



**Environment, Safety
and Social Report**

2007

Responsible Care Activities/Social Activities

— Making Progress Toward Sustainable Development —

DAICEL CHEMICAL INDUSTRIES, LTD.

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The Daicel Group promotes Responsible Care.

Responsible Care (RC) refers to a series of voluntary activities undertaken by those engaged in the production and handling of chemical substances. These activities include public disclosure of the results of activities and maintaining dialogue with society; they also entail the voluntary implementation of all environmental, health and safety measures associated with chemical substances, from R&D to final disposal.

Responsible Care was promoted by the International Council of Chemical Associations (ICCA) and endorsed by Agenda 21, adopted at the 1992 Rio Earth Summit (UN Conference on Environment and Development). In essence, Responsible Care has long been recognized internationally as an important commitment to ensuring appropriate control over chemical substances.

The Japan Responsible Care Council (JRCC) was established within the Japan Chemical Industry Association in 1995 in collaboration with the ICCA. The numerous member companies of the JRCC promote the goals of Responsible Care.



Environment, Safety and Social Report 2007

This report is primarily a compilation of the environmental and safety (Responsible Care) activities as well as the social activities of Daicel Chemical Industries, Ltd. for fiscal 2006 (ended March 31, 2007).

Unless otherwise stated, the data contained in this report are the results of calculations related to the workplaces (plants and research center) of Daicel Chemical Industries, Ltd. as outlined on page 4. This includes the workplaces of the Daicel Group companies, which are indicated with a bullet in the Daicel plant data on page 3. Furthermore, in addition to this data, this report contains partial information on Group companies.

This report has been compiled according to the terms of the Environmental Reporting Guidelines (Fiscal 2003 edition) published by the Ministry of the Environment of Japan.

Please contact the Responsible Care, Daicel Chemical Industries, Ltd. as for opinions or inquiries about this report.

Responsible Care

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A Message from the President

In 1999, Daicel Chemical Industries, Ltd. formulated its second long-term plan, identifying 2009 as its target year. This plan is intended as a roadmap by which Daicel will remain an enterprise that contributes to society and maintains an enviable record of continued growth. This long-term plan specifically presents a vision of Daicel as "an appealing company that pursues unending growth as a value-oriented chemical producer offering solutions for both our customers and society through technological innovation." In the belief that this vision will not be realized without creativity, we have identified three areas of strategic innovation: product innovation (as applied to commercial products); process innovation (as applied to production and processes); and management innovation (as applied to management systems).

Implementing this long-term plan required that we break it down into medium-term plans of three to four years. Consequently, our medium-term performance demonstrates our efforts to achieve our long-term targets; notably, we achieved the targets of our medium-term plan for fiscal 2003 (implemented in 2004-06) one year ahead of schedule: consolidated sales of ¥300 billion, consolidated operating income of ¥30 billion, and an ROA (return on assets) exceeding 6 percent. Moreover, in fiscal 2006, we further increased our sales and operating income.

It is Daicel's conviction that an enterprise cannot achieve sustainable growth through economic activity alone; it is also essential that the enterprise be operated in a manner that actively addresses both environmental issues and the need to contribute to society. Therefore, we have adopted the basic philosophy of "continuing to grow and develop together with society as an attractive, people- and environment-friendly chemical company." In addition, the entire company is involved in the Responsible Care initiative and in efforts that serve to increase public trust in our company, including corporate governance and corporate ethics initiatives.

Daicel has been implementing Responsible Care activities since the Japan Responsible Care Council was established in 1995. Of the challenges presented in this initiative, we view the prevention of global warming as especially important. In order to meet this challenge, we are adopting process innovations

such as implementation of a variety of energy conservation measures, substitution of natural gas for heavy oil, and utilization of used tires as a fuel source. Such efforts have enabled us to accelerate our goal of reducing our energy consumption index to 90 by fiscal 2010; notably, we succeeded in achieving this goal in fiscal 2005 and continued this performance in fiscal 2006.

In order to further reduce our energy consumption index, we will promote new measures such as modal shifts to transportation methods having a reduced environmental impact. Currently, we are also pushing forward the commercial application of our proprietary oxidation technology incorporating a catalyst developed through our product innovation efforts. This novel technology is expected to dramatically reduce energy consumption compared with conventional processes.

Our efforts are also focused on corporate ethics. In 2001, we adopted the Daicel Policy for Ethical Conduct, an initiative that emphasizes fair and appropriate management; further, in 2006, we established the Daicel Group Conduct Policy applicable to the entire Daicel Group. These policies aim to enhance public confidence in our company through compliance with societal models and prevailing ethical standards.

Another important management theme we have identified is a renewed commitment to enhancing our enterprise value. Toward this end, we are advancing an initiative intended to enrich the corporate governance of our Group. In our fiscal 2006 board of director's meeting, we voted on the Daicel Group's internal control guidelines with the aim of strengthening internal controls across the entire Group. At the same time, we are strengthening our Group risk management system. These initiatives are the central pillars of the new medium-term plan we adopted in fiscal 2006 and are intended to help establish the foundation of our corporate social responsibility (CSR).

As we go forward, the Daicel Group will remain committed to Responsible Care activities and to initiatives intended to engender public trust, such as corporate governance and corporate ethics. Moreover, we will maintain our dedication to establishing a firm corporate foundation.

