group's business expansion with integrity, tireless efforts, and self-transformation.

Sustainable Management Policy

We create and provide people with new values to achieve better quality of life.

We construct a circular process with all our stakeholders to make harmonious coexistence with the environment.

We promote "human-centered business management" that enables diverse employees to grow while establishing their own presence and achieving fulfillment.

Sustainable Management System

In April 2020, the Daicel Group set up a Sustainable Management Committee, which is chaired by the president, meets four times a year, and is part of a Group-wide effort to address sustainability issues. The committee promotes initiatives addressing key issues concerning the SDGs and sustainability through our business activities, manages the progress, and communicates the results to our stakeholders. Comprising members from a broad range of areas, including our business and R&D divisions in addition to the CSR department, the committee will bolster Daicel's CSR-related initiatives and accelerate its contribution to sustainability through business and innovation.

Joining the United Nations Global Compact

Daicel Corporation signed the United Nations Global Compact in April 2020 in support of this initiative and with the aim of helping to resolve global issues as a responsible corporate citizen. Furthermore, the Daicel Group promotes responsible corporate management as a means of contributing the creation of a sustainable society. Specifically, it upholds and practices the Ten Principles in the areas of human rights, labor, the environment, and anti-corruption, priority areas designated by the UN Global Compact.



Diagram of the Sustainable Management System



Cultivating a Sustainability Mindset

To accelerate sustainability in a concerted Group effort, we must nurture a mindset with which all employees develop a good understanding of the significance of sustainability, think about ways in which their work can accelerate sustainability, and take actions. To this end, we conduct briefings and use intranet sites to cultivate a shared sustainability mindset among employees across the Group.

Responsible Care Activities

Daicel Group's Responsible Care

To practice the spirit of Responsible Care (RC), the Daicel Group established the Daicel Group Basic Policies for Responsible Care and is promoting across-the-board RC activities to contribute to the sustainable development of society.

Daicel Group's Basic Policies for Responsible Care

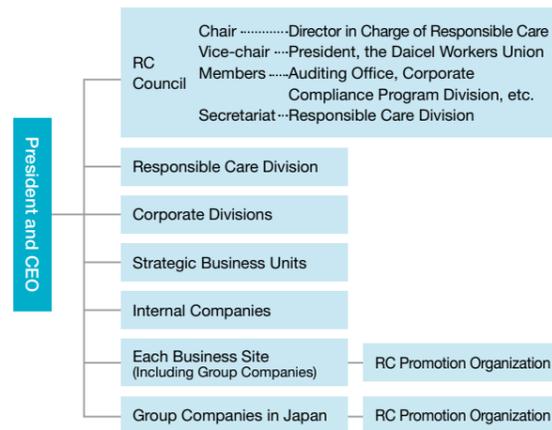
- In accordance with management policy, we will comply with laws and regulations and strive to safeguard the environment, health, and safety. For this purpose, we share specific implementation plans among all employees and put them into action.
- We will strive to continually improve environmental, health, and safety performance and the security of facilities as well as processes and technologies throughout the entire chemical lifecycle, from development to disposal, and inform society of the results of such efforts.
- We will further reduce our consumption of resources and energy and strive to reduce, reuse, and recycle waste.
- We will protect the environment and people's health and safety by driving continual improvement in chemical product safety and stewardship throughout the supply chain.
- We will practice risk-based chemical management throughout the entire chemical lifecycle, from development and production to use, consumption, and disposal and strive to strengthen our chemical management systems by continual improvement.
- We will influence the employees and the value chain stakeholders to promote the safe management of chemicals within their own operations.
- We will strengthen our stakeholder relationships by understanding and responding to stakeholder concerns and expectations about safer operations and products as well as openly communicating about our performance and products.
- We will put the Daicel Group's overall efforts into continually improving initiatives for the environment, health, and safety in order to meet stakeholder expectations.
- We will contribute to the sustainable development of society by developing and providing unique and innovative technologies and other solutions.
- We will promote biodiversity-friendly activities in order to pass on the wealth of nature to future generations.

Responsible Care Activities

The Daicel Group is implementing RC activities on the following fronts: Occupational Health and Safety, Process Safety and Disaster Prevention, Environmental Preservation, Chemical and Product Safety, Distribution Safety, and Communication with Society. The Daicel Group promotes these RC activities under the RC Council.

The council is chaired by a director placed in charge of RC by appointment by the president and CEO, who bears ultimate responsibility for RC activities. The council comprises the president of the Daicel workers union and heads of administrative divisions appointed by the Chairperson as well as the Responsible Care Division, which serves as the secretariat for the council. The council formulates basic policies and RC activity plans for the following fiscal year and conducts RC audits.

Diagram of Responsible Care Promotion System



A pre-assessment of new plans identifies diverse risks associated with all business operations, including R&D, production, consumption, and disposal. And assessment results are applied during thorough consideration of environmental, health, and safety issues.

Total Environmental, Health and Safety Assessment System

The Daicel Group operates a Total Environmental, Health and Safety Assessment System ("Total EHS Assessment System") as a means for evaluating risk in its business activities.

Targets, Results, and Assessments of RC Activities

| | Boundary | FY2020/3 Targets | FY2020/3 Results | Assessment | |
|--|---|--|--|---|---|
| Environmental Preservation | Global warming countermeasures | Business sites of Daicel | Promote energy conservation to achieve the FY2021/3 targets set forth in the KEIDANREN's (Japan Business Federation) Commitment to a Low Carbon Society. Emissions totaled 1.08 million tonnes against the GHG emission target of 1.58 million tonnes for 2020 (Business as Usual basis). | Energy intensity improved by 1.1%. | ◎ |
| | | Domestic Group companies | Reduce energy intensity by 1% or more from the previous fiscal year (based on calculation methods stipulated by the Energy Saving Act). | Failed to meet the target of reducing energy intensity by 1% or more. | △ |
| | Waste reduction and recycling | Business sites of Daicel | Reduce final landfill indices to not more than 16% of levels recorded in FY2001/3 to achieve our FY2021/3 target ahead of schedule. | Reduced final landfill indices to 20%. | △ |
| | | Domestic Group companies | Maintain zero emission status at all Domestic Group companies. | Accomplished zero emission status at all Group companies. | ◎ |
| Occupational Health and Safety | Business sites of Daicel (including partner companies) | Aim for zero occupational accident (placing particular focus on preventing serious incidents, such as encounters with hazardous substances, heat stress and falling accidents). | 23 occupational accidents (17 in the previous fiscal year) Compared to the previous fiscal year, heatstroke incidents decreased, but each of injuries from hazardous substances and falling increased slightly. | △ | |
| | | Utilize TRC branch offices at each plant to enhance the content of hazard simulation training. | Enhanced and strengthened training related to unique technologies and basic operations and hazard simulation training at TRC branch offices at each plant. | | |
| | Domestic Group companies | Aim for zero occupational accidents (placing particular focus on preventing injuries due to encounters with hazardous substances and falls). | 13 occupational accidents (9 in the previous fiscal year) Compared to the previous fiscal year, injuries from falling decreased. | △ | |
| | | Continue holding workplace safety meetings by, for example, grouping attendees by type of manufacturing operations. Continue to roll out activities aimed at learning from the lessons of the past. | Held safety meetings focused on the processing and assembly-style manufacturing. Confirmed lessons of the past and effectiveness of countermeasures. | | |
| Process Safety and Disaster Prevention | Business sites of Daicel (including partner companies) | Aim for zero accidents involving fires, explosions, and leaks. | 2 small fires and 8 leaks occurred | | |
| | | Systematically promote preventive measures against risks that may lead to accidents, the ability to deal with accidents, and measures to ensure the early resumption of product supply. | Reviewed risks that may lead to accidents, strengthened the system for responding to accidents, and prepared for the early resumption of product supply. | △ | |
| | | Enhance BCPs*1 for key products. | Strengthened the BCPs in accordance with BCP guidelines. | | |
| | Domestic Group companies | Strengthen security measures in accordance with security guidelines. | Systematically strengthened access control at the gates of each business site in accordance with security guidelines. | | |
| Aim for zero accidents involving fires, explosions, and leaks. | | There were 4 small fires. | △ | | |
| Distribution Safety | — | Systematically address priority issues for each Group company. | Systematically addressed priority issues for each Group company. | | |
| | | Step up security measures at each Group company in accordance with security guidelines. | Stepped up consideration of security measures in accordance with security guidelines. | | |
| | Prevent recurrence of logistics issues such as contact accidents at customer sites as well as shipping and delivery errors. | Strove to prevent recurrence of logistics issues such as contact accidents at customer sites as well as shipping and delivery errors. | ○ | | |
| Chemical Safety Initiative | Response to REACH*2 | Eliminate leaks of hazardous substances as well as shipping and delivery errors. | Decreased from the previous fiscal year. | ○ | |
| | | Improve 5-year average energy intensity by at least 1% (based on the calculation method in the Energy Conservation Act). | Energy intensity did not improve by 1% or more. | | |
| | Ensure a consistent response to REACH. | Responded steadily to REACH. | ○ | | |
| | Initiatives to secure compliance with other chemical regulations | Remain apprised of the latest developments and trends in chemical regulations and act appropriately to secure responsiveness to such regulations. | Regularly researched information on the revision of chemical regulations in Japan and overseas while holding in-house meetings to share such information. | ○ | |
| | Management of chemical substance information | Register new chemical products with the D-CLik*3 database and update product information based on additional testing results. | Registered new chemical products with the D-CLik database and updated this information based on additional testing results. | ○ | |
| VOC*4 | Maintain a reduction of VOC emissions by 40% or more from levels recorded in FY2001/3. | Reduced VOC emissions by 58% from levels recorded in FY2001/3. | ◎ | | |
| PRTR*5 | Maintain a reduction of PRTR substance emissions by 40% or more from levels recorded in FY2002/3. | Reduced PRTR substance emissions by 81% from levels recorded in FY2002/3. | ◎ | | |

Assessment criteria: ◎ → Succeeded by meeting or exceeding targets (100% or more) ○ → Nearly achieved targets (80% or more)
△ → Failed to meet targets (40% or more) × → Results fell far short of targets (less than 40%)

*1 BCPs (Business Continuity Plans) aim to minimize damage and ensure a swift restoration of operations should a business site be hit by an earthquake or other major disaster.
*2 REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) mandate that producers must register their chemical products with the European Union and conduct safety assessments, restrict their use, and control permits for their use.
*3 D-CLik is a unique database developed by Daicel to manage chemical substance information.
*4 VOCs (Volatile Organic Compounds) include such well-known examples as toluene, xylene, and ethyl acetate.
*5 PRTR (Pollutant Release and Transfer Register) is a system with which business operators calculate the amount of chemical compounds emitted into the environment or transferred off-site for treatment or disposal during production, usage, or storage in Japan and also notify the government of these figures.

Special Feature

Promoting Multifaceted Energy Savings

Energy-intensive companies, including chemical manufacturers, are increasingly under pressure to reduce their environmental impact. At the Daicel Group, we are managing and making good progress in our energy-saving initiatives from three angles: Energy Department energy savings; energy savings in existing production processes through production innovation initiatives; and the introduction of innovative energy-saving technologies.



1 Saving Energy at the Energy Department

Each of our plants generates its own steam and electricity for its manufacturing processes while also upgrading their facilities and switching to better fuels for greater energy conservation.

Aboshi Plant

In September 2012, the plant installed a cogeneration system with gas turbines. In June 2019, it started selling its excess electricity.

Ohtake Plant

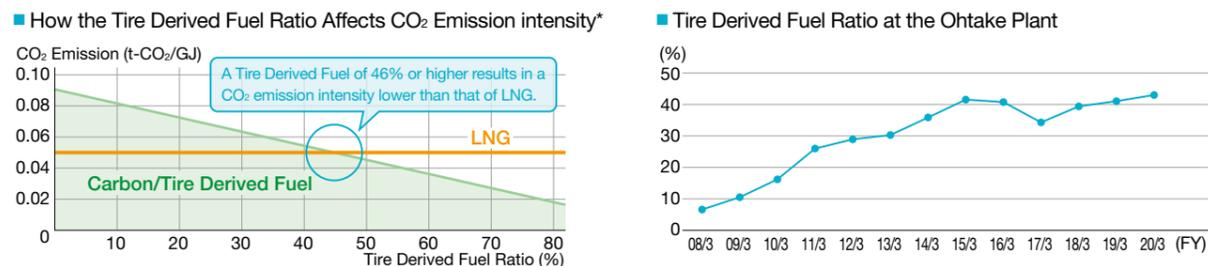
In August 2007, the plant started selling its excess electricity. In July 2016, it installed an additional boiler. Two dual-fuel boilers are run in parallel using a mix of coal and scrap tires as fuel.

Arai Plant

In January 2017, the plant switched from a coal boiler to a cogeneration system with gas turbines.

Using Tire Derived Fuel to Reduce Fossil Fuel Use

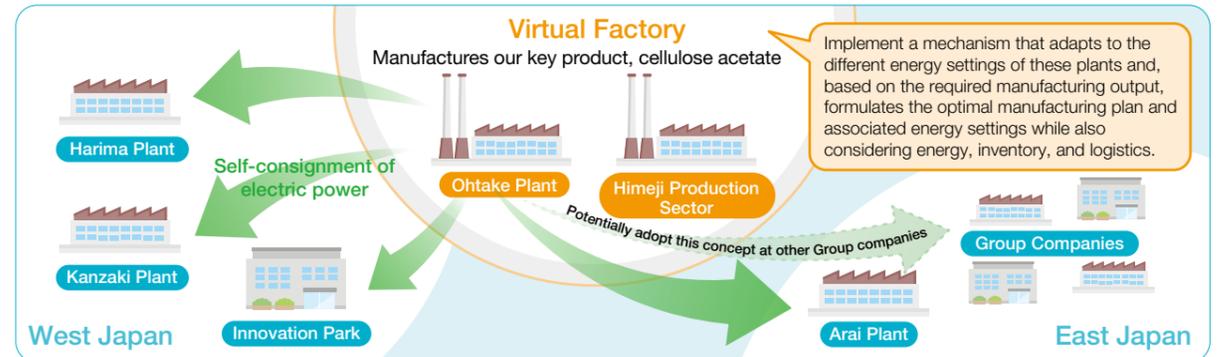
At the Ohtake Plant, a mix of coal and scrap tires is used as fuel for its boilers. Using a mixture that contains at least 46% of scrap tires enables the generation of steam and electricity that emits less CO₂ than LNG, a lower carbon fuel. Excess electricity is sent to our other business sites using a self-consignment system and also sold externally to start-up energy companies. We are improving this process continuously by procuring higher quality scrap tires, ensuring stable boiler operation, and using a fuel mix with a higher scrap tire ratio. We have recently been working toward a ratio of over 50%.



*Volume of energy-derived CO₂ emissions as defined in the Energy Conservation Act.

2 Optimizing Energy Savings in Production Processes

Energy consumption by the Himeji Production Sector and Ohtake Plant account for 80% of the Group's overall consumption. We treat these as one virtual factory and centrally manage information related to their manufacturing processes. This enables us to formulate optimal manufacturing plans and achieve overall optimization and energy savings.



Energy Operation Optimization System

In order to manage our energy consumption in accordance with the optimal manufacturing plan, we have introduced the Energy Operation Optimization System. This provides online monitoring and controls over the actual operational settings based on the optimal settings as calculated by simulation, and it is used by the Himeji Production Sector and Ohtake Plant.

Leveraging the Self-Consignment System*

As part of optimizing energy supply and demand, in June 2018 the Ohtake Plant started sending excess generated electricity to other worksites in West Japan using the self-consignment system. In May 2020, the system was extended to the Arai Plant in East Japan. Looking ahead, we expect to further extend the system to other Group companies toward achieving zero purchased electricity at the Group level.