This report focuses on our company's Responsible Care activities and on initiatives centered on raising public confidence in our company. I trust this report will clarify the scope of our efforts, and I look forward to receiving your candid comments and opinions.

September 2007



Daisuke Ogawa
President and Chief Executive Officer

Daicel Group Basic Philosophy and Conduct Policy

In July 2006, the companies of the Daicel Group adopted a new basic philosophy and conduct policy common to the entire Group. By implementing these initiatives, the Daicel Group intends to fulfill the elements of its overall corporate social responsibility. At the same time, these initiatives are intended to increase the appeal of the corporate group to stakeholders across all sectors encompassing industry, society, and the environment.

At the Daicel Group, we manufacture products incorporating the significant value that we create. Specifically, we manufacture these useful products with due consideration for safety and the environment; equally important, we provide them to customers in a safe and appropriate

manner. As well, we believe that demonstrating a commitment to high-quality service that is responsive to customer needs is an essential aspect of manufacturing.

The Daicel Group Conduct Policy comprises nine guidelines on proper behavior intended to support the implementation of our Basic Philosophy. All employees involved in the activities of the Daicel Group are required to gain a thorough understanding of our Conduct Policy and to apply appropriate judgment when performing their jobs. We are confident this initiative will gain the trust of our stakeholders and contribute broadly to the development of society.

Basic Philosophy

Ceaseless approach to creation

We maintain respect for and are committed to the creation of significant new value. We believe that we can contribute widely to society and receive the complete trust of our customers through this practice.

Objectives of our approach to creation

- Create value and trust in the market through technology and people abounding in individuality.
- Help each member of the staff feel a sense of achievement and that they are making their presence felt, and help them to hone their skills and refine their characters.
- Continue to grow and develop together with society as an attractive, people- and environment-friendly chemical company.

When we say “creation,” we mean “business activity in total, regarding the innovation and creation of significant values.”

[Established in July 2006]

Conduct Policy

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 of the Daicel Group and shall maintain a healthy and comfortable work environment that is free from discrimination and harassment.

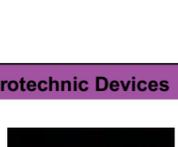
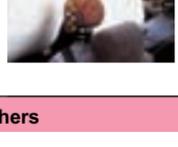
[Established in July 2006]

Businesses, Products and Affiliates

Daicel Group

The Daicel Group companies include Daicel Chemical Industries, Ltd., its 69 subsidiaries and 14 affiliated companies. The company's primary business is the manufacture and sales of cellulosic derivatives, organic chemicals, plastics and films, pyrotechnic devices and other products. The business segments of Daicel Chemical Industries, Ltd., its subsidiaries and affiliated companies are shown below.

List of Products by Segment and Relevant Affiliates

Segments	Principal Products	Major Affiliates
Cellulosic Derivatives 	Cellulose acetate, acetate tow for cigarette filters, carboxymethyl cellulose, and other products	Domestic Daicel Chemical Industries, Ltd. Daicel FineChem Ltd. Overseas Xi'an Huida Chemical Industries Co., Ltd.
Organic Chemicals 	Acetic acid and its derivatives, caprolactone derivatives, epoxy compounds, optical isomer separation columns, and other products	Domestic Daicel Chemical Industries, Ltd. ● Kyodo Sakusan Co., Ltd. Dainichi Chemical Corp. Overseas Chiral Technologies, Inc. Chiral Technologies Europe S.A.S.
Plastics and Films 	Polyacetal resin, PBT resin, SAN/ABS resins, engineering plastic alloy resins, various synthetic resins for molding products, and other products	Domestic Polyplastics Co., Ltd. Dainippon Plastics Co., Ltd. ● Daicel Polymer Ltd. ● Daicel Pack Systems, Ltd. ● Daicel Value Coating Ltd. ● Daicel-Degussa Ltd. Mikuni Plastics Co., Ltd. Daicel Novafoam Ltd. Overseas Shanghai Daicel Polymers, Ltd. Daicel Chemical (Asia) Pte. Ltd.
Pyrotechnic Devices 	Automotive air bag inflators, emergency-escape systems for aircraft crew, propellants, and other products	Domestic Daicel Chemical Industries, Ltd. ● Daicel Safety Systems Inc. Japan Shotshell Ltd. Overseas Daicel Safety Systems America, LLC Daicel Safety Systems (Thailand) Co., Ltd. Daicel Safety Systems Europe Sp.z o.o.
Others 	Membrane separation modules for water treatment, transportation & storage services, and other products	Domestic Daicel Chemical Industries, Ltd. ● Daicel Membrane-Systems Ltd. ● Daicel Sakai Jitsugyo Co., Ltd. ● Daicel Aboshi Sangyo Co., Ltd. ● Daicel Ohtake Sangyo Co., Ltd. ● Daicel Arai Chemical, Ltd. ● Y.S. Logistics Service Co., Ltd. Overseas Daicel Chemical (China) Investment Co., Ltd.