*The system to supply of electricity to our facilities in other locations with energy generated by our own facilities using the electric company's distribution network.

3 Developing Innovative Energy Saving Technologies

We are aggressively identifying energy-intensive processes and taking action to reduce energy consumption by either improving our technologies or developing completely new ones.

Enhancing Our Current Technologies

Vapor Recompression (VRC) Technology ▶ P. 38

We have established a technology for recovering low-temperature exhaust heat from the organic solvent distillation process, which previously was not possible. In January 2015, we implemented an acetic acid recovery plant with a proof-of-concept capability in the cellulose acetate manufacturing area of the Aboshi Plant and started a test run the following month. We have so far achieved our goal of reducing energy consumption by 30% and will continue to analyze the new technology toward establishing a stable, long-term application.

Modified Petlyuk distillation process ▶ P. 38

Daicel has modified the Petlyuk distillation process so that our facilities can use the technology. After lab-scale experiments and simulations, our acetic anhydride manufacturing facilities were identified as candidates for application. Demonstration tests conducted in January 2014 achieved the targeted energy savings of 30%, and we are currently in the process of commercializing the technology at these facilities. In future, we plan to extend its use to other similar processes at the Ohtake Plant and lower our CO₂ emissions even more.

New Technologies that Adapt to Environmental Change

Membrane Separation Technology

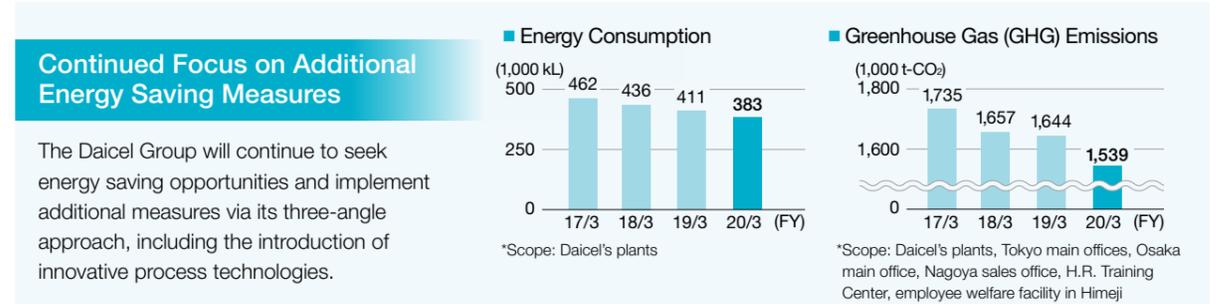
The evaporation process in distillation consumes massive amounts of energy. Dramatic energy savings, however, are possible if a membrane separation technology is used instead. And we have been evaluating the operating life of various candidate membranes since April 2016.

New Reaction Technology

We developed an innovative process, which leverages a proprietary reaction technology with a new catalyst. This is installed at the Aboshi Plant's 1,3-BG facility, which will be completed in September 2020. We expect that energy consumption will be reduced by approximately 20% compared to that of conventional technologies.

New Wastewater Treatment Technology (Anaerobic Wastewater Treatment Technology)

Anaerobic wastewater treatment does not require oxygen and therefore requires less energy. In addition, the methane gas generated can be used for heating. Since April 2016, we have been experimenting and validating this new technology for use in production.



Environmental Report

Environmental Management

Basic Approach

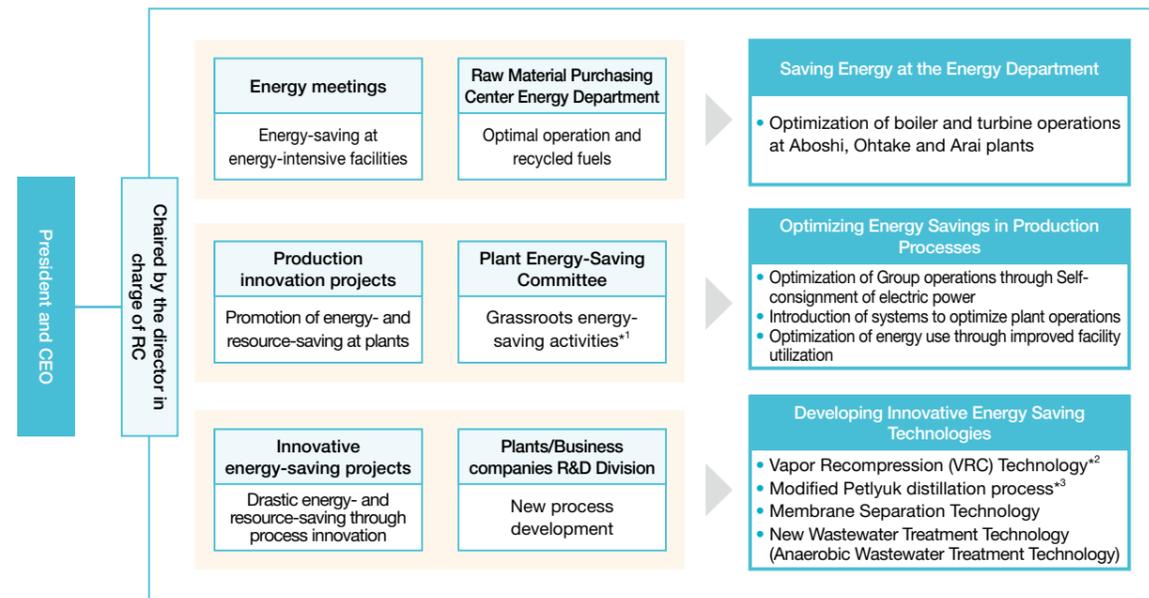
In accordance with the Daicel Group's environmental management policy, each of Daicel's business sites and Group companies execute their own Environmental Management System, including setting targets and monitoring progress. The entire Group will work together to utilize and innovate clean energy solutions effectively in order to reduce greenhouse gases and establish a recycling-based society by practicing the 3Rs and reducing environmental load. Through these efforts, the Daicel Group will contribute to building a sustainable society.

Our Structure for Promoting Energy-Saving Initiatives

The Group's Energy Conservation Committee is chaired by the director of Responsible Care and operated directly under the president and CEO. With representatives from all relevant divisions, the committee is spearheading across-the-

board environmental management efforts such as reducing energy consumption, CO₂ emissions, and industrial wastes while also managing atmospheric and water pollution. The committee applies a three-dimensional strategy to manage such efforts.

Diagram of Energy-Saving Promotion System



*1 Grassroots energy-saving activities: Activities aimed at saving energy by, for example, stepping up steam trap management, optimizing facility operations, and adjusting the temperature settings of air conditioners, with the aim of making a significant difference through the accumulation of small actions.
 *2,3 See page 37 for more information on the energy saving effects of vapor recompression (VRC) technology and the Modified Petlyuk distillation process.

Environmental Impact of Business Activities

<https://www.daicel.com/en/sustainability/environment/index.html>

Innovative Energy-Saving Technologies Aimed at Reducing Energy Consumption (Modified Petlyuk distillation process, VRC Technologies)

<https://www.daicel.com/en/sustainability/environment/global-warming.html>

Status of Environmental Management System Certification

<https://www.daicel.com/en/sustainability/other/declaration.html>

Global Warming Prevention

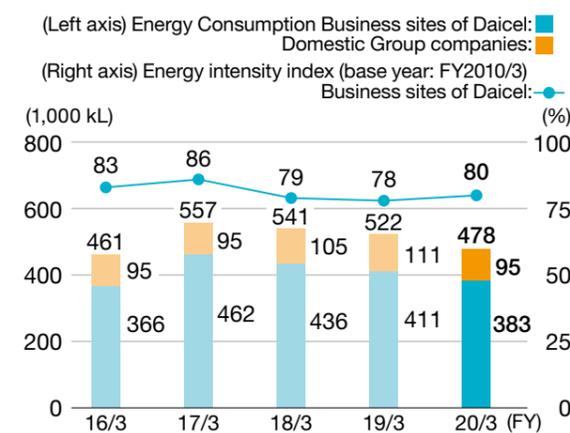
The Daicel Group is making a concerted effort to reduce CO₂ emissions by comprehensively reviewing production processes, introducing new technologies, and engaging in initiatives for optimizing Group-wide energy consumption to save energy. In FY2020/3, we reduced domestic energy consumption by 44 thousand kL (8% of the previous fiscal year in crude-oil equivalent) year-on-year to 478 thousand kL. In terms of average change in energy intensity based on the calculation method defined by the Energy Saving Act, we achieved a 1.1% improvement at Daicel's business sites compared to our target of a year-on-year improvement of at least 1%. The energy intensity index* based on FY2010/3 declined by 2 percentage points from the previous fiscal

year to 80%. The Daicel Group's domestic CO₂ emissions in FY2020/3 fell 147 thousand tonnes CO₂ (10% year-on-year) to 1,261 thousand tonnes CO₂. Meanwhile, CO₂ emissions by Daicel's business sites decreased by 1,081 thousand tonnes CO₂ (10% year-on-year), thereby achieving the target of CO₂ emissions (BAU) for FY2021/3 of 1,580 thousand tonnes CO₂ or less, under the Commitment to a Low Carbon Society plan laid out by the Keidanren (Japan Business Federation).

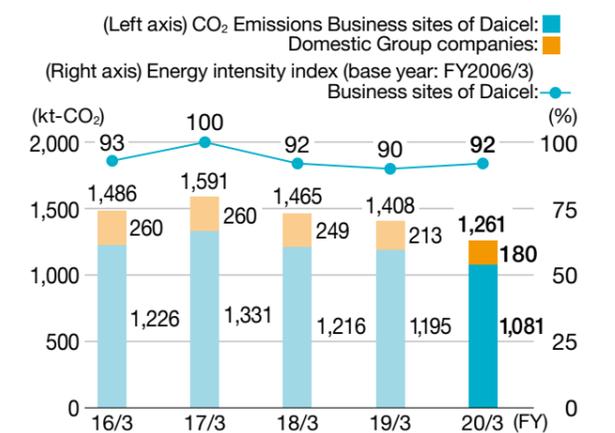
Since reducing CO₂ emissions across the supply chain is essential for further reducing global warming, we expanded the scope of our Scope 3 calculations based on the GHG Protocol, a global standard, starting FY2020/3.

*Energy intensity index: Energy intensity is measured by the quantity of energy required per unit output or activity. In an index of energy intensity, the energy intensity is the quantity of energy required per unit output and the energy intensity of a reference year is treated as 100.

Energy Consumption and Intensity Index (Domestic)



CO₂ Emissions Attributable to Energy Consumption and the Intensity Index (Domestic)



Reduction and Recycling of Industrial Waste

Daicel participates in the KEIDANREN Voluntary Action Plan on the Environment for a Recycling-Oriented Society. The Group is working on initiatives in line with this plan to reduce consumption of resources and also to promote the reduction and recycling of industrial waste.

In FY2020/3, the amount of industrial waste generated by domestic Group companies increased by 24 thousand tonnes compared to the previous fiscal year to 169 thousand tonnes. This was the result of such factors as an increase

in metal waste generated by removal work at the Arai Plant. The final disposal volume for domestic Group companies in FY2020/3 increased by 1.6 thousand tonnes year-on-year to 3.1 thousand tonnes, and the landfill index was 20%, compared to the reference year of FY2001/3. This was due to the disposal of a large volume of products at the Aboshi Plant caused by Typhoon No. 19. Meanwhile, all of Daicel's domestic Group companies have achieved zero emission status.

Data for Amount of Industrial Waste Generated, Amount of Disposal by Landfill

<https://www.daicel.com/en/sustainability/environment/industrial-waste.html>

Social Report

Enhancing Product Quality

Basic Approach

Daicel Group Conduct Policy states our determination to “offer safe, high-quality products and services that satisfy and earn the trust of customers.” Through our steadfast commitment to this policy as well as the following quality policy, we will remain committed to raising the level of customer satisfaction.

Quality Management System

Taking advantage of the characteristics of our products that have been developed through our long history and rich heritage of technologies, our plants and Group companies have been certified under international quality standards for each business field. We have the quality management system necessary for our businesses in place that complies with standards such as ISO 9001, which specifies the basic concepts, IATF 16949 for the automotive sector, ISO 22000 for food safety management, and JIS Q9100 for Aerospace & Defense Systems.

All complaints, inquiries, and requests from our customers are first reviewed by the marketing department,

which is responsible for customer contact. Then they are immediately sent to the dedicated database and shared with the relevant departments, such as quality assurance, manufacturing, and development. Our plants and internal departments regularly hold quality assurance meetings and continue to discuss how to improve or stabilize product quality based on feedback from customers. As such, our plants and marketing departments work together to continually maintain and improve our quality management system. Meanwhile, the Quality Management Division, operating directly under the president and CEO, collects and analyzes quality data and conducts quality audits, which lead to continuous improvement of the entire Group.

Quality Policy for Daicel Group

<https://www.daicel.com/en/sustainability/social/safe/>

Quality management system certification acquired by Daicel Group companies

<https://www.daicel.com/en/sustainability/other/declaration.html#anc-2>

Chemical and Product Safety

We remain in compliance with domestic and international laws and regulations with regards to chemical product management through the regulatory database search. Managers in relevant business units and at Group companies convene to exchange the latest information on legal and regulatory trends. As for the REACH*¹, we completed the registration of all our chemical products in May 2018 and have met all the interim registration deadlines based on the volume of chemical products manufactured and exported. In addition, we maintain a central proprietary data bank

for all our chemical substance information to facilitate an assessment of the risks associated with its chemical products, efficient preparation of SDS*² and labels, and the prompt provision of information to customers. Furthermore, to ensure the appropriate management of chemical substances, we regularly train all relevant employees on the risks and hazardous properties of chemical substances, appropriate handling methods, and prevailing laws and regulations.

*1 REACH (Registration, Evaluation, Authorization and Restriction of Chemicals): The regulation mandates that producers must register their chemical products with the European Union and conduct safety assessments, restrict their use, and control permits for their use.
*2 SDS (Safety data sheet): A document providing information on the properties of chemical substances and instructions for handling them.

Process Safety and Disaster Prevention

Through its risk assessment process, the Daicel Group identifies risks associated with process safety and disaster prevention. We continuously strive to maintain safe and stable operations and achieve zero accidents by taking the necessary measures to reduce these identified risks.

In FY2020/3, the entire domestic Group encountered six cases of small fires (e.g., ignition of powder and foamed resin products) and eight leakage accidents. None of the incidents had much impact on our operations; however, we are investigating the root causes and taking preventive measures to address both physical and human errors.

Since most of the small fires were caused by static electricity, we thoroughly inspected how powder is handled within the Group and strengthened measures to prevent electrostatic accidents. We also established a working team consisting of young and expert engineers from each plant to verify the conformity of on-site work with our safety standards and remind everyone of the lessons of past electrostatic accidents.

Distribution Safety

As a distributor, Daicel Corporation works with Daicel Logistics Service Co., Ltd. to ensure safe distribution and quality management. Daicel Logistics Service Co., Ltd. has set its safety target as maintaining its status of zero logistics accidents and zero occupational accidents and achieving zero at-fault traffic accidents. Its quality management target is stated as: “take responsibility as a logistics contracting company by quickly and sincerely responding to complaints and accidents relating to logistics to earn the CS (customer satisfaction) of the distributors.”

In FY2020/3, Daicel Logistics Service maintained zero-accident status, but one incident occurred at our partner company in the course of logistics operations. The number of logistics issues including shipping and delivery errors and customer complaints as defined by Daicel Logistics Service’s standards decreased by five from the previous fiscal year. Since most of the observed incidents were reoccurrences of past issues, we intend to improve our preventive measures and raise employee awareness. In addition, with the help of partner companies, we will identify the root causes for the observed issues to improve our prevention measures.

Earthquake, Tsunami and Liquefaction Countermeasures

Daicel has been systematically advancing assessments of risk associated with earthquakes, tsunamis, and liquefaction as well as the analyses of seismic conditions and structural reinforcement of its facilities. We have also installed satellite communication antennas as part of an effort to upgrade our information network infrastructure to secure communications between key business sites in times of wide-area disaster. Furthermore, we periodically conduct disaster drills at each of our business sites to familiarize employees with emergency procedures, such as life-saving procedures, measures for preventing further damage, and liaising with the relevant government bodies.

Promotion of the White Logistics Movement

Agreeing to the White Logistics Movement, launched by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Ministry of Economy, Trade and Industry (METI) and Ministry of Agriculture, Forestry and Fisheries (MAFF), the Daicel Group submitted a declaration of its voluntary activities to the secretariat of the movement on September 27, 2019.

The key objective of the movement is to improve productivity of truck transportation and logistics efficiency while also striving to realize a “white” labor environment that makes work easier for female drivers and those over the age of 60. Promotion of the White Logistics Movement is expected to improve productivity, reduce CO₂ emissions, ensure stable logistics, and fulfill social responsibilities.

*The White Logistics Movement is the key initiative of the “Action plans for the work-style reform in the automobile transportation industry,” led by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Ministry of Economy, Trade and Industry (METI), and Ministry of Agriculture, Forestry and Fisheries (MAFF). This movement responds to the worsening shortage of truck drivers and is intended to ensure the stable logistics necessary for people’s lives as well as industrial activities and economic growth. Additionally, it encourages collaboration among transportation companies and consigners to achieve this common goal.

Social Report

Creating Attractive Workplaces

Basic Approach

In accordance with the Daicel Group's Basic Philosophy, Daicel Group Conduct Policy, and each Group company's code of conduct, we maintain safe and vibrant workplaces, where different values and individualities are embraced and respected through systems and opportunities for empowering diverse employees.

Occupational Health and Safety

To build a safe work environment as set forth in the Daicel Code of Conduct, the Group conducts self-assessments of all its activities, such as R&D, manufacturing, and logistics, in accordance with relevant laws and regulations and promotes various measures to ensure the safety of its own workplaces.

All our business sites promote 3S, namely seiri (tidying), seiton (putting everything in order), and seisou (cleaning), as an effort to improve the foundation of our production sites that place the highest priority on safety. Our Operation Training Center (TRC) branch offices also provide labor safety and health training as companywide training.

Initiatives toward Zero Occupational Accidents

As part of Responsible Care activities, the Group appropriately manages its labor safety and health under the Responsible Care Promotion System, which operates directly under the supervision of the president and CEO.

In FY2020/3, the number of occupational accidents that occurred in Japan was 36, consisting of 16 with lost workdays and 20 without lost workdays. The number of

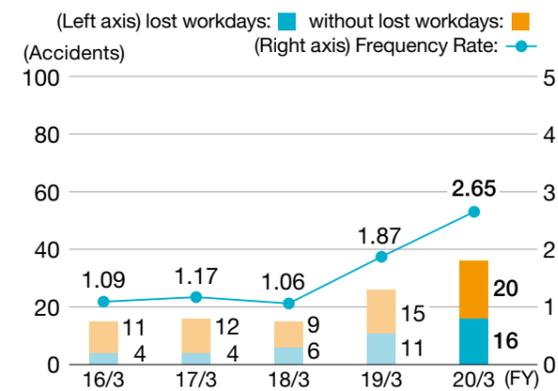
accidents categorized as falls, cuts, or scratches increased by nine from the previous fiscal year. In addition, accidents categorized as chemical injuries or falling from heights also remained at the same level as in the previous fiscal year.

In particular, we have strengthened safety measures for employees working in high places, taking into account the fall of an employee from a contract company during the equipment removal work at the Arai Plant.

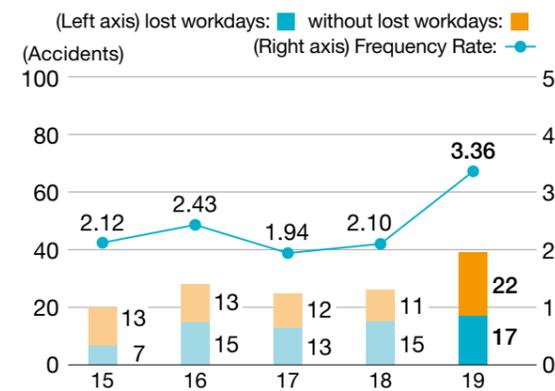
As in the previous fiscal year, the occupational health and safety manager, health nurses, and the facility manager at each site continued to conduct patrols for preventing heatstroke and injury and took countermeasures against the increase in wet-bulb globe temperature, or WBGT. These efforts resulted in four fewer incidents of heatstroke, including near-misses, compared to the previous fiscal year. On the other hand, the number in our overseas Group companies increased by 13 from the previous year for a total of 39.

Going forward, we will continue to focus on preventing serious occupational accidents such as heat stroke and injury from hazardous substances as well as falls, as our top priority.

Occupational Accident Frequency Rate* (Domestic)



Occupational Accident Frequency Rate (Overseas)



*Occupational Accident Frequency Rate = (number of people involved in an occupational accident / total actual working hours) × 1 million hours

Initiatives to Help Employees Maintain Mental and Physical Health

Daicel recognizes the importance of its employees' health and their ability to perform their work happily. It will help employees lead positive, fulfilling lives, and at the same time it will contribute to sustainable corporate development. Accordingly, the Company has positioned helping employees maintain mental and physical health as an important management task. Following the Daicel Declaration on Health

Management, the Company fosters a corporate culture that places the utmost priority on health and thereby pursuing sound corporate management to contribute to people's well-being and the creation of an affluent society.

In 2003, the Company established Central and Local Healthcare Committees consisting of representatives from labor unions, management and Daicel's health insurance society. These committees are working to improve healthcare support for the Daicel Group.

Daicel Declaration on Health Management

<https://www.daicel.com/en/sustainability/social/health.html>

TOPICS Recognized as a "WHITE 500" organization under the 2020 Certified Health & Productivity Management Outstanding Organizations Recognition Program

Daicel Corporation was recognized as a "WHITE 500" organization under the 2020 Certified Health & Productivity Management Outstanding Organization Recognition Program. Under the Certified Health & Productivity Management Outstanding Organizations Recognition Program, co-sponsored by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi, companies are selected for their excellent health management initiatives such as those tailored to the needs of local communities and initiatives in line with Nippon Kenko Kaigi's goals.

In Daicel, under the themes "mental health care" and "physical health care," members of the Central Health Care Committee organized by labor management and the health insurance society, including industrial health staff (industrial doctors, public health nurses, etc.) and psychiatrists, take action together to maintain and improve the mental

and physical health of employees. Their activities also involve supporting the reinstatement of employees with mental health disorders, preventive education to provide early detection, and a timely response to mental issues and framework development. These are the efforts that have led to our receiving this honorable recognition.



Human Resource Management

In following our aim to globalize our businesses and rapidly expand overseas, we established the Human Resources Policy of the Daicel Group in 2013 to guide our employees with diverse values on working together. This policy underpins various personnel practices such as recruitment, training and development, placement, and determining appropriate treatment. The policy is characterized with the phrase "People are the foundation for our success."

Moreover, we have been building a solid foundation for our human resource management systems based on the group-wide Human Resource Guidelines, which were

revised in 2019 to place more emphasis on human rights and labor while also making the guidelines more understandable globally. The guidelines specify objectives, basic concepts, compliance rules and recommendations, associated with human resource practices covering human rights and labor, recruitment, compensation, human resources development system and the appraisal system. In the guidelines, basic concepts, for instance, stipulate the need to "respect human rights and reject complicity in human rights violations" and "develop a culture where the employer, superiors and subordinates think of each individual's career and put ideas into practice."

Daicel Group's Human Resources Policy

People are the Foundation for Our Success

The Three Core Principles of Our Human Resources Policy

- Will** We encourage the strong will and courageous decisions of each individual.
- Diversity & Inclusion** We continue to evolve through the interaction of our diverse personalities.
- Integrity** We do the right thing and proudly follow the right path.

Human Resource Guidelines

<https://www.daicel.com/en/sustainability/social/hrm.html>

Social Report

Human Resource Development

People are the foundation of our corporate activities. The Daicel Group has defined its basic approach to human resource development to secure employees who respect others and appreciate new situations and perspectives while also sustaining the passion and focus to see tasks through to completion.

- Nurturing human resources will help the Company grow.
- Any attempt to achieve better results will nurture employees.
- With a corporate culture that trusts and values people, all Daicel employees shall undergo human resource development in line with their respective posts and responsibilities.

Human Resource Development and Training Programs

We offer a full range of human resource development programs to employees to develop their skills, using a variety of methods such as on-the-job training, self-directed development, group seminars, and rotations.

• Training Programs for New Employees

To quickly equip new employees with the skills needed to start making contributions to the Company, Daicel provides a training program that covers a wide range of areas, from workplace conduct to basic knowledge, which prepares them for on-site training.

During the "Monozukuri Training" (manufacturing training), employees receive the training on the frontline of production. They are assigned eight-hour shifts and taught the fundamentals of manufacturing and plant operations. This experience deepens their appreciation of safety, quality, costs, and the environment, all watchwords of plant operations. Moreover, they are instructed in subjects relevant to their particular work areas.

• Career Development

Daicel provides training programs that are tailored toward different positions as defined in the Company's job grade system, ranging from new employee to new director for Group Companies.

We also provide Nadeshiko Seminars for developing female leaders, overseas language training, and management training in Japan and overseas. All of these support mid- to long-term career development.

• Development of Specialized Skills

We maintain an extensive training curriculum, which ranges from the Monozukuri Training, offered to new employees, to sessions on specialized knowledge and skills needed at various points of their careers.

The Engineer Development Program, considered a prerequisite for promotion to a managerial position, is designed to enhance financial literacy as well as technical skills and knowledge. Daicel also has a separate career track focused on developing human resources

who specialize in very specific fields with the skills and knowledge to tackle the associated challenges. 11 Daicel employees are on this career track as of March 31, 2020, each playing a key role in their areas of specialty.

• Developing Global Talent

The Safety Strategic Business Unit (Safety SBU) manufactures airbag inflators for automobiles at six manufacturing sites, one in Japan and the other five overseas (U.S., China, South Korea, Thailand, and Poland). While each site develops its own training and development programs, the Human Development Center at the Harima Plant trains and certifies trainers specialized in critical processes and special skills to ensure that the same level of quality and safety are incorporated into manufacturing practices worldwide. As of March 31, 2020, there are 18 certified trainers across the globe, and each trains and certifies new trainers locally at the various business sites.



During the training program

Work-Life Balance Promotion

Daicel is striving to develop an environment in which all employees can work vibrantly with confidence, and the Company therefore supports a work-life balance. It is also promoting flexible work styles while improving working conditions in order to establish an environment that helps diverse human resources pursue success.

Furthermore, we are taking on work style reforms, and thus, proactively making changes in the ways we process our tasks, with the aim of securing greater productivity.

Initiatives to Shorten Working Hours

In order to improve the work-life balance of all our employees and create working environments that meet their individual needs, Daicel is proactively pursuing three targets: 1) shortening regular working hours, 2) increasing the number of holidays, and 3) reducing overtime hours.

In 2018, we reduced regular working hours for full-time employees from 8 to 7.5 hours per business day, resulting in a decrease of approximately 120 hours or about 6.2% in regular annual working hours. In addition, in April 2020, we increased the annual holidays for shift workers by 10 days.

Improvement in the Annual Paid Leave Acquisition Ratio

In 2016, Daicel set out a goal of achieving 70% or more in its annual paid leave acquisition ratio. To accomplish this, each worksite designates a few special days in their annual operational calendar, on which employees are encouraged to take annual paid leave. The number of these designated special days was increased from 3 to 4 in FY2019/3 and then further increased to 5 in FY2020/3. This has contributed to our current 73.6% annual paid leave acquisition ratio.

Promoting Telework

(Working from Home and at Satellite Offices)

The Company promotes telework as a flexible, efficient work style that eliminates the limitations associated with specific working times or workplaces. In April 2017, we implemented a program that allows eligible employees, including those engaged in child and nursing care, to work from home. In 2018, the program's eligibility was extended to include all employees, and its limitation on the number of days that employees are allowed to work from home per month was

eliminated.

From the beginning of 2020, telework quickly became widespread to prevent the spread of COVID-19. As a general rule, 70% of employees working for the Tokyo and Osaka head offices and Nagoya Sales Office are requested to telework, and the target number of employees coming into these offices has been reduced to 30%. In addition, employees at our other work sites also began partially working from home. We do not intend for this to be a temporary trend, but regard it as an opportunity to change our work style with a view to continuing to encourage our employees to make full use of telework.



Employee working at our satellite office

Daicel's Programs to Help Employees Adopt Flexible Work Styles

We ensure that our programs and policies related to childcare, nursing care, and other services exceed statutory requirements. We focused on implementing measures that improve the work-life balance of our employees, including flextime, working from home and satellite offices.

Daicel's Programs to Help Employees Adopt Flexible Work Styles

<https://www.daicel.com/en/sustainability/social/wlb.html>

TOPICS Selected as a "Company with Best Practices"

In November 2019, Daicel was selected as a "Company with Best Practices" by the Osaka Labor Bureau. In conjunction with the Ministry of Health, Labor and Welfare's "No Overwork Campaign," held every year in November, the Bureau identifies companies taking active measures to reduce overwork and gives them the title of "Company with Best Practices." Our achievements in 1) shortening regular working hours, 2) introducing "free-address" seating in our head offices, and 3) introducing work-from-home, satellite offices, and other telework capabilities were highly evaluated and resulted in our receiving the honor.

Social Report

Diversity Promotion

In line with the Daicel Group Conduct Policy, we are implementing initiatives to develop working environments that respect the diversity, personality and individuality of every member connected to the Daicel Group and shall contribute to realize a healthy and sound society that is free from discrimination and harassment.

We will continue to focus on diversity promotion and strive to be a company where employees from a diverse background respect and inspire each other and work together to create new value.

Helping Women Earn Career Success

In April 2016, we established an action plan for the Daicel Corporation to ensure that women who wish to develop high-profile careers are not encumbered in any way and are free to pursue their ambitions. Since the goals outlined in the plan were achieved in FY2019/3, ahead of schedule, a revised five-year action plan from 2016 to 2021 was created. This action plan is intended to achieve the following three targets.

- **Target 1:** Increase the number of women who take managerial positions by 2.5 times to a ratio of 4%^{*1}
- **Target 2:** Increase the number of women in senior roles (candidates for managerial positions) by 1.3 times to a ratio of 8%^{*2}
- **Target 3:** Raise the annual paid leave acquisition ratio from 62% to 70% or greater

^{*1} The original target, doubling the number of women who take managerial positions, was achieved in July 2018, and therefore a new target was established. The target is to increase the number from 12 in April 2016 to 30 by March 2021. It also includes the ratio of women in managerial positions.
^{*2} To clarify the target, it includes the ratio of women in senior roles (1st and 2nd level). The target is to increase the number from 84 in April 2016 to 109.

As of March 31, 2020, the number of women in managerial positions was 30 (3.7%), the number of women in senior roles was 107 (9.5%), and the annual paid leave acquisition ratio was 73.4%.

Promoting Employment of Persons with Disabilities

Daicel promotes hiring persons with disabilities to fulfill its social responsibilities of maintaining the ratio of these

individuals in the total workforce above the statutory employment rate. It also offers them opportunities to contribute as members of society and leverage their capabilities to the greatest extent possible. As of March 31, 2020, the ratio of persons with disabilities in the total workforce of Daicel amounted to 2.12% (non-consolidated). To ensure that each individual can contribute in the best possible way, we pay the utmost attention to assigning suitable jobs according to the degree of disability.