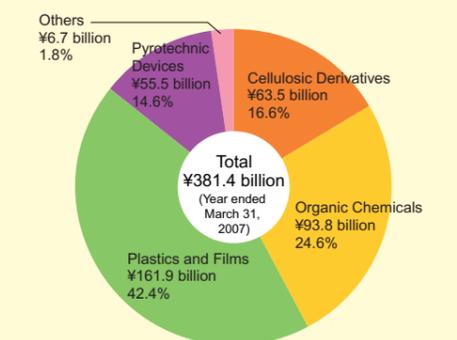
As of March 31, 2007

* The data contained in this report includes data on all Daicel Group companies marked with a bullet above. Note: As of April 1, 2007, Y.S. Logistics Service Co., Ltd. was renamed Daicel Logistics Service Co., Ltd.

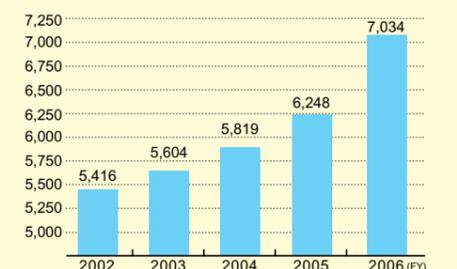
Consolidated Sales and Recurring Profit



Consolidated Sales and Share of Total Sales by Business Segment



Five-year Trend in Number of Employees



Businesses, Products and Affiliates

Daicel Chemical Industries, Ltd.

Daicel Chemical Industries, Ltd. (Daicel) has gained 88 years of experience as a chemical company since its formation through the merger of eight celluloid producers in 1919. Our products cover a wide range and include: cellulose acetate, which uses pulp and other natural fibers for raw material; cigarette filter tow; many varieties of cellulose products, including water-soluble polymers; numerous products comprised of organic compounds, principally acetic acid and acetic acid derivatives; organic fine chemical products such as pharmaceutical intermediates; products related to aerospace and defense systems, such as propellants and emergency escape systems for aircraft crew; and inflators for automobile air bag systems.

Corporate Data

Head Office: Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku, Osaka 530-0001, Japan

Incorporated: September 8, 1919

Capital: ¥36,275 million (as of March 31, 2007)

Locations:

Offices

Osaka Head Office: Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku, Osaka 530-0001, Japan

Tokyo Head Office:

JR Shinagawa East Bldg., 18-1, Konan 2-chome, Minato-ku, Tokyo 108-8230, Japan

Himeji Technology Head Office:

1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1281, Japan

Nagoya Sales Office:

Horiuchi Bldg., 25-9, Meieki 3-chome, Nakamura-ku, Nagoya-shi, Aichi 450-0002, Japan

Fukuoka Office:

Fukuoka Central Bldg., 15-33, Daimyo 1-chome, Chuo-ku, Fukuoka-shi, Fukuoka 810-0041, Japan

Plants

Osaka Production Sector/Sakai Plant:

1, Teppo-cho, Sakai-ku, Sakai-shi, Osaka 590-0905, Japan

Osaka Production Sector/Kanzaki Plant:

12-1, Kanzaki-cho, Amagasaki-shi, Hyogo 661-0964, Japan

Himeji Production Sector/Aboshi Plant:

1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1281, Japan

Himeji Production Sector/Hirohata Plant:

12, Fuji-cho, Hirohata-ku, Himeji-shi, Hyogo 671-1123, Japan

Harima Plant: 805, Umaba, Ibogawa-cho, Tatsuno-shi, Hyogo 671-1681, Japan

Arai Plant: 1-1, Shinko-cho, Myoko-shi, Niigata 944-8550, Japan

Ohtake Plant: 1-4, Higashisakae 2-chome, Otake-shi, Hiroshima 739-0695, Japan

Research Center

Himeji Research Center: 1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1283, Japan

Training Center

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

Main Domestic Locations

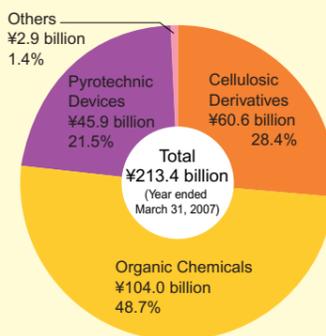
● Offices ● Plants ● Research Center ● Training Center



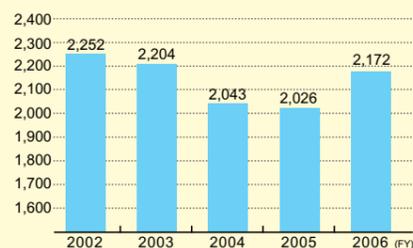
Sales and Recurring Profit



Sales and Share of Total Sales by Business Segment



Five-year Trend in Number of Employees



* For more information about Daicel's business activities, visit our website at www.daicel.co.jp/indexe.html.

* On August 15, 2007, the Osaka Head Office was relocated to Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku, Osaka City. At the same time, the Osaka Sales Office was eliminated and its functions were integrated within the new head office.

Introduction to the Companies of the Daicel Group

Daicel Logistics Service Co., Ltd.

Y.S. Logistics Service Co., Ltd. was renamed Daicel Logistics Service Co., Ltd. on April 1, 2007. This company's mission is to enhance Daicel's competitiveness by increasing the efficiency of corporate logistics.



Photo showing the application of a standard: When cargo is loaded, a wheel chock is applied to the front wheel on the driver's side. It is secured with a rope to the door handle or side-view mirror.