Encouraging Senior Employees to Remain Active in the Workforce

Daicel has a system in place that allows employees who have reached the retirement age of 60 to continue working for the Company and use their extensive knowledge and experience in the workforce. In FY2020/3, 52 out of 57 employees who reached that age were reemployed under the system, with 167 senior employees (as of March 31, 2020) currently working at the Company after passing their retirement age. In accordance with the revised Law Concerning Stabilization of Employment of Older Persons, applying the system to employees seeking to continue to work through age 65, Daicel will maintain working environments where senior employees can continue to contribute using their careers, knowledge, and experience.

“Diversity and Work Style Reform as Management Strategy” Seminar for Top Management

With the aim of sparking the change needed in employee awareness and conduct, in order to achieve diversity promotion and work style reform, the Company held “Diversity and Work Style Reform as Management Strategy” seminars at each of its business sites.

We invited Hisano Ueda as the guest speaker, and she discussed the topic: “the promotion of women’s advancement = work style reform = corporate culture reform.” A total of 1,200 employees attended the seminars.



TOPICS Certified as a “Leading Company with Active Women Participation”

On November 1, 2019, Daicel was certified by Osaka City as a “Leading Company with Active Women Participation.” The city identifies companies that actively promote the development of a workplace that allows women with career ambition to remain in the workforce, work-life balance, and men’s participation in childcare, housework, and activities in the local communities. It also gives this certification to organizations that meet a set criteria. We will continue to focus on promoting diversity and creating workplaces where every employee can express their individuality and perform at the best of their abilities regardless of gender, nationality, or disabilities.



Respect for Human Rights

Basic Approach

Respect for human rights is an integral part of all business activities undertaken by the Daicel Group. The Daicel Group’s Basic Philosophy, the Daicel Group Conduct Policy, and each Group company’s Code of Conduct declare our determination to comply with all laws and regulations; act with high ethical standards and sound judgment; respect the diversity, personality and individuality of every member connected to the Daicel Group and contribute to realizing a healthy and sound society that is free from discrimination and harassment. In addition, the Daicel Group does not condone any form of forced or child labor, regardless of the country or region in which it operates. We foster a corporate culture that respects human rights, and therefore our Code of Conduct states our basic commitment to respect human rights and never engage in any human rights violations through such acts as discrimination on the grounds of race, ethnicity, nationality, creed, thought, religion, gender, sexual orientation, gender identification, illness, disability, etc., or through harassment. All Daicel Group employees are well-versed in these precepts. Moreover, they are encouraged to proactively make their own judgments in line with these precepts and put them into practice throughout the course of day-to-day business activities.

Since 2019, the Human Resources Division and the Corporate Compliance Program Division have been visiting Group companies to ensure that they meet international standards for human rights. Moreover, the Daicel Group operates the Compliance Help Line System (Whistleblowing System) to receive reports and provide consultation on various issues that include human rights. Issues can be raised anonymously to protect the identity and privacy of

the reporter, and rules are in place that prohibit any adverse treatment of the individual. In addition, the Daicel Group Human Rights Policy has been newly established to fulfill our responsibility for respecting human rights under international standards.

Daicel Group Human Rights Policy
<https://www.daicel.com/en/sustainability/social/human-rights.html>

Supply Chain Management

In its purchasing activities, the Daicel Group carefully evaluates quality, pricing, and delivery dates while also considering social impact, in such areas as the environment, human rights, and the labor force. We established Basic Purchasing Policy and the Daicel Group CSR Purchasing

Guidelines to encourage suppliers to gain an understanding of our policies and to fulfill our corporate social responsibilities in tandem with all of its supply chain constituents toward realizing a sustainable society.

Basic Purchasing Policy

- 1. Fairness and Rationality of Transactions**
 - We shall be fair in providing prospective suppliers with opportunities for participating in business transactions. Also we shall conduct our purchasing activities in an open manner with no regard for previous dealings and with no preference for companies domiciled in Japan.
 - Our overall considerations shall be limited to matters of quality, price, stability of supply, state of technological development, environmental considerations, and the assurance of safety. We shall consider these aspects in a comprehensive manner.
- 2. Legal Compliance and Confidentiality**
 - We shall comply with laws and corporate ethics in our business operations.
 - We shall strictly protect confidential information obtained through businesses and shall never infringe the intellectual property rights of third parties.
- 3. Establishing Relationships of Trust**
 - We shall strive to establish better partnerships with our suppliers in consideration of mutual benefit and trust as well as good faith.
- 4. Adherence to CSR Initiatives**
 - We shall promote sustainable development with our suppliers through our activities for corporate social responsibility and value improvement.

Daicel Group CSR Purchasing Guidelines
<https://www.daicel.com/en/profile/purchase/guidelines.html>

Roundtable Discussion with Outside Directors

How to Achieve Sustainable Growth

Daicel celebrated its 100th anniversary in 2019. Over the course of its long history, it has nurtured its signature Monozukuri* Spirit and corporate culture of constantly seeking new challenges. With these qualities as its assets, what should Daicel's goals be for the next 100 years? Three of our outside directors from different backgrounds and Kotaro Sugimoto, the representative director of Daicel Corporation, joined in this roundtable discussion to share their evaluation of Daicel's corporate governance and culture as well as its needs in terms of focusing on a response to the challenges of society.

*Although the literal meaning of the Japanese word "Monozukuri" is "making things," we have defined "Monozukuri" as creating new value through all corporate activities.



Masafumi Nogimori

Outside Director, Chairperson of the Nomination and Compensation Committee
Retired as Chairperson and Representative Director of Astellas Pharma Inc. before becoming a Company director

Sonoko Hacchoji

Outside Director, Member of the Nomination and Compensation Committee
Outside Director of Japan Airlines Co., Ltd., Outside Director of Maruha Nichiro Corporation, Special Advisor to the President of Tsuda University

Junichi Mizuo

Outside Audit & Supervisory Board Member
Representative Director and Chairperson of the Japan Compliance & Governance Institute, Honorary Professor at Surugadai University; specialized in CSR, corporate governance, business ethics, and marketing ethics.

Kotaro Sugimoto

Representative Director, Member of the Nomination and Compensation Committee, Member of the Management Advisory Committee. He joined the Company in 1984 and served as the head of the Raw Material Purchasing Center before becoming representative director and Senior Managing Executive Officer of the Company.

Evaluation of Daicel's Corporate Governance

Nogimori Daicel operates an effective, well-balanced corporate governance structure. In my opinion, it compares favorably with its competitors. Board of Directors meetings are conducted in a very open atmosphere, and members are carefully chosen to ensure well-rounded conversations. The Company has a system in which the Audit & Supervisory Board Members can grasp the actual situation through on-site audits and reflect the results in corporate governance.

Mizuo The health of Daicel's corporate governance can be assessed from the two perspectives of its validity and efficiency. What I mean by its validity is whether it ethically and legally makes sense. From this perspective, I can confidently say that Daicel has a healthy corporate governance structure. From the perspective efficiency, the government structure, which is built on the principle of separation of ownership and management, is functioning well and effectively facilitates decision-making. Most notably, Daicel tries to genuinely evaluate the effectiveness of its Board of Directors, not as a mere formality but by conducting

questionnaire surveys and interviews with all directors. The chairperson of the board is also an excellent listener with the ability to encourage lively discussions. He ensures that each issue is heard and thoroughly discussed so that the efficiency of the decision-making process is secured.

Hacchoji Half of Daicel's Board of Directors are outside directors, and more than half of its Audit & Supervisory Board Members are outside members, which clearly indicates Daicel's commitment to seek external opinions. The discussions that take place in the Board of Directors meetings are both open and disciplined and convey a sense of being well-balanced. I feel that everyone on the board is committed to making Daicel a better company by openly discussing things that are going well and those that are not. Moreover, I can confirm that Daicel has a genuinely effective governance structure.

Sugimoto I have spent my entire career in chemical manufacturing. For me, these honest and diverse viewpoints from outside directors, who possess a wealth of experience in wide-ranging fields, is very valuable and enlightening.

Nogimori The Company considers that many of the directors are outside directors. Therefore, the Company asks

them to take ample time to learn about and keep up to date with Daicel's business activities so that when they discuss various matters they are familiar with the issues the Company currently faces.

Hacchoji The same can be said about the long-term vision and medium-term strategies that are kicking off in 2020. We were involved in the process of formulating these strategies, which took more than a year and involved many discussions and deliberations. Because we were involved from the planning stages of these long- and mid-term strategies, we understand them very well in addition to the various factors that might impact them. I trust that our future discussions will be even more productive and meaningful and contribute further to the successful implementation of these strategies.

Mizuo For matters of importance, the officer in charge goes through the details with us in person. This aids us in understanding what the Company is trying to achieve and helps our discussions become more productive. Daicel is very dedicated to maintaining a high level of transparency and accountability.

Sugimoto We try our best to have outside directors visit our business sites, both in Japan and abroad, so that they can

personally experience who we really are. It is important for them to see how we operate.

Nogimori I have visited Daicel's plants and have also had the opportunity to talk to their employees about the principles of safety and leadership. A company that provides outside directors with opportunities to talk to its employees is truly an open company.

Sugimoto Our employees also experience hearing from an outside director as a great opportunity, since they do not typically get a chance to meet them. We hope these interactions will help you continually deepen your understanding of our on-site operations, risk management, and other activities. Company management, on the other hand, will do its best to apply your abundant knowledge and experience.

Current State and Future Goals of Diversity & Inclusion

Hacchoji I also visited several of Daicel's plants and had opportunities to speak with a few of the female employees

Roundtable Discussion with Outside Directors



there. I was delighted to see these young talents, who may one day realize their career goals by taking on leadership roles. On the other hand, I see diversity and inclusion, particularly female advancement, as one of Daicel's major challenges.

Nogimori Daicel has the foundation to be a diverse organization, but the fact that many of its positions involve on-site operations is slowing its progress in female advancement. Why do you think it has been difficult to develop female leaders?

Hacchoji Regardless of gender or nationality, leadership development takes time. The Company needs to raise up leaders by exposing them to a wider range of operations in order to broaden their knowledge as well as by increasing their responsibilities, giving them opportunities to take ownership of issues, and allowing them to solve them on their own. Daicel has an action plan for increasing the number of women in management positions. The plan is very encouraging in that it eliminates bias toward women, and the goals outlined in the plan have been successfully achieved every year. In fact, a female manager is in charge of the cutting-edge medical device "Actranza™ lab." This provides just a glimpse of Daicel's commitment to the issue.

Sugimoto Thank you Hacchoji-san for pointing that out. We are trying to increase the ratio of females in our new graduate hiring pool and have recently placed a woman in a leadership position in Healthcare SBU, an area in which we can benefit even more from a woman's perspective. We have also been running the Nadeshiko seminar for the past three years as a training program for specifically developing female leaders.

Mizuo Having more female leaders in management positions is very important, but since Daicel is a global company with a large global footprint, it probably should consider having international members in its Board of Directors as well. Daicel should approach diversity and inclusion from many different angles.

Nogimori Human development is also key for increasing the Company's global footprint. We should consider incorporating aspects of human development into our ongoing business activities. For example, if Daicel's domestic employees communicated every day with their global counterparts, they would all gain a deeper mutual understanding and have greater influence on each other, which would in turn further strengthen Daicel as an international company. It is up to the management team to

develop this kind of human development approach.

Mizuo Since Mr. Ogawa became the CEO, the Company has once again been emphasizing its focus on human centered management. The key to managing a company is its employees. We need a workplace environment in which diverse teams of employees feel happy and can perform to the best of their abilities. Servant leadership, a management style whereby managers provide particular kinds of support to their employees, may help Daicel move toward this goal. In this management style, employees focus more on their customers and making them happy instead of making their managers happy. When this matures into a corporate culture where employees are always focused on what is good for customers and society as a whole, I believe that the company will have a good chance of achieving sustainable growth. The key to becoming a sustainable company is to have employees focus on society.

Expectations for Sustainable Management

Sugimoto In its new long-term vision, Daicel has established a sustainable management policy based on its basic principles. The policy clearly confirms the Company's commitment to becoming a sustainable company and making a greater contribution to creating a sustainable society. What would you like to see Daicel achieve from this perspective?

Mizuo I would like to see Daicel assume a leading role in the development of environmentally sound materials. While its market is primarily BtoB, Daicel should think of it as a BtoBtoC market and focus more on what is beyond B, to the end-users, as part of its business activities. Daicel can learn a lot from this and gain important perspectives toward achieving the SDGs.

Nogimori I totally agree. Companies are expected to gain a better understanding of what "C" wants and present solutions that leverage existing technologies. Daicel should be more innovative and come up with creative ways to utilize the materials it has. Material manufacturers tend to focus on perfecting the art of manufacturing a single, high-quality material and simply focusing on producing it for many years. I look forward to seeing Daicel break out of that shell and think more from the perspectives of customers and society



to come up with innovative ways to utilize those materials to provide better solutions.

Sugimoto It's very true that Daicel has been focusing on manufacturing. We actually pride ourselves in our manufacturing capabilities, but at the same time we recognize that we have not been paying enough attention to society and our end-users. We are now shifting the organization toward adopting a more market-in approach in an attempt to build momentum toward addressing this. However, Daicel cannot make it happen alone. In our new long-term vision, we are focused on "co-creation" and taking a big step toward a structure in which Daicel forms partnerships upstream and downstream while collaborating closely to generate new value.

Mizuo I hope this willingness to be the market leader and take on new challenges will become deeply ingrained in Daicel's corporate culture and lead to significant innovation.

Hacchoji Risk management at manufacturing sites is also a very important consideration. In addition to incurring physical injuries and facility damage, accidents may severely damage a company's reputation. The organization can lose the good public reputation and credibility it has built over many decades in an instant because of one accident. As a chemical manufacturer, Daicel handles hazardous chemicals at its sites, which also has the potential for causing pollution. I am sure everyone working at the plants is well aware of this and understands the importance of risk management. Although there is infrastructure in place for Daicel to monitor these risks, it is nevertheless important to stay focused. This may not be the most exciting and glamorous area to focus on, but it is important all the same.

Nogimori In terms of assessing the impact of business activities on the environment, I think Daicel and the material manufacturing industry as a whole is doing a good job. In the area of marine plastic debris, however, I think that it is necessary to raise consumer awareness of the issue. Plastic itself is extremely useful. There must be more Daicel can do to direct consumers toward more sustainable consumption of the material.

Sugimoto We will continue to focus on our fundamental

management principles: safety, quality, and compliance. In the area of tackling environmental issues, we are also looking to fulfill our corporate social responsibility by accelerating new material development that can potentially provide solutions to these issues.

Responsibilities of Outside Directors

Sugimoto The diverse opinions we receive from our outside directors during Board of Directors meetings and other occasions are very enlightening. To close our conversation, I would like to hear your thoughts on the roles that outside directors play in Daicel's Board of Directors meetings?

Nogimori Companies that are trying to raise their corporate value and sustainably expand their businesses depend on having someone reviewing their operations and encouraging them to move forward. I see outside directors as playing the latter role, as private supporters that encourage Daicel to move forward.

Mizuo I hope that by sharing my experiences and my theory-based achievements in relation to business ethics and CSR, I am doing more than simply fulfilling the role of Audit & Supervisory Board member and monitoring Board of Directors meetings.

Hacchoji Outside directors need to be able to see matters from two perspectives, from a birds-eye view monitoring overall business management and from the ground up perspective of an ant, digging into the tiniest details. With your feedback into Daicel's business activities as well as my own past experiences, I hope I can act as both a bird and an ant, viewing the Company from their perspectives and contributing to Daicel's healthy and continuous future growth.