Corporate Data

Date Established: February 10, 1947

Locations:

Head Office: Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku,

Osaka 530-0001, Japan

Tel: +81-6-6342-6721

Tokyo Office: JR Shinagawa East Bldg. 14F, 18-1,

Konan 2-chome, Minato-ku, Tokyo 108-8230, Japan

Tel: +81-3-6711-8441

Sales Offices: Arai Sales Office, Kanto Logistics Center

(Kitakanto Sales Office, Chiba Sales Office, Atsugi Sales Office, Fuji Sales

Office), Kansai Logistics Center (Chubu Branch, Yokkaichi Sales Office,

Sakai Sales Office), Ohtake Logistics Center, Himeji Logistics

Center and Harima Logistics Center

Scope of Business: The principal operations of this company are ordinary freight handling, hazardous materials storage, material handling, transportation, marshalling yard work, and import/export

Number of Employees: 241, including part-time workers and workers on loan from other companies (as of March 31, 2007)

ISO 9001 Registration: Acquired October 2003 throughout the company

2006 Net Sales: ¥13.276 billion

Environmental Initiatives

In order to meet its social responsibility as a logistics company, Daicel Logistics Service adopted the following four environmental policies in January 2006. Building on this foundation, the company formulated its environmental plan and implemented full-scale environmental initiatives.

Environmental Policies

1. We shall conserve energy and reduce the environmental impact arising from transportation and storage.
2. We shall comply with all relevant environmental laws.
3. We shall train all personnel regarding our environmental policies and our planned environmental initiatives.
4. We shall respond to environmental demands and requests submitted by our customers.

Response to Revisions to the Law Concerning the Rational Use of Energy

According to the revised Law Concerning the Rational Use of Energy enacted in April 2007, Daicel Chemical Industries, Ltd., Polyplastics Co., Ltd., and Toyo Styrene Co., Ltd. fall under the category of "specified shippers." The company, in cooperation with shippers, has taken steps to comply with the law.

Example of a Modal Shift

With the construction of the large facility in the Ohtake Plant of Daicel Chemical Industries, Ltd., the company has formulated a logistics plan targeting energy conservation and cost reduction by shifting from land transportation to marine transportation for products and raw materials, as shown in the accompanying illustration. Compared to the conventional method, this approach reduces energy consumption by 12 percent, resulting in an annual reduction of 3,200 tons of carbon dioxide emissions. The company expects to start shipping entirely by boat in October 2007.

Safety and Quality Assurance Initiatives

In an effort to improve safety and quality levels, Daicel Logistics Service introduced safety initiatives and obtained certification of registration with ISO 9001, an international standard for quality assurance. Specifically, it instituted systems for managing and reducing logistics accidents, labor accidents, traffic accidents, accidents on the premises, customer complaints, and damage to cargo.

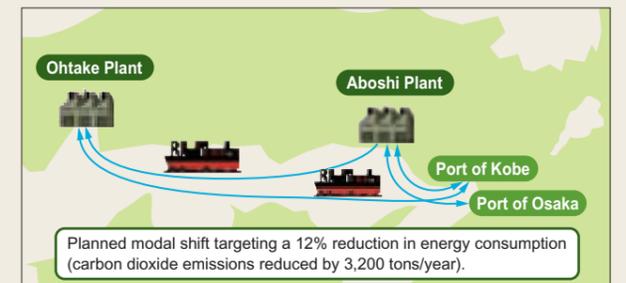
In fiscal 2006, the company promoted the following activities under these systems.

- Provided delivery cards and maps of its premises to operators of tankers and chartered trucks in order to minimize accidents on the premises and customer complaints.
- Issued loading procedure guidelines to operators of chartered trucks and delivery vehicles.
- Documented and implemented corrective measures for all logistics problems and damage to cargo.
- Implemented three years of internal and external training for all drivers employed by Daicel Logistics Service.

As a result of such activities, the company increased its safety and quality performance score for fiscal 2006 relative to fiscal 2002 (the benchmark year of the company's medium-term plan).

Fiscal 2006 Performance Score Regarding Safety and Quality

- Traffic accidents were reduced from 15 in fiscal 2002 to zero in fiscal 2006.
- Labor accidents not accompanied by lost work days were eliminated to one in fiscal 2006 (equal to fiscal 2002 performance).
- Customer complaints were reduced to 1/3 of the fiscal 2002 total.
- The cargo damage rate improved from 2.5 per 1,000 in fiscal 2002 to 2.0 per 1,000 in fiscal 2006.



Development of Safe and Eco-friendly Technology

A commitment to technological development and promotion of eco-friendly chemical processes

The Daicel Group has actively developed technologies and products that consider both safety and the environment. These include the development of an energy-efficient water treatment technology utilizing a separation membrane system; an organic-solvent-free water-based paint; a technology that reduces the energy consumption of existing processes; and an aerobic oxidation technology utilizing N-hydroxyphthalimide (NHPI) catalyst, among others.



A pilot plant incorporating adipic acid manufacturing technology using NHPI catalyst. This plant is now under construction on the premises of the Himeji Research Center.

This aerobic oxidation technology was invented by Professor Yasutaka Ishii of Kansai University in 1994. Since 1999, Daicel has conducted full-scale practical research on this technology. This method is notable for oxidizing various hydrocarbons under moderate temperature and pressure and yields a large amount of oxidative product compared with conventional methods. This technology is attracting public attention for its potential at reducing environmental impacts.

Daicel is promoting the use of N-hydroxyphthalimide (NHPI) catalyst, an aerobic oxidation technology, in the industrialization of chemicals such as adipic acid, various aromatic carboxylic acids, and raw materials for photoresists.