Sugimoto Your comments have really enabled us to see things from a broader perspective. We were reminded of the vital importance of incorporating these external insights into Daicel's business management. Thank you very much for your time today.

Governance

Directors, Audit & Supervisory Board Members, and Executive Officers

(as of June 19, 2020)

Directors



Misao Fudaba

Chairperson of Board of Directors, Member of the Nomination and Compensation Committee

- April 1979 Joined the Company
- June 2006 Executive Officer
Deputy Head of Corporate Support Center
- June 2008 Head of Raw Material Purchasing Center
- June 2010 President and CEO
- June 2019 Chairperson of Board of Directors



Kotaro Sugimoto

Representative Director, Senior Managing Executive Officer, Member of the Nomination and Compensation Committee, Member of the Management Advisory Committee, Head of Corporate Support Headquarters, Responsible for Corporate Compliance Program

- April 1984 Joined the Company
- June 2011 Head of Raw Material Purchasing Center
- June 2014 Executive Officer, President of Daicel Logistics Service Co., Ltd.
- June 2017 Managing Executive Officer
- June 2019 Representative Director
- June 2020 Senior Managing Executive Officer



Masafumi Nogimori^{*2}

Outside Director and Chairperson of the Nomination and Compensation Committee

- April 2005 Executive Vice President and Representative Director of Astellas Pharma Inc.
- June 2006 President & CEO and Representative Director of Astellas Pharma Inc.
- June 2011 Chairperson and Representative Director of Astellas Pharma Inc.
- June 2016 Retired from Astellas Pharma Inc.
- June 2017 Director of Daicel Corporation



Toshio Asano^{*2}

Outside Director and Member of the Nomination and Compensation Committee

- April 2010 President & Representative Director, Presidential Executive Officer of Asahi Kasei Pharma Corporation
- April 2014 Presidential Executive Officer of Asahi Kasei Corporation
- June 2014 President & Representative Director and Presidential Executive Officer of Asahi Kasei Corporation
- April 2016 Director and Standing Advisor of Asahi Kasei Corporation
- June 2016 Standing Advisor of Asahi Kasei Corporation
- June 2019 Director of Daicel Corporation



Yoshimi Ogawa

President and CEO, Member of the Nomination and Compensation Committee, and Chairperson of the Management Advisory Committee

- April 1983 Joined the Company
- April 2002 Head of Business Process Innovation
- June 2006 Executive Officer, Vice President of Aerospace & Defense Systems/Safety Systems Company
- June 2009 Head of Production Technology
- June 2011 Director
- June 2013 Managing Executive Officer
- April 2014 General Manager of Production Technology Headquarters
- June 2017 Senior Managing Executive Officer
- June 2019 President and CEO



Yasuhiro Sakaki

Director, Senior Managing Executive Officer, Member of the Management Advisory Committee, Head of Strategic Planning Headquarters, Responsible for Safety SBU, and Healthcare SBU, Chairperson of Daicel Safety Systems Americas, Inc.^{*1}

- April 1984 Joined the Company
- June 2012 President of Organic Chemical Products Company
- June 2014 Executive Officer
- June 2016 President of Aerospace & Defense Systems/Safety Systems Company
- June 2017 Managing Executive Officer
- June 2019 Senior Managing Executive Officer
- June 2020 Director



Teisuke Kitayama^{*2}

Outside Director and Member of the Nomination and Compensation Committee

- June 2005 Director President (Representative Director) of Sumitomo Mitsui Financial Group, Inc., Chairperson of the Board (Representative Director) of Sumitomo Mitsui Banking Corporation
- April 2011 Retired from Director of Sumitomo Mitsui Financial Group, Inc., Chairperson of the Board of Sumitomo Mitsui Banking Corporation
- April 2017 Director of Sumitomo Mitsui Banking Corporation
- June 2017 Advisor of Sumitomo Mitsui Banking Corporation
- June 2018 Director of Daicel Corporation
- October 2018 Honorary Advisor of Sumitomo Mitsui Banking Corporation



Takeshi Furuichi^{*2}

Outside Director and Member of the Nomination and Compensation Committee

- March 2010 Representative Director and Senior Managing Executive Officer of Nippon Life Insurance Company
- March 2012 Representative Director and Executive Vice President of Nippon Life Insurance Company
- July 2016 Representative Director and Vice Chairperson of Nippon Life Insurance Company
- June 2020 Director of Daicel Corporation



Akihisa Takabe

Director, Managing Executive Officer, Member of the Management Advisory Committee, Head of Innovation and Business Development Headquarters, Responsible for Intellectual Property Center, Responsible for Quality Management Division

- April 1984 Joined the Company
- June 2008 President of Daicel Safety Systems Inc.
- April 2014 Head of Central Research Center
Head of Corporate Research Center of R&D Headquarters
- February 2015 Deputy General Manager of R&D Headquarters
- June 2015 Executive Officer
- June 2019 Director
- June 2020 Managing Executive Officer



Sonoko Hacchoji^{*2}

Outside Director and Member of the Nomination and Compensation Committee

- November 1993 Vice President of IBJ International Plc., UK securities subsidiary of The Industrial Bank of Japan, Ltd.
- March 2002 Executive Officer of IBJ Leasing Co., Ltd.
- January 2006 Director (General Manager of Administration Division) of Yuki Management & Research Co., Ltd.
- March 2011 Managing Director and Managing Executive Officer of FUJITA KANKO INC. (Chief of Planning Group and Deputy Chief of Business Operations Division)
- April 2017 Special Advisor to the President (Chief Strategy Officer) of Tsuda University
- June 2019 Director of Daicel Corporation
- April 2020 Special Advisor to the President of Tsuda University

Standing Audit & Supervisory Board Members

Shinji Fujita

Hisanori Imanaka

Outside Audit & Supervisory Board Members

Ryo Ichida^{*2}

Certified Public Accountant, Tax Accountant of Ryo Ichida Certified Public Accountant Office

Junichi Mizuo^{*2}

Representative Director and Chairperson of the Japan Compliance & Governance Institute, Honorary Professor of Surugadai University; Ph.D. in Business Administration

Hideo Makuta^{*2}

Advisor of Nagashima Ohno & Tsunematsu, Attorney at Law

Senior Managing Executive Officer

Hidekage Kojima

Responsible for Material SBU and Smart SBU

Managing Executive Officers

Dieter Heckmann

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

Naohide Hakushi

General Manager of Himeji Production Sector and Aboshi Plant, Chain Production Company, President of Kyodo Sakusan Co., Ltd., Responsible for MAC-C Plant and 1,3-BG Plant Construction Projects

Takashi Ueno

Head of Production Management Headquarters, President of Chain Production Company

Naotaka Kawaguchi

General Manager of Safety SBU, Chairperson of Daicel Safety Systems (Jiangsu) Co., Ltd., Chairperson of Daicel Safety Technologies (Jiangsu) Co., Ltd.

Executive Officers

Yukio Yoshino

Responsible for Corporate Sustainability

Yasuo Tsuji

General Manager of Arai Plant, Chain Production Company, President of Daicel Arai Chemical Ltd.

Mikio Yagi

Responsible for Aerospace & Defense Systems of Safety SBU

Koichi Maruyama

Assistant to Director Responsible for Material SBU, President of Daicel Polymer Ltd.^{*3}, Chairperson of Shanghai Daicel Polymers, Ltd.

Hitoshi Hayashi

General Manager of Material SBU, Chairperson of Daicel Nanning Food Ingredients Co., Ltd.

Ikuo Takahashi

General Manager of Innovation Park, Deputy General Manager of Innovation and Business Development Headquarters, Head of Corporate Research Center, Innovation and Business Development Headquarters

Masaaki Fujio

Head of Responsible Care

Takashi Iiyama

Responsible for Digital Strategy Division, Responsible for Responsible Care, Responsible for Engineering Center, Deputy General Manager of Production Management Headquarters, Assistant General Manager of Innovation and Business Development Headquarters

Akio Kojima

General Manager of Smart SBU

Haruyoshi Tashika

General Manager of Ohtake Plant, Chain Production Company

Seiji Yamakado

Head of Customer Center

Hiroyasu Yamaguchi

Head of Engineering Center

Nobuhiko Ikeda

President of Multiple Production Company, General Manager of Harima Plant, Multiple Production Company, Division Manager of Global Operation Management, Mobility BU and Safety SBU

Kazuya Kurosawa

President of Daicel FineChem Ltd.^{*4}

^{*1} Yasuhiro Sakaki retired as Chairperson of Daicel Safety Systems Americas, Inc. and was succeeded by Naotaka Kawaguchi, effective July 1, 2020.

^{*2} Independent Director or Independent Audit & Supervisory Board Member

^{*3} Kouichi Maruyama retired as President of Daicel Polymer Ltd., as the company was dissolved after transferring its sales operations to Daicel Miraizu Ltd. and its manufacturing operations to Daicel Corporation, effective July 1, 2020.

^{*4} Daicel FineChem Ltd. changed its name to Daicel Miraizu Ltd., effective July 1, 2020.

Governance

Corporate Governance

Basic Approach

Strengthening corporate governance is a key management initiative that enables us to enhance corporate value and achieve our social mission and responsibilities as a listed company.

Daicel maintains its agility by clarifying the responsibilities of each part of its organization and by adopting a management system that supports timely decision-making and implementation. Moreover, by actively soliciting external opinions to improve management transparency and fairness, Daicel will strive to maintain the soundness of its corporate management.

History of Strengthening Corporate Governance

| Date | Initiative | Purpose |
|--------------|--|---|
| June 1999 | Introduced the Executive Officer System | To separate supervisory and business execution functions clearly |
| June 2000 | Appointed Outside Directors | To strengthen decision-making and supervisory functions and ensure transparency in management |
| | Established the Nomination and Compensation Committee | To improve objectivity and transparency in the nomination and compensation assessment process |
| April 2002 | Established the Management Advisory Committee | To strengthen decision-making functions through deliberation of important matters |
| June 2003 | Shortened the term of Directors from two years to one | To clarify management responsibilities of Directors to shareholders |
| March 2006 | Established the Information Disclosure Committee | To ensure reliability of the information to be disclosed |
| April 2006 | Established the Risk Management Committee | To accurately understand and appropriately manage risks |
| August 2010 | Established the Internal Control Council | To build an internal control system and ensure the adequateness of its operation |
| June 2015 | Increased the ratio of Outside Directors to 50% | To ensure further transparency of decision-making and supervisory functions and management |
| January 2016 | Started to evaluate the effectiveness of the Board of Directors | To maintain and improve the effectiveness of the Board of Directors |
| January 2020 | Improved the method for evaluating the effectiveness of the Board of Directors | To introduce individual interviews in addition to surveys |

Corporate Governance Framework

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 Audit & Supervisory Board accomplishes its auditing and supervisory functions. Such a framework has enabled us to keep reinforcing our corporate governance.

Specifically, by welcoming Outside Directors and allowing them to provide opinions and advice based on their expertise, Daicel is working to ensure that the decisions made by its Board of Directors are appropriate and the execution of Director duties is effectively supervised. Moreover, we have adopted an Executive Officer System that has enabled us to clearly separate our 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.

Corporate Governance Framework details

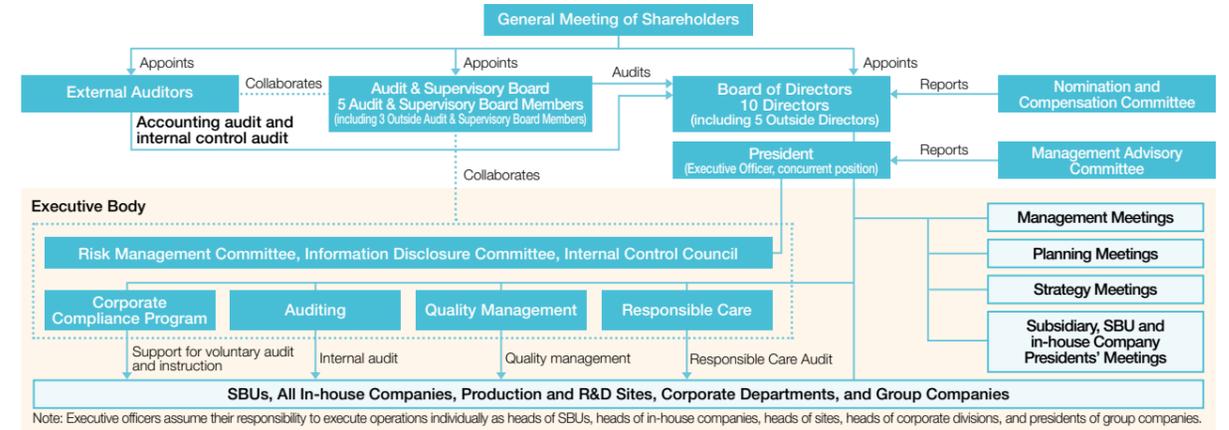
<https://www.daicel.com/en/sustainability/governance/>

Outline of the Corporate Governance Framework (as of June 19, 2020)

| Item | Content |
|---|---|
| Type of organizational structure | Company with Audit & Supervisory Board |
| Chairperson of the Board of Directors | Chairperson |
| Number of Directors | 10 |
| Number of Outside Directors (number of Independent Directors) | 5 (5) |
| Number of Audit & Supervisory Board Members | 5 |
| Number of Outside Audit & Supervisory Board Members (number of Independent Directors) | 3 (3) |
| Number of Executive Officers (number of Officers concurrently serving as Directors) | 23 (4) |
| FY2020/3 Number of Board of Director meetings held (average attendance rate of Outside Directors / Outside Audit & Supervisory Board Members) | 14 in FY2020/3 (100% /100%) |
| Term of Directors | 1 year |
| Voluntary advisory body to the Board of Directors | Nomination and Compensation Committee |
| Body that deliberates important corporate matters and reports to the President | Management Advisory Committee |
| Compensation system for Directors and Audit & Supervisory Board Members | 1. Monthly compensation 2. Performance-linked remuneration (excluding Outside Directors and Outside Audit & Supervisory Board Members) 3. Restricted Stock Compensation (excluding Outside Directors and Audit & Supervisory Board Members) |
| Auditor | Deloitte Touche Tohmatsu LLC |

*The compensation system also applies to executive officers and others. The ratio between the three types of compensations (1, 2, and 3) is roughly maintained at 65:20:15.

Corporate Governance Framework (as of June 19, 2020)



Nomination and Compensation Committee

The Nomination and Compensation Committee was established as an advisory body on the nomination of directors and executive officers and make recommendations on their compensation in response to consultation by either the chairperson of the Board of Directors or the Audit & Supervisory Board. To ensure transparency, validity, and objectivity regarding decisions on personnel and compensation, the committee is chaired by an Outside Director, and five Outside Directors represent the majority of the committee's eight members.

Management Advisory Committee

The Management Advisory Committee is in charge of deliberating on 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 the president. The committee comprises the president, Directors (excluding Outside Directors) and executive officers designated by the president, and the committee convenes these members on an as-needed basis.

Effectiveness Evaluation of the Board of Directors

To maintain or improve the effectiveness of the Board of Directors, its performance is evaluated by Daicel. In addition to using questionnaires, we held individual interviews in the third quarter of FY2020/3 to ensure that our effectiveness

evaluations are more effective and more appropriate than ever before. We would like to establish an effectiveness evaluation method that is appropriate for Daicel by considering a variety of options such as conducting individual interviews and introducing third-party evaluation.