As a result of such innovations, Daicel has been awarded the 3rd Green and Sustainable Chemistry Award awarded by the Minister of Education, Culture, Sports, Science and Technology; and the 53rd CSJ Technical Development Award; among others.

Adipic acid is a raw material for a variety of resins, including nylon 6.6, a well-known synthetic fiber. The conventional method of manufacturing adipic acid releases nitrous oxide (N₂O), which has 310 times the global warming effect of carbon dioxide. For this reason, makers of adipic acid around the world have been seeking—so far unsuccessfully—an eco-friendly nitric-acid-free manufacturing method. For example, a technology in which nitrous oxide is combusted at high temperature is undergoing research and has been put to practical use, but the large

amount of energy required to remove nitrous oxide has reduced its appeal. The aerobic oxidation method utilizing NHPI catalyst is a substitute process that does not release nitrous oxide. Moreover, this method enables synthesis at a lower temperature and pressure than does the existing method while improving yield. Thus, it contributes to energy conservation and is expected to generate a greatly reduced environmental impact compared with the conventional method.

Against the background of these achievements, the Company has received a proposal from the Ministry of Economy, Trade and Industry to establish a research association with the goal of developing green chemical process technologies for bulk products. As a result, Mitsubishi Chemical Corporation, Maruzen Petrochemical Co., Ltd., and Daicel Chemical Industries, Ltd. jointly established the Research Association for Ishii Oxidation Technology in 2005. This association is engaged in the development and dissemination of chemical process technology utilizing the eco-friendly aerobic oxidation method with NHPI catalyst. Daicel is now engaged at this association in the research of adipic acid manufacturing technology utilizing the aerobic oxidation method with NHPI catalyst. In fiscal 2006, the Company began construction of pilot plants with the support of the Research Association, and part of the plant is already in operation. All processing plants are scheduled to be completed during fiscal 2007.

Safe and Eco-friendly Products

▶▶ Automotive Air Bag Inflators

An air bag inflator, a central component of automotive air bag systems, dispenses gas to the protective air bag at the moment of impact in the event of a collision.

Daicel had been actively involved in environmental measures since inflators were first developed.

In order to contribute to improved automobile fuel consumption, we have been developing lightweight inflators. This effort has achieved a 22% weight reduction compared to our 2001 product.



Automotive Air Bag Inflators

The Law Concerning Recycling Measures for End-of-life Vehicles (The End-of-life Vehicle Recycling Law) came into effect in Japan on January 1, 2005. In response, we launched the full-scale operation of our inflator recycling business. This business utilizes the air bag inflator recovery and processing system demonstrated and established by the Japan Automobile Manufacturers Association, Inc., the Japan Auto Recycling Partnership, and other organizations in 1998. As a result, inflators that have been removed and recovered from end-of-life vehicles can be safely recycled.



Air bag inflator recovery and processing facility

▶▶ “Ametarou” MC Green Material for a Subterranean Stormwater Storage System

In recent years, the “heat island effect” has led to more frequent severe rainfalls and increased flood risk in urban areas. Because of this situation, the Specified Urban River Inundation Prevention Act was enforced in May 2004.

When agricultural and forest lands are converted into residential areas or parking lots beside rivers and basins that flow into urban areas, the flood risk can increase considerably. Therefore, when developers plan to build a development exceeding a specific scale, it has become obligatory to install a stormwater storage and infiltration facility to prevent disruption to stormwater infiltration.



Mikuni Plastics Co., Ltd., a member of the Daicel Group, has developed the Ametarou MC Green, a product used in subterranean stormwater storage systems incorporating a stormwater storage function with gradual drainability. This product is made from recycled polyethylene terephthalate (PET) and reduces emissions by about 13.4 kg-CO₂ per unit compared with competitors’ products made with virgin polypropylene (PP). Ametarou is an eco-friendly product that reduces carbon dioxide emissions while also preventing flooding.

In-house Testing

The company confirmed the safety of this product by undertaking tests in which heavily laden trucks travel over the Ametarou product installed underground. This area is currently used as an employee parking lot.



Safe and Eco-friendly Products

▶▶ CELPURGE Cleaning Agent for Molding Machines

The vast majority of diverse plastic products we use in our daily lives are manufactured by heating plastic resins until molten and injecting them into a mold. During product changeovers at worksites using plastic processing machinery such as injection-molding machines and extruders, it is necessary to purge the plastic resin from inside the machinery. This procedure generates a large amount of industrial waste.

CELPURGE, a product of Daicel Polymer Ltd., a member of the Daicel Group, generates less waste during product changeovers and effectively reduces power consumption thanks to the reduced changeover time. As a result, applications for this product are expanding.

To accommodate customer requests, the company has developed a new grade of this product that is easier to handle while enhancing the effectiveness of the cleaning agent.

Example: Industrial waste and power consumption of an injection-molding machine

	Waste (kg)	Power consumption (kW)
Without CELPURGE	82	116
With CELPURGE	14	20

Measured during single product changeover with a 550-ton injection-molding machine



▶▶ CELBLEN Cellulose Fiber Reinforced Plastic

Glass fiber reinforced plastics are used in a large number of familiar products such as automobiles, household appliances, and sundry items. Although plastic can be mixed with nonflammable components such as glass fiber for increased strength, the ash that remains after used plastics are incinerated has become a problem.

In order to solve this problem, Daicel Polymer Ltd. has developed CELBLEN, a reinforced plastic made with high-purity cellulose fiber. This fiber is refined from wood and bamboo sources and is almost completely decomposed when incinerated.* Moreover, it increases the colorability and printability of plastics and is expected to find wide application in injection molding and the production of sheets, foamed products, and extrusions.

*Results of Daicel Polymer's combustion test (100% weight before combustion):
 Combustion residue rate of glass-fiber (30% content) reinforced plastic: 30%
 Combustion residue rate of cellulose fiber (30% content) reinforced plastic: <0.5%



▶▶ CELROOT, an Innovative Resin Ingredient for Plating

Although hexavalent chromium is toxic to humans, it is still in wide use in industry. In the process known as etching, which makes use of metal-plated plastic, hexavalent chromium is indispensable for strengthening the adhesive bond between the plastic substrate and the metal. Daicel Polymer Ltd., in collaboration with Okuno Chemical Industries Co., Ltd., has developed an innovative new product known as CELROOT resin (trademark pending) for use with plating. This innovative product has made it possible to perform resin plating without the use of any hexavalent chromium, even though it is not significantly different from the conventional process. This product has garnered a tremendous response from those customers who are highly focused on environmental concerns.



A molded item with decorative plating made of revolutionary CELROOT material
 Applying this excellent plating to the exterior adds outstanding heat resistance (200°C). Plated resin decorated components are used in a wide range of useful applications such as sports equipment; as parts for plumbing, bathrooms and kitchens; and as automobile parts such as emblems and radiator grilles and the like.

▶▶ PEARLCOMB Membrane Diffuser

Daicel Membrane-Systems Ltd. has developed and marketed PEARLCOMB Membrane Diffuser, an air diffuser for wastewater treatment. PEARLCOMB Membrane Diffuser generates ultra-fine bubbles and, compared with conventional diffusers, exhibits a higher oxygen transfer efficiency and consumes 30% less energy. This product has been recognized with a Certificate of Construction Technology.*

*The Construction Technology Review and Certification was instituted with the intention of ensuring the prompt introduction and promotion of innovative technologies resulting from the independent research and development initiatives of private enterprises. Technologies under this theme are submitted via applications and are examined for their suitability. Afterward, the technologies are tested and the results are discussed by a committee for the technology sector, an examination proof committee, and experts from government, academia, and research laboratories. Certificates are issued for technologies that receive approval. When a new technology is issued a certificate, the technology is widely publicized and information about the introduction of the technology is presented on the website of the Japan Bridge Engineering Center and elsewhere.

Model PMD-P300 (panel type)

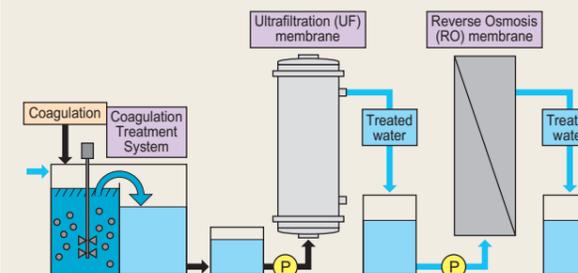


Model PMD-P300R (panel type)



▶▶ Industrial Wastewater Treatment System Incorporating Coagulation Membrane

Daicel Membrane-Systems Ltd., a Daicel Group company, is marketing a revolutionary industrial wastewater treatment system combining coagulation sedimentation, an Ultrafiltration (UF) membrane, and a Reverse Osmosis (RO) membrane. The UF membrane employed in this system quickly coagulates sediments, oil, and impurities in wastewater and removes suspended solids. The RO membrane also removes various environmentally hazardous dissolved solids. The COD removal ratio exceeds 95 percent, and the system is capable of supplying high-purity treated water without the use of activated sludge treatment or activated carbon treatment.



Daicel's Basic Policies for Responsible Care

We will strive to implement Responsible Care throughout our company in order to contribute to a viable sustainable society.

In 1995, Daicel established its basic policies for Responsible Care. Daicel is deeply aware of its responsibility as a corporate citizen to protect the environment and ensure the health and safety of all those involved with the Company in whatever capacity and whatever stage of its operations—from the design of products to their manufacture and disposal. Daicel's basic policies reflect the guiding

principles for improvement of environmental, health and safety condition of the Japan Chemical Industry Association and is in accordance with the Responsible Care Code prescribed as part of the implementation of Responsible Care. Because Daicel is strongly conscious of the need to contribute to an affluent but sustainable society, all Daicel employees uphold Responsible Care practices.

Basic Policies for Responsible Care

In all aspects of our business operations, Daicel is making the utmost efforts to ensure Environmental Preservation, Process Safety and Disaster Prevention, Occupational Health and Safety, Chemical and Product Safety, Distribution Safety, and Dialogue with Society in accordance with the Responsible Care Standards of the Japan Chemical Industry Association (JCIA). Daicel is making steady and continuous progress in all these areas.