FY2020/3 Effectiveness Evaluation of the Board of Directors

| | |
|--------------------------------|--|
| Evaluated | 10 Directors and 5 Audit & Supervisory Board Members |
| Evaluation methods | • Questionnaire • Individual interview |
| Main themes | • Composition of the Board of Directors • Contents of deliberation, resolutions, reports, etc. • Operating methods of the Board of Directors |
| Overview of evaluation results | • The Board of Directors engaged in productive discussions with Outside Directors and actively offered their opinions, and we were able to confirm that the board is effective. |
| Future tasks | On the other hand, there were some issues that needed to be addressed to improve the board's effectiveness. (1) Board composition issues • Determining the ratio of inside and outside directors • Addressing diversity in the Board of Directors (including the necessity of foreign directors) (2) Board deliberation issues • Setting the themes that are particularly appropriate for board deliberations • Sharing information with the Board of Directors in an appropriate way (3) Board operation issues • Properly allocating time and providing clear rules and procedures for deliberation and reporting • Making technical/internal terms easy to understand especially for Outside Directors |

Governance

Corporate Compliance

Basic Approach

Our code of corporate compliance contributes to the foundation of sustainable management. Also, each department and Group company in the Daicel Group systematically conducts a number of corporate compliance activities. Instilling a sense of corporate compliance in every employee is considered to be just as vital, and therefore we promote corporate compliance Group-wide.

Corporate Compliance Management System

The Daicel Group's corporate compliance activities aim to ensure that we remain compliant with the Daicel Group Conduct Policy and each Group company's Code of Conduct. To promote corporate compliance activities further, the Group has established a Corporate Compliance Program Division with a representative director assigned as the officer. Every Daicel department and Group company appoints a facilitator to spearhead activities related to corporate compliance for each workplace. Within their respective areas they take the lead in executing the Corporate Compliance Management System, based on a Check-Act-Plan-Do (CAPD) cycle. Through this proactive approach and activities involving the participation of all employees, we strive to maintain and improve our corporate compliance activities.

Promotion System for Corporate Compliance



Daicel Group Conduct Policy

<https://www.daicel.com/en/sustainability/governance/compliance/policy.html>

Daicel Code of Conduct

<https://www.daicel.com/en/sustainability/governance/compliance/standard.html>

Fair Business Practices

We are determined to conduct honest trade in accordance with the basic principles of fair and free competition, as expressed in the Daicel Group Conduct Policy. Therefore, we comply with antitrust laws and develop internal rules for anti-corruption while raising awareness of the issue. Additionally, our training of employees posted overseas emphasizes the key requirements for complying with local laws and regulations.

Compliance

We have established a Legal Compliance System, in which certain

corporate department is designated as organization in charge of ensuring compliance with laws and regulations relating to their respective operations and managing information on the latest legal developments. Under the system, 11 corporate departments, including the Legal Group, are responsible for providing the relevant departments with information about revisions to laws, regulations, and guidelines as well as educational materials. All departments and Group companies in Japan complete an annual compliance self-evaluation checklist to review the status of compliance at each workplace and clarify any issues. Any non-compliance or possible non-compliance issues are addressed through the appropriate measures.

Education and Training Programs

Daicel systematically provides corporate compliance training tailored to each position and role for new graduate recruits, recently promoted employees, managers, directors, presidents of Group companies, employees posted to out of Japan Group companies, and others. We also organize seminars on specific topics as and when deemed appropriate.

Reporting and Consultation

With the intent of Whistleblower Protection Act, Daicel has put in place the Compliance Help Line System, a report and consultation system. A whistleblower can use Help Line via internal and external (independent third party) contact points and the same goes for employee working at group companies in Japan. We also established additional Help Line system, in which the employee of the group company can report to and consult with Daicel by their local language to make more accessible.

In addition, we have set up an online consultation contact that can be reached by external parties on our website (available 24 hours).

These Help Line systems are rigorously operated under rules established to ensure that whistleblowers and those who request consultation can be confident that: (1) Their personal information and privacy will be protected, (2) No disadvantage treatment will be permitted, and (3) Results related to investigations will be shared with them. Reported cases are tracked with appropriate follow through, including the implementation of corrective measures or other actions. The status of our response as well as the outcome for each case are regularly reported to the Board of Directors and Audit & Supervisory Board.

There were no cases in FY2020/3 that significantly affected management.

Risk Management

Basic Approach

Daicel recognizes the vital role of risk management and adheres to its Risk Management Regulations so that it responds appropriately to the risks inherent in its corporate activities and minimizes the impact should any such risks materialize.

Risk Management System

The Risk Management Committee, chaired by the corporate compliance officer (representative director), coordinates and promotes Company-wide risk management activities while also periodically reviewing the status of risk awareness in each department and Group company and offering advice and support on countermeasures and initiatives. At the end of each fiscal year, the committee conducts an assessment on the activities carried out by departments and Group companies based on the activity reports they submit.

The status of the management of the "focused points" set at the beginning of each fiscal year, as well as critical risks and the risk management policies for the following fiscal year, are reported to the Management Meeting and Board of Directors' Meeting at the end of the fiscal year, and discussions are carried out accordingly.

Risk Management Initiatives

The Daicel Group maintains an inventory of potential risks that could have a major impact on its ability to achieve its business targets. Potential risks are entered into an intranet database together with countermeasures and initiatives designed to prevent the incidence of risk or to reduce any subsequent impact. The countermeasures are revised in consultation with the risk managers of corporate departments. Each department and Group company assigns a priority level to each risk and carries out countermeasures accordingly while also regularly updating the status and progress of the countermeasures in the database. Each department and Group company also pursues its respective risk management activities by making use of the database and following a Check-Act-Plan-Do (CAPD) cycle.

In FY2020/3, we focused on identifying the risks of potential information leakage etc. risk when handling removal media and using SNS(Social Networking Service). With the results, we intend to implement the following risk countermeasures in FY2021/3.

1. Take more stringent steps to prohibit the use of personal devices for work purposes
2. Strengthen the prevention of data leakage from USB flash drives for internal use
3. Strengthen the detection of illegal copying of data
4. Continue to raise risk awareness of employees and business social media account management staff

Strengthening BCP Management

Daicel formulates and manages business continuity plans (BCPs) to minimize damage in the event of emergencies such as major disasters or a pandemic caused by a new virus as well as to maintain business operations or ensure the early resumption of business in the event of such contingencies. In FY2020/3, to prevent the recurrence of past accidents, we continued to re-inspect for risks related to substances with self-degradation or thermal polymerization properties. And to prevent the spread of damage, we promoted the introduction of (1) remote monitoring cameras as corporate standards and (2) a disaster information sharing system.

Information Security Initiatives

The Daicel Group implements information security initiatives encompassing the IT operations of the entire Group under its Information Systems Security Policy. With respect to cyberattacks, we have introduced a system that instantly detects security anomalies.

We also consign third parties to regularly conduct vulnerability assessment and systematically address any issues that arise. As of the publishing of this report, every issue had been addressed.

As a measure to prevent the spread of the novel coronavirus, we have expanded teleworking (working from home) arrangements for our employees. Accordingly, we have enhanced our remote access environment and strengthened the monitoring of any suspicious access and email attacks targeting the remote environment. Furthermore, we are diligent about reminding our employees of precautions being taken in terms of teleworking.

Measures Against the Spread of the Novel Coronavirus

In response to the global spread of the novel coronavirus, we established the Daicel Group Countermeasures Headquarters, headed by the president, on February 5, 2020, followed by local countermeasures headquarters at each business site. Our countermeasures headquarters are working together to ensure the safety and well-being of our employees and their family members and to maintain stable, continued operations at our plants and businesses. To do so, we have taken the measures to prevent the spread of the coronavirus based on government information on the disease.

Financial Information

Consolidated Eleven-Year Summary

As of and for the years ended March 31

Millions of Yen
(Except net income per share and other information)

| | FY2010/3 | 2011/3 | 2012/3 | 2013/3 | 2014/3 | 2015/3 | 2016/3 | 2017/3 | 2018/3 | 2019/3 | 2020/3 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Operating Results | | | | | | | | | | | |
| Net sales | ¥ 320,243 | ¥ 353,684 | ¥ 341,942 | ¥ 358,513 | ¥ 413,786 | ¥ 443,775 | ¥ 449,878 | ¥ 440,061 | ¥ 462,956 | ¥ 464,859 | ¥ 412,826 |
| Operating income | 20,856 | 32,711 | 20,426 | 26,196 | 37,912 | 51,303 | 64,349 | 64,306 | 58,932 | 51,171 | 29,644 |
| Net income attributable to owners of the parent | 11,069 | 16,802 | 11,827 | 15,372 | 22,843 | 31,252 | 40,313 | 43,198 | 37,062 | 35,301 | 4,978 |
| Financial Position | | | | | | | | | | | |
| Net assets | ¥ 229,004 | ¥ 235,336 | ¥ 234,711 | ¥ 262,899 | ¥ 295,805 | ¥ 356,177 | ¥ 368,720 | ¥ 399,429 | ¥ 413,541 | ¥ 423,243 | ¥ 392,583 |
| Total assets | 428,376 | 411,071 | 398,196 | 461,512 | 509,834 | 565,332 | 560,190 | 599,708 | 640,284 | 654,791 | 597,992 |
| Interest-bearing debt | 105,893 | 94,357 | 83,249 | 99,224 | 105,917 | 86,981 | 71,276 | 72,291 | 99,743 | 104,306 | 92,787 |
| Cash Flows | | | | | | | | | | | |
| Cash flows from operating activities | ¥ 66,445 | ¥ 53,428 | ¥ 34,000 | ¥ 44,480 | ¥ 44,777 | ¥ 57,412 | ¥ 65,419 | ¥ 86,168 | ¥ 66,888 | ¥ 58,523 | ¥ 57,193 |
| Cash flows from investing activities | (16,471) | (20,141) | (9,190) | (35,312) | (34,984) | (30,283) | (31,407) | (34,722) | (33,189) | (41,095) | (45,864) |
| Cash flows from financing activities | (50,735) | (28,170) | (25,044) | 5,737 | (4,472) | (29,230) | (31,470) | (19,942) | (1,962) | (25,636) | (47,883) |
| Cash and cash equivalents, end of year | 30,128 | 33,724 | 33,435 | 53,238 | 62,573 | 66,737 | 65,237 | 96,275 | 128,290 | 120,016 | 80,674 |
| Per Share Information | | | | | | | | | | | |
| Basic net income per share (yen) | ¥ 31.10 | ¥ 47.22 | ¥ 33.46 | ¥ 43.71 | ¥ 64.98 | ¥ 88.95 | ¥ 115.02 | ¥ 124.61 | ¥ 107.81 | ¥ 105.38 | ¥ 15.49 |
| Net assets per share (yen) | 579.18 | 596.06 | 618.94 | 685.11 | 764.51 | 922.71 | 966.36 | 1,067.63 | 1,136.32 | 1,198.77 | 1,166.56 |
| Cash dividends per share (yen) | 10.00 | 10.00 | 10.00 | 12.00 | 15.00 | 21.00 | 26.00 | 30.00 | 32.00 | 32.00 | 34.00 |
| Financial Indicators | | | | | | | | | | | |
| Ratio of operating income to net sales (%) | 6.5 | 9.2 | 6.0 | 7.3 | 9.2 | 11.6 | 14.3 | 14.6 | 12.7 | 11.0 | 7.2 |
| ROE (%) | 5.6 | 8.0 | 5.5 | 6.7 | 9.0 | 10.5 | 12.2 | 12.2 | 9.8 | 9.1 | 1.3 |
| Rate of earnings on total capital (%) | 2.5 | 4.0 | 2.9 | 3.6 | 4.7 | 5.8 | 7.2 | 7.4 | 6.0 | 5.5 | 0.8 |
| Total asset turnover (times/year) | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 | 0.8 | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 |
| Equity ratio (%) | 48.1 | 51.6 | 54.7 | 52.2 | 52.7 | 57.3 | 60.2 | 61.6 | 60.1 | 60.1 | 60.6 |
| Dividend payout ratio (%) | 32.2 | 21.2 | 29.9 | 27.5 | 23.1 | 23.6 | 22.6 | 24.1 | 29.7 | 30.4 | 219.5 |
| Total return ratio (%) | 32.2 | 21.2 | 45.2 | 27.5 | 23.1 | 23.6 | 32.5 | 33.3 | 56.6 | 67.2 | 577.3 |
| Others | | | | | | | | | | | |
| Capital expenditures | ¥ 16,481 | ¥ 9,912 | ¥ 18,740 | ¥ 27,217 | ¥ 25,617 | ¥ 30,629 | ¥ 40,256 | ¥ 39,528 | ¥ 30,819 | ¥ 44,694 | ¥ 47,568 |
| Depreciation and amortization | 36,693 | 32,786 | 28,316 | 24,026 | 23,669 | 23,409 | 23,914 | 29,031 | 31,720 | 30,044 | 29,002 |
| Research and development expenses | 11,316 | 11,970 | 12,730 | 12,875 | 13,360 | 14,031 | 15,306 | 16,806 | 18,843 | 20,749 | 21,295 |
| Number of employees (at year-end) | 7,665 | 7,747 | 8,149 | 9,233 | 9,700 | 10,173 | 10,709 | 11,556 | 12,309 | 12,319 | 11,606 |

Note: Amortization of goodwill is not included in depreciation and amortization.

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2019 and 2020

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|-----------|---------------------------|
| | 2019/3 | 2020/3 | (Note 1) |
| ASSETS | | | |
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 15) | ¥ 120,016 | ¥ 80,674 | \$ 740,128 |
| Marketable securities (Notes 3 and 15) | 30 | 629 | 5,770 |
| Receivables (Note 15): | | | |
| Trade notes | 2,920 | 2,667 | 24,467 |
| Trade accounts | 86,259 | 76,318 | 700,165 |
| Unconsolidated subsidiaries and associated companies | 5,059 | 4,013 | 36,816 |
| Allowance for doubtful receivables | (67) | (66) | (605) |
| Inventories (Note 4) | 126,153 | 117,414 | 1,077,192 |
| Other current assets | 13,665 | 16,389 | 150,357 |
| Total current assets | 354,038 | 298,040 | 2,734,311 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 18): | | | |
| Land | 26,931 | 30,132 | 276,440 |
| Buildings and structures | 168,530 | 169,092 | 1,551,302 |
| Machinery and equipment | 609,850 | 589,742 | 5,410,477 |
| Construction in progress | 31,630 | 42,354 | 388,568 |
| Total | 836,943 | 831,332 | 7,626,807 |
| Accumulated depreciation | (639,511) | (626,975) | (5,752,064) |
| Net property, plant and equipment | 197,432 | 204,346 | 1,874,733 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 3 and 15) | 64,002 | 57,992 | 532,036 |
| Investments in and advances to unconsolidated subsidiaries and associated companies (Note 15) | 11,087 | 10,584 | 97,100 |
| Deferred tax assets (Note 10) | 2,701 | 3,444 | 31,596 |
| Net defined benefit asset (Note 7) | 6,110 | 6,235 | 57,201 |
| Other assets | 19,418 | 17,348 | 159,155 |
| Total investments and other assets | 103,320 | 95,605 | 877,110 |
| TOTAL | ¥ 654,791 | ¥ 597,992 | \$ 5,486,165 |

Please see the notes to consolidated financial statements in Financial Section.