- 1 While strictly abiding by laws and regulations currently in effect, in its business operations, Daicel will strive to uphold the principles of environmental preservation and attention to safety. All employees will be made aware of policy measures and their assistance will be secured during implementation to ensure sustained effort.
- 2 Daicel will conduct a thorough assessment of its new products' impact on health, safety, and the environment at every stage—development, manufacture, distribution, use, and disposal—prior to bringing them to market and installing facilities for their production. Daicel will also strive to produce and offer products that are considerate of people's health, safety, and the environment.
- 3 Daicel will collect and maintain a database of information regarding environmental and safety issues that relate to its products and the substances it handles. To ensure their safe handling and use, the Company will provide all necessary information to users and distributors.
- 4 Daicel will promote raw material-saving and energy-saving initiatives as well as the recycling of waste products and restraints on their production to protect the environment and economize on the use of limited raw materials.
- 5 Daicel will seek to constantly raise safety standards to achieve a no-accident, no-disaster record at the manufacturing stage. The Company will ensure that appropriate emergency response procedures are in place, training is undertaken, and, in the event of an accident, appropriate countermeasures are taken at once.
- 6 Daicel will research, develop, and introduce technologies and products that are healthier, safer, and more environment-friendly than ever.
- 7 Daicel pledges to strictly abide by regulations in force in the relevant jurisdictions and give due attention to the environmental and safety concerns of the other parties involved when engaging in international transactions involving chemical products, conducting international business, and transferring technologies abroad.
- 8 Daicel will actively lead and support the environment- and safety-related activities of the Daicel Group companies with the aim of securing a better and safer environment for all.
- 9 Daicel will participate in and cooperate with environmental preservation activities undertaken by the communities in which it operates and seek to gain the trust and understanding of society as a whole by establishing a dialogue with it on safety and environmental matters.

[Established in 1995 when Daicel joined the Japan Responsible Care Council]

Responsible Care Management System

Promoting Responsible Care in six areas through a management system that oversees all operations.

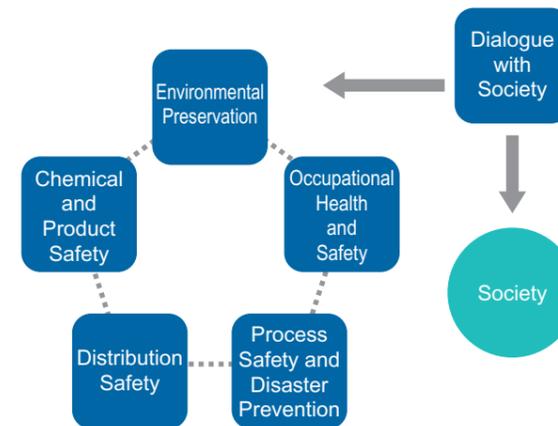
In keeping with our basic policies regarding Responsible Care (RC), Daicel has been promoting Responsible Care in the following six areas: Environmental Preservation; Chemical and Product Safety; Occupational Health and Safety; Process Safety and Disaster Prevention; Distribution Safety; and Dialogue with Society. In order to promote Responsible Care effectively, we have implemented a Total Environment, Health and Safety Assessment System and the ISO 14001 International Standards for Environmental Management Systems.

The RC Council, which is chaired by the director in charge of Responsible Care, deliberates on and determines company-wide Responsible Care policies and plans. Each plant and research center establishes its own workplace RC Council, which develops

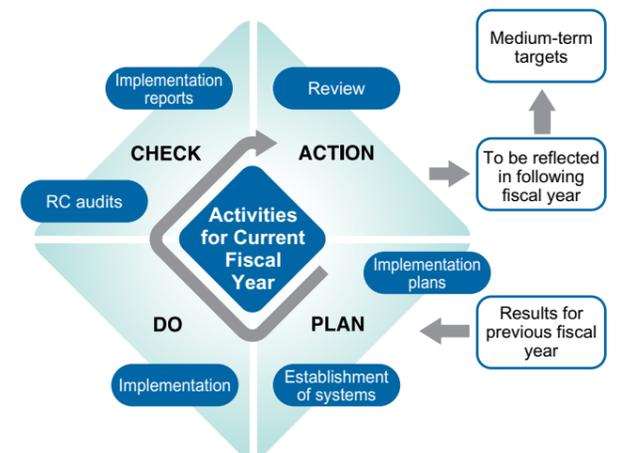
and implements its own promotion programs in conformance with the company-wide Responsible Care promotion program. Each company and corporation within Daicel cooperates with and supports these activities. Working groups have been established as advisory organs to the RC Council to develop plans for specific Responsible Care issues.

Having identified its medium-term Responsible Care targets, Daicel is promoting continuous improvement through annual application of the PDCA (Plan-Do-Check-Action) cycle. We publicly disclose the results of this annual activity in this annual Environment, Safety and Social Report and by other means in order to meet our responsibilities to release relevant information.

Scope of Responsible Care Activities



Implementation Scheme



Organizational Structure for Responsible Care



Total Environmental, Health and Safety Assessment System for New Projects

All new projects undergo prior assessments for environmental, health and safety concerns.

Since 1995, Daicel has undertaken prior assessments based on the unique Total Environmental, Health and Safety (ESH) Assessment System. Such assessments, which are undertaken right from the project planning stage, are intended to ensure all new projects follow Responsible Care policies. Under this system, a prior assessment is initiated at the planning stage for all business operations—including planning, R&D, production, consumption, and disposal—in order to ensure thorough environmental, health and safety planning.