https://www.daicel.com/en/sustainability/pdf/library/2020_01.pdf

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
| | 2019/3 | 2020/3 | (Note 1) |
| LIABILITIES AND EQUITY | | | |
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Notes 6 and 15) | ¥ 9,965 | ¥ 6,902 | \$ 63,321 |
| Current portion of long-term debt (Notes 6 and 15) | 18,285 | 10,336 | 94,825 |
| Payables (Notes 15 and 17): | | | |
| Trade notes | 257 | 256 | 2,348 |
| Trade accounts | 50,852 | 43,462 | 398,733 |
| Nontrade accounts | 13,666 | 15,234 | 139,761 |
| Construction | 8,486 | 8,781 | 80,559 |
| Unconsolidated subsidiaries and associated companies | 2,898 | 1,599 | 14,669 |
| Income taxes payable (Notes 10 and 15) | 4,008 | 2,240 | 20,550 |
| Provision for environmental measures | | 1,725 | 15,825 |
| Other current liabilities (Note 8) | 17,088 | 15,687 | 143,917 |
| Total current liabilities | 125,509 | 106,226 | 974,550 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Notes 6 and 15) | 76,043 | 72,200 | 662,385 |
| Net defined benefit liability (Note 7) | 12,485 | 11,055 | 101,422 |
| Provision for environmental measures | 5,265 | 547 | 5,018 |
| Asset retirement obligations (Note 8) | 1,256 | 1,229 | 11,275 |
| Deferred tax liabilities (Note 10) | 7,673 | 7,861 | 72,119 |
| Other long-term liabilities | 3,312 | 6,287 | 57,678 |
| Total long-term liabilities | 106,038 | 99,182 | 909,926 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 16 and 22) | | | |
| EQUITY (Notes 9 and 25): | | | |
| Common stock, authorized, 1,450,000,000 shares in 2020 and 2019; issued, 315,942,682 shares in 2020 and 331,942,682 shares in 2019 | 36,275 | 36,275 | 332,798 |
| Capital surplus | 31,692 | 31,692 | 290,752 |
| Retained earnings | 294,149 | 271,762 | 2,493,229 |
| Treasury stock - at cost, 5,160,966 shares in 2020 and 3,609,174 shares in 2019 | (4,344) | (5,050) | (46,330) |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities | 29,024 | 26,582 | 243,871 |
| Deferred gain (loss) on derivatives under hedge accounting | 13 | (69) | (633) |
| Foreign currency translation adjustments | 4,968 | (656) | (6,018) |
| Defined retirement benefit plans | 1,817 | 2,009 | 18,431 |
| Total | 393,597 | 362,545 | 3,326,100 |
| Noncontrolling interests | 29,645 | 30,038 | 275,577 |
| Total equity | 423,243 | 392,583 | 3,601,678 |
| TOTAL | ¥ 654,791 | ¥ 597,992 | \$ 5,486,165 |

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2019 and 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------|---------------------------------------|
| | 2019/3 | 2020/3 | 2020/3 |
| NET SALES | ¥ 464,859 | ¥ 412,826 | \$ 3,787,394 |
| COST OF SALES (Notes 11 and 17) | 331,086 | 301,774 | 2,768,568 |
| Gross profit | 133,773 | 111,051 | 1,018,816 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 12) | 82,602 | 81,406 | 746,844 |
| Operating income | 51,171 | 29,644 | 271,963 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 2,266 | 1,932 | 17,724 |
| Gain on sales of investment securities | 5,767 | 2,616 | 24,000 |
| Gain on sales of investments in capital of subsidiaries and associates | 290 | | |
| Equity in earnings of unconsolidated subsidiaries and associated companies | 1,762 | 1,772 | 16,256 |
| Insurance income (Note 19) | 2,005 | | |
| Interest expense | (1,185) | (1,173) | (10,761) |
| Foreign exchange gain (loss) | (73) | (802) | (7,357) |
| Loss on dispositions of property, plant and equipment | (1,715) | (3,098) | (28,422) |
| Impairment loss on fixed assets (Note 20) | (1,783) | (14,757) | (135,385) |
| Loss on disaster (Note 21) | (967) | | |
| Loss on revision of retirement benefit plan (Note 7) | (3,308) | | |
| Other – net | (496) | 522 | 4,788 |
| Other income (expenses) – net | 2,563 | (12,988) | (119,155) |
| INCOME BEFORE INCOME TAXES | 53,734 | 16,656 | 152,807 |
| INCOME TAXES (Note 10): | | | |
| Current | 13,910 | 4,882 | 44,788 |
| Deferred | (2,106) | 333 | 3,055 |
| Total income taxes | 11,804 | 5,215 | 47,844 |
| NET INCOME | 41,930 | 11,440 | 104,954 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | 6,628 | 6,462 | 59,284 |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | ¥ 35,301 | ¥ 4,978 | \$ 45,669 |

| | Yen | | U.S. Dollars (Note 1) |
|--|----------|---------|-----------------------|
| | 2019/3 | 2020/3 | 2020/3 |
| PER SHARE INFORMATION (Notes 2.s and 13): | | | |
| Basic net income | ¥ 105.38 | ¥ 15.49 | \$ 0.14 |
| Cash dividends applicable to the year | 32.00 | 32.00 | 0.29 |

Please see the notes to consolidated financial statements in Financial Section.

https://www.daicel.com/en/sustainability/pdf/library/2020_01.pdf

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2019 and 2020

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------|---------------------------------------|
| | 2019/3 | 2020/3 | 2020/3 |
| NET INCOME | ¥ 41,930 | ¥ 11,440 | \$ 104,954 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 23): | | | |
| Unrealized gain (loss) on available-for-sale securities | (4,439) | (2,528) | (23,192) |
| Deferred gain (loss) on derivatives under hedge accounting | (67) | (155) | (1,422) |
| Foreign currency translation adjustments | 431 | (6,089) | (55,862) |
| Defined retirement benefit plans | 1,291 | 116 | 1,064 |
| Share of other comprehensive income (loss) in associates | (178) | (484) | (4,440) |
| Total other comprehensive income (loss) | (2,961) | (9,141) | (83,862) |
| COMPREHENSIVE INCOME | ¥ 38,968 | ¥ 2,299 | \$ 21,091 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥ 32,267 | ¥ (2,980) | \$ (27,339) |
| Noncontrolling interests | 6,700 | 5,280 | 48,440 |

Please see the notes to consolidated financial statements in Financial Section.

https://www.daicel.com/en/sustainability/pdf/library/2020_01.pdf

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2019 and 2020

| | Millions of Yen | | | | | | | | | | | |
|---|--|--------------|-----------------|-------------------|----------------|---|--|--|----------------------------------|-----------|--------------------------|--------------|
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | | | | | Noncontrolling Interests | Total Equity |
| | | | | | | 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 | | |
| BALANCE, APRIL 1, 2018 | 338,703,204 | ¥ 36,275 | ¥ 31,642 | ¥ 292,104 | ¥ (14,004) | ¥ 33,410 | ¥ 58 | ¥ 4,805 | ¥ 583 | ¥ 384,876 | ¥ 28,665 | ¥ 413,541 |
| Net income attributable to owners of the parent | | | | 35,301 | | | | | | 35,301 | | 35,301 |
| Cash dividends, ¥32.00 per share | | | | (10,781) | | | | | | (10,781) | | (10,781) |
| Restricted stock awards | | | (0) | (9) | 192 | | | | | 182 | | 182 |
| Repurchase of treasury stock | (10,523,907) | | | | (12,998) | | | | | (12,998) | | (12,998) |
| Disposal of treasury stock | | | | | 0 | | | | | 0 | | 0 |
| Retirement of treasury stock | 154,211 | | | (22,465) | 22,465 | | | | | | | |
| Change in the parent's ownership interest due to transactions with noncontrolling interests | | | 50 | | | | | | | 50 | (41) | 8 |
| Net change in the year | | | | | | (4,385) | (44) | 163 | 1,233 | (3,033) | 1,021 | (2,012) |
| BALANCE, MARCH 31, 2019 | 328,333,508 | 36,275 | 31,692 | 294,149 | (4,344) | 29,024 | 13 | 4,968 | 1,817 | 393,597 | 29,645 | 423,243 |
| Net income attributable to owners of the parent | | | | 4,978 | | | | | | 4,978 | | 4,978 |
| Cash dividends, ¥32.00 per share | | | | (10,414) | | | | | | (10,414) | | (10,414) |
| Restricted stock awards | 160,049 | | | (24) | 181 | | | | | 157 | | 157 |
| Repurchase of treasury stock | (17,711,935) | | | | (17,814) | | | | | (17,814) | | (17,814) |
| Disposal of treasury stock | | | | (0) | 0 | | | | | 0 | | 0 |
| Retirement of treasury stock | 94 | | | (16,927) | 16,927 | | | | | | | |
| Net change in the year | | | | | | (2,442) | (83) | (5,625) | 192 | (7,959) | 392 | (7,566) |
| BALANCE, MARCH 31, 2020 | 310,781,761 | ¥ 36,275 | ¥ 31,692 | ¥ 271,762 | ¥ (5,050) | ¥ 26,582 | ¥ (69) | ¥ (656) | ¥ 2,009 | ¥ 362,545 | ¥ 30,038 | ¥ 392,583 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | | |
|---|------------------------------------|-----------------|-------------------|----------------|---|--|--|----------------------------------|--------------|--------------------------|--------------|--|
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income | | | | | Noncontrolling Interests | Total Equity | |
| | | | | | 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 | | | |
| BALANCE, MARCH 31, 2019 | \$ 332,798 | \$ 290,752 | \$ 2,698,614 | \$ (39,853) | \$ 266,275 | \$ 119 | \$ 45,577 | \$ 16,669 | \$ 3,610,981 | \$ 271,972 | \$ 3,882,963 | |
| Net income attributable to owners of the parent | | | 45,669 | | | | | | 45,669 | | 45,669 | |
| Cash dividends, \$0.29 per share | | | (95,541) | | | | | | (95,541) | | (95,541) | |
| Restricted stock awards | | | (220) | 1,660 | | | | | 1,440 | | 1,440 | |
| Repurchase of treasury stock | | | | (163,431) | | | | | (163,431) | | (163,431) | |
| Disposal of treasury stock | | | (0) | 0 | | | | | 0 | | 0 | |
| Retirement of treasury stock | | | (155,293) | 155,293 | | | | | | | | |
| Net change in the year | | | | | (22,403) | (761) | (51,605) | 1,761 | (73,018) | 3,596 | (69,412) | |
| BALANCE, MARCH 31, 2020 | \$ 332,798 | \$ 290,752 | \$ 2,493,229 | \$ (46,330) | \$ 243,871 | \$ (633) | \$ (6,018) | \$ 18,431 | \$ 3,326,100 | \$ 275,577 | \$ 3,601,678 | |

Please see the notes to consolidated financial statements in Financial Section.

https://www.daicel.com/en/sustainability/pdf/library/2020_01.pdf

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2019 and 2020

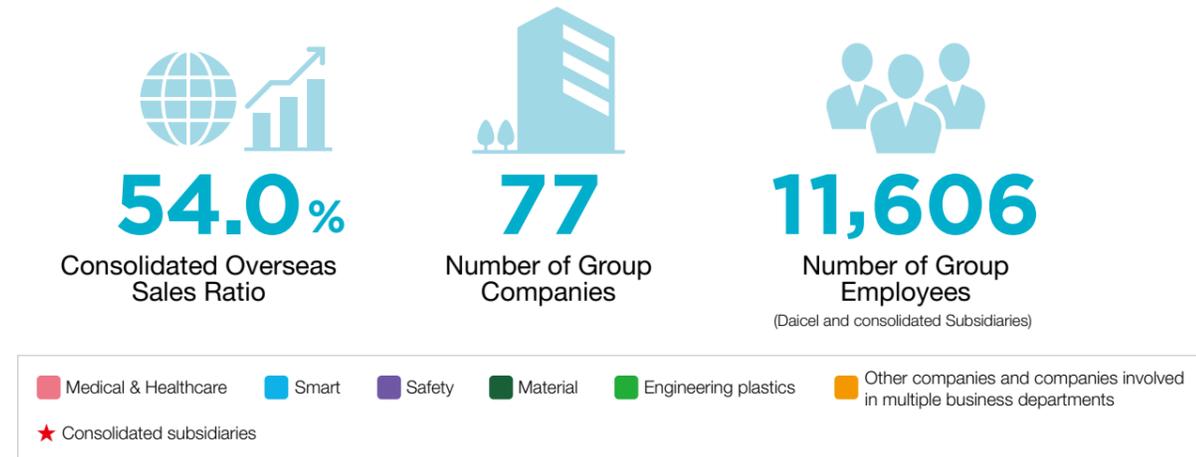
| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------|------------------------------------|
| | 2019/3 | 2020/3 | 2020/3 |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥ 53,734 | ¥ 16,656 | \$ 152,807 |
| Adjustments for: | | | |
| Income taxes - paid | (14,623) | (9,820) | (90,091) |
| Depreciation and amortization | 30,442 | 29,396 | 269,688 |
| Impairment loss on fixed assets | 1,783 | 14,757 | 135,385 |
| Amortization of goodwill | 608 | 723 | 6,633 |
| Loss on dispositions of property, plant and equipment | 1,715 | 3,098 | 28,422 |
| Provision for environmental measures | 1,265 | (2,992) | (27,499) |
| Gain on sales of investment securities | (5,767) | (2,616) | (24,000) |
| Gain on sales of investments in capital of subsidiaries and associates | (290) | | |
| Equity in earnings of unconsolidated subsidiaries and associated companies | (1,762) | (1,772) | (16,256) |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivable | 4,140 | 8,699 | 79,807 |
| Decrease (increase) in inventories | (16,149) | 5,709 | 52,376 |
| Increase (decrease) in notes and accounts payable | (3,049) | (7,885) | (72,339) |
| Other - net | 6,476 | 3,239 | 29,715 |
| Net cash provided by operating activities | 58,523 | 57,193 | 524,706 |
| INVESTING ACTIVITIES: | | | |
| Net decrease (increase) in time deposits | (157) | 139 | 1,275 |
| Net decrease (increase) in short-term investment securities | 900 | | |
| Capital expenditures | (43,580) | (46,313) | (424,889) |
| Payment for purchases of investment securities | (167) | (266) | (2,440) |
| Proceeds from sales and redemption of investment securities | 8,076 | 4,653 | 42,688 |
| Proceeds from sales of property, plant and equipment | 22 | 148 | 1,357 |
| Payment for share of subsidiaries and associates | | (1,760) | (16,146) |
| Payment for investments in capital of subsidiaries and associates | (4,103) | | |
| Proceeds from sales of investments in capital of subsidiaries and associates | 431 | | |
| Increase in finance receivables | (56) | (234) | (2,146) |
| Collection of finance receivables | 127 | 217 | 1,990 |
| Other - net | (2,587) | (2,448) | (22,458) |
| Net cash used in investing activities | (41,095) | (45,864) | (420,770) |
| FINANCING ACTIVITIES: | | | |
| Net change in short-term bank loans | (121) | (2,581) | (23,678) |
| Proceeds from issuance of long-term debt | 17,755 | 7,231 | 66,339 |
| Repayments of long-term debt | (13,809) | (18,537) | (170,064) |
| Proceeds from issuance of bond | | | |
| Dividends paid | (10,783) | (10,410) | (95,504) |
| Dividends paid to noncontrolling interests | (5,679) | (4,878) | (44,752) |
| Payment for purchases of treasury stock | (12,998) | (17,814) | (163,431) |
| Repayments of lease liabilities | | (892) | (8,183) |
| Payment for acquisition of interests in a subsidiary from noncontrolling interests | (0) | | |
| Net cash used in financing activities | (25,636) | (47,883) | (439,293) |
| EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (64) | (2,787) | (25,568) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (8,273) | (39,342) | (360,935) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 128,290 | 120,016 | 1,101,064 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥ 120,016 | ¥ 80,674 | \$ 740,128 |

Please see the notes to consolidated financial statements in Financial Section.

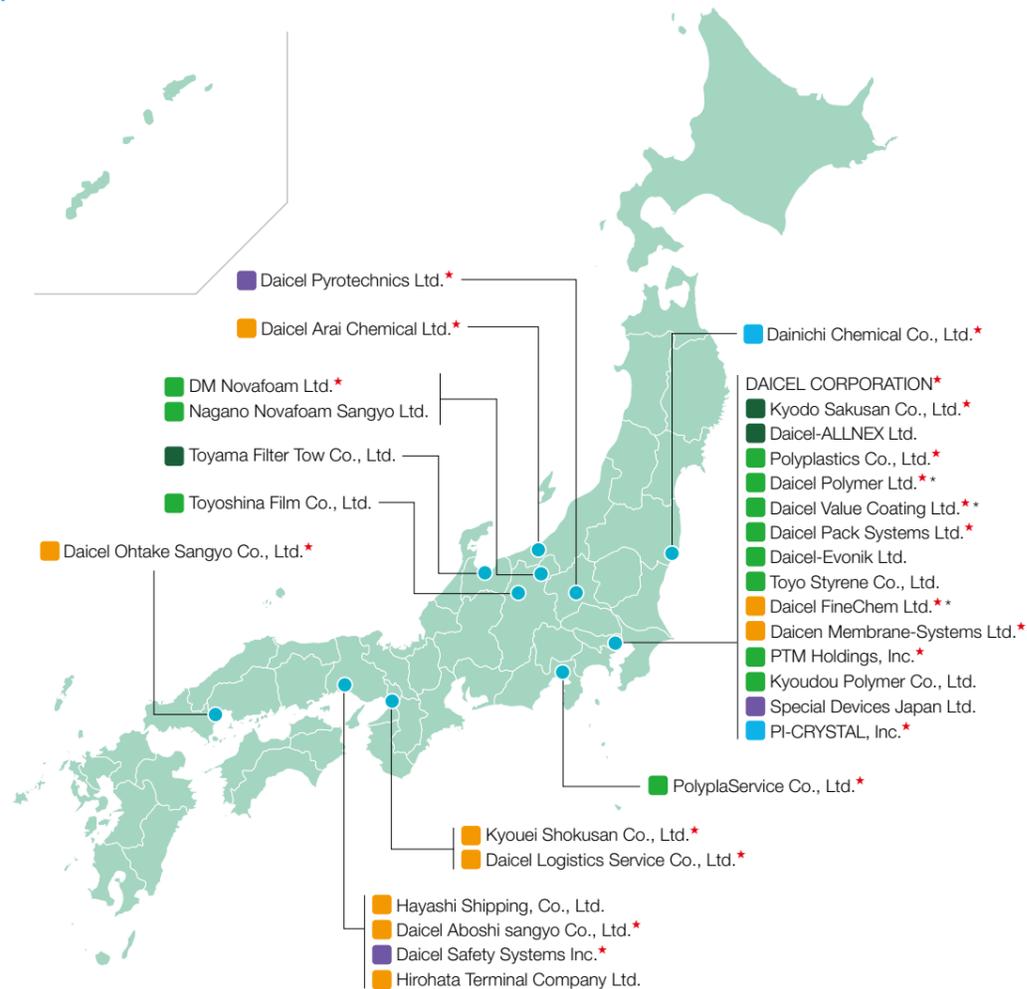
https://www.daicel.com/en/sustainability/pdf/library/2020_01.pdf

Corporate Information

Global Network (as of March 31, 2020)



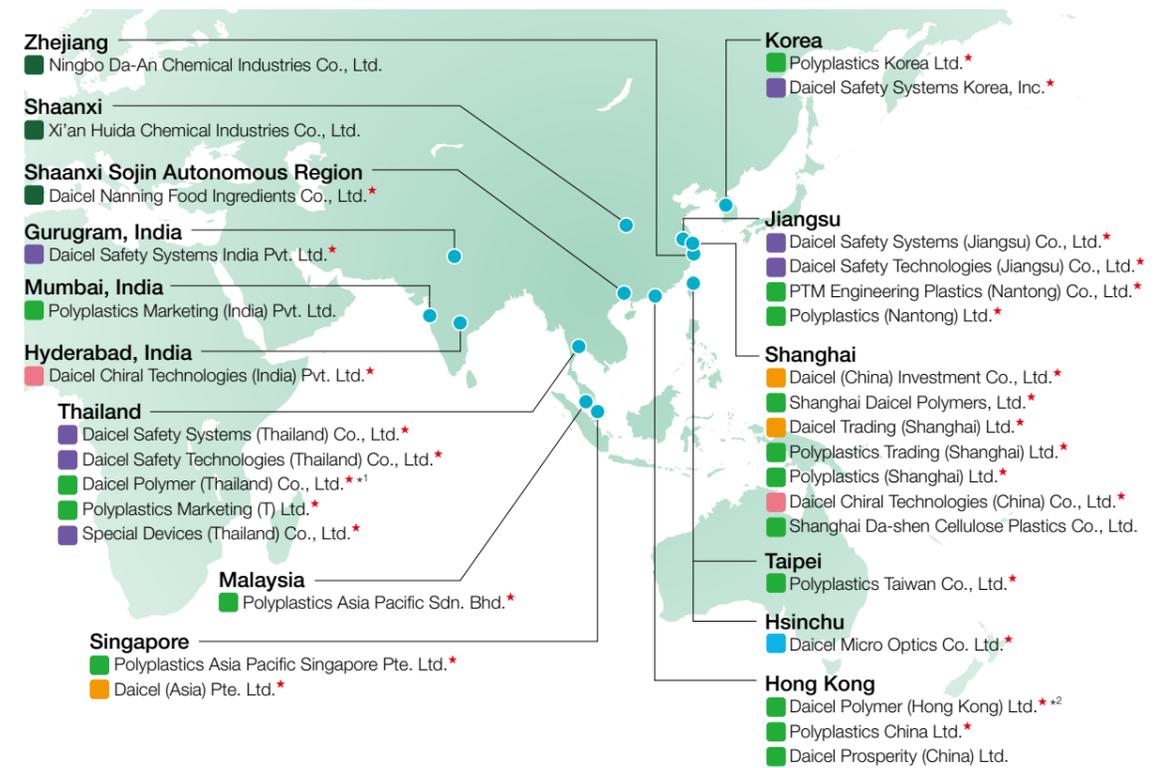
Japan



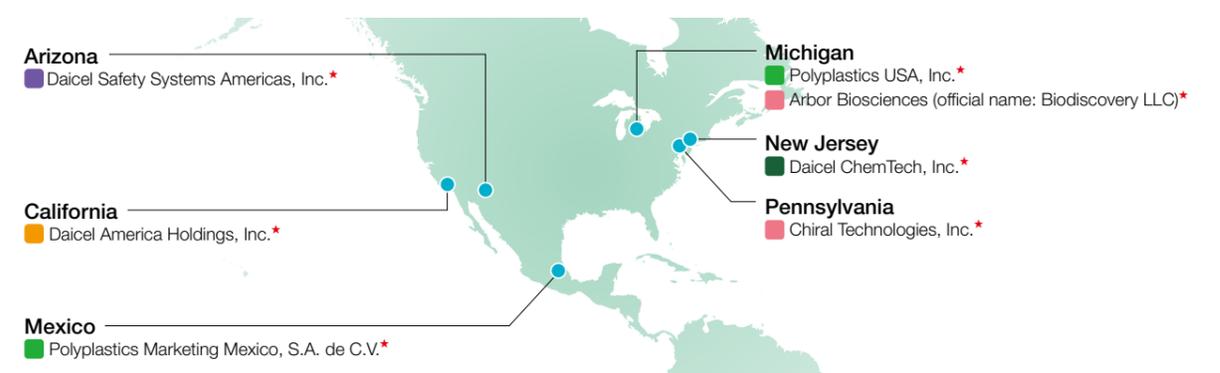
*As of July 1, 2020, Sales departments of Daicel FineChem Ltd., Daicel Polymer Ltd., and Daicel Value Coating Ltd. were integrated into a new company named Daicel Miraizu Ltd., which succeeded Daicel FineChem Ltd. Also, on the same day, the production departments of Daicel Polymer Ltd. were transferred to Daicel's Multiple Production Company, and Daicel Polymer Ltd. was dissolved.

Overseas

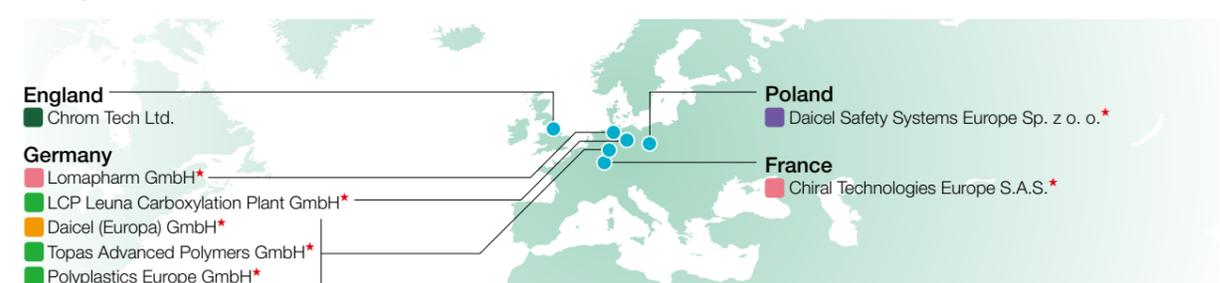
Asia



North America and Latin America



Europe



¹ As of July 1, 2020, Daicel Polymer (Hong Kong) Ltd. changed its name to Daicel Miraizu (Hong Kong) Ltd.
² As of July 1, 2020, Daicel Polymer (Thailand) Co., Ltd. changed its name to Daicel Miraizu (Thailand) Co., Ltd.

Company Data

(as of March 31, 2020)

Corporate Overview

Corporate Name: Daicel Corporation
Establishment: September 8, 1919
Capital: ¥36,275,440,089
Number of employees: 11,606 (Consolidated);
 2,492 (Non-consolidated)

Status of Stock

Common stock authorized: 1,450,000,000 shares
Issued: 315,942,682 shares
Listing: Tokyo Stock Exchange (First Section)
Shareholder registry administrator:
 Sumitomo Mitsui Trust Bank, Limited 1-4-1,
 Marunouchi, Chiyoda-ku, Tokyo, Japan
Number of shareholders: 17,391
Accounting auditor: Deloitte Touche Tohmatsu LLC

Principal Domestic Locations

Office

■ **Osaka Head Office**
 Grand Front Osaka Tower-B, 3-1, Ofuka-cho, Kita-ku, Osaka 530-0011
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
Tel: +81-3-6711-8111 **Fax:** +81-3-6711-8100

■ **Tokyo Head Office Satellite**
 Shinagawa HEART, 1-8-23, Konan, Minato-ku, Tokyo 108-0075
Tel: +81-3-6711-8333 **Fax:** +81-3-6711-8300

■ **Nagoya Sales Office**
 JP Tower Nagoya, 1-1-1, Meieki, Nakamura-ku, Nagoya, Aichi 450-6325
Tel: +81-52-582-8511 **Fax:** +81-52-582-7943

Innovation Park



1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1283
 Innovation Park, where we have brought together our core technologies in one location, has accelerated the creation of new businesses through Open Innovation for every process from designing and developing new materials to establishing mass-production technologies.

Training Center

■ **H.R. Training Center**
 14-1, Kouto 3-chome, Kamigori-cho, Akou-gun, Hyogo 678-1205

Plant

■ **Himeji Production Sector/Aboshi Plant**
 1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1281

■ **Himeji Production Sector/Hirohata Plant**
 12, Fuji-cho, Hirohata-ku, Himeji-shi, Hyogo 671-1123

■ **Harima Plant**
 805, Umaba, Ibogawa-cho, Tatsuno-shi, Hyogo 671-1681

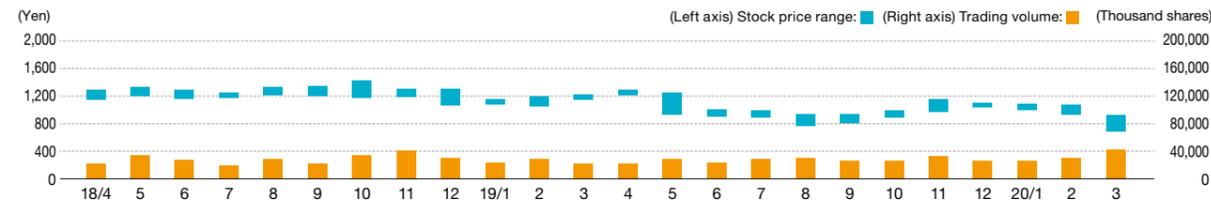
■ **Arai Plant**
 1-1, Shinko-cho, Myoko-shi, Niigata 944-8550

■ **Ohtake Plant**
 1-4, Higashisakae 2-chome, Otake-shi, Hiroshima 739-0695

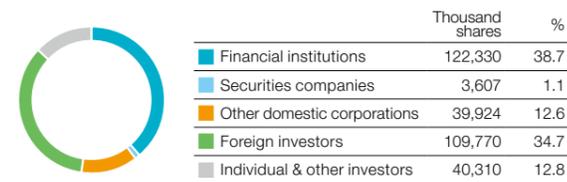
■ **Kanzaki Plant**
 12-1, Kanzaki-cho, Amagasaki-shi, Hyogo 661-0964

Stock Information

Stock Price Range



Shareholder Composition (as of March 31, 2020)



Top 10 Shareholders (as of March 31, 2020)

| Shareholder | Thousand shares | Distribution of shares issued and outstanding (%) |
|--|-----------------|---|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 21,055 | 6.77 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 18,052 | 5.80 |
| Nippon Life Insurance Company | 17,402 | 5.59 |
| Toyota Motor Corporation | 15,000 | 4.82 |
| NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST | 9,874 | 3.17 |
| FUJIFILM Holdings Corporation | 8,390 | 2.69 |
| National Mutual Insurance Federation of Agricultural Cooperatives | 7,779 | 2.50 |
| SSBTC CLIENT OMNIBUS ACCOUNT | 7,553 | 2.43 |
| Sumitomo Mitsui Banking Corporation | 7,096 | 2.28 |
| MUFG Bank, Ltd | 6,503 | 2.09 |

*Each rate of shareholding was calculated after deducting the number of treasury shares from the number of shares outstanding.

Guide to Our Sustainability Website

The Daicel Group reports on initiatives that constitute the foundation of its sustainability under the categories of the environment, society, and governance, in addition to Daicel Report. Daicel Report is compiled as a digest to highlight some of the Group's overall initiatives. Full details of our initiatives are published on the Sustainability section of our corporate website.

Daicel Group Sustainability Website [WEB https://www.daicel.com/en/sustainability/](https://www.daicel.com/en/sustainability/)



Daicel Report provides a digest of content shown over a blue background, whereas our sustainability website provides all the complete details.

| | | | |
|---|--|--|---|
| Sustainability Management > Sustainability Promotion > Our SDG Focus and Initiatives | Environment (E) > Environmental Management > Global Warming Prevention > Reduction and Recycling of Industrial Waste > Chemicals Management > Water Resource Preservation > Environmental Management and Prevention of Air Pollution > Preserving Biodiversity > Environmental Accounting | Social (S) > Responsibility for Customers and Product Safety > Enhancing Product Quality > Chemical and Product Safety > Process Safety and Disaster Prevention > Distribution Safety > Creating Attractive Workplaces > Occupational Health and Safety > Human Resource Management > Initiatives to Help Employees Maintain Mental and Physical Health > Human Resource Development > Diversity Promotion > Work-Life Balance Promotion > Human Rights > Respect for Human Rights > Sustainable Procurement > Supply Chain Management > Contribution to Local Communities and Society | Governance (G) > Corporate Governance > Corporate Ethics (Compliance) > Risk Management List of Data Collection Boundaries > Scope of Reporting for Human Resources and Governance Data > Scope of Reporting for Environmental and Occupational Safety and Health Data List of Declarations and Certifications > Status of Environmental Management System Certification > Quality Management System ESG Data GRI Standards Content Index |
|---|--|--|---|

A sitemap is available for quickly locating desired information on our Sustainability website.