From a risk management perspective, the implementation of the total assessment system is indispensable to ensuring effective company management. New plans are categorized by rank

according to importance, which allows for the implementation of a method of total assessment by rank. Moreover, the implementation of total assessment system has become a precondition for the issuance of an approval.

The total number of assessments to date exceeds 400 for Class I plans (new plans with a profound impact on management).

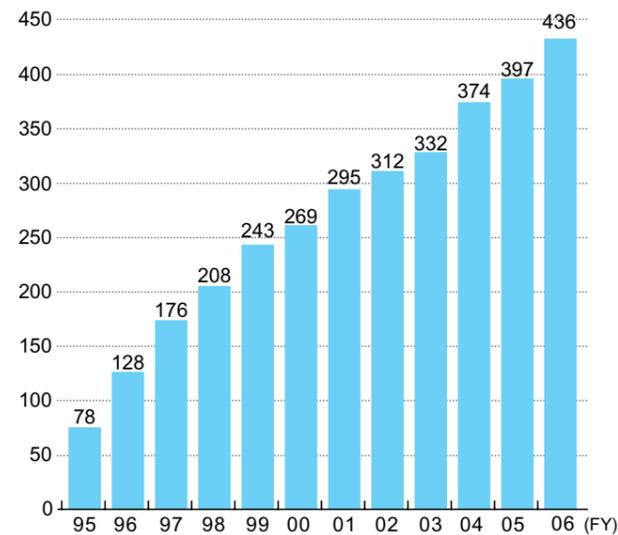
Items Assessed

- Compliance with applicable laws and regulations
- Safety of chemical substances handled
- Coping with environmental impacts
- Occupational health and safety of employee
- Safety of facilities used
- Product safety
- Safety in logistics
- Safety during consignment of manufacture and purchase and sales

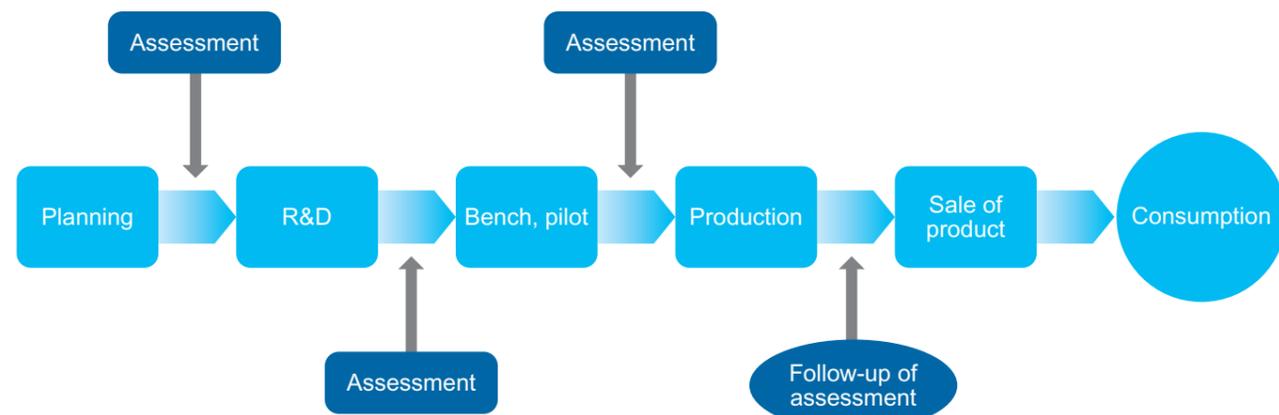
Details of New Projects

- 1) New business program
- 2) New construction, expansion and alteration of facilities
- 3) Alteration program targeting items associated with manufacturing (raw materials, synthesis methods, processes, utilities, site logistics, quality standards, subcontracting, etc.)
- 4) Introduction of new logistics system; alteration of logistics system
- 5) Adoption of new customers and purposes; alteration of customers and purposes
- 6) Land acquisition program
- 7) Land and facility transfer projects
- 8) New or modified program for commissioning of manufacturing, purchases or sales
- 9) New or modified program for waste disposal

Trend in Cumulative Number of Class I Plans



Model Flowchart of Total ESH Assessment



ISO 14001 International Standards for Environmental Management Systems

All Daicel's plants as well as research center have acquired certification of ISO 14001 registration. Our Group companies are currently in the process of acquiring this certification.

We have committed ourselves to a program to ensure that all Daicel's plants as well as research center acquire certification of registration with ISO 14001, the international standards for environmental management systems. This is intended to promote environmental preservation, an important aspect of Responsible Care. Consequently, by the end of fiscal 2001, all Daicel's plants as well as research center had acquired certification of registration. As of April 2006, all Daicel's plants as well as research center had

passed assessments based on the revised 2004 versions of the standards.

Daicel Group companies are committed to acquiring certification of ISO 14001 registration. Four companies (encompassing eight workplaces) have already acquired this certification.

Certification Acquisition Dates and Certificate Numbers (Plants & Research Center)

Plant or Research Center	Year and Month	Certificate No.
Ohtake Plant	August 1999	JQA-EM0492
Sakai Plant	March 2000	JQA-EM0785
Himeji Research Center	June 2000	JQA-EM0894
Aboshi Plant	December 2000	JQA-EM1229
Hirohata Plant	April 2001	JQA-EM1511
Harima Plant	July 2001	JQA-EM1683
Kanzaki Plant	December 2001	JCQA-E-0329
Arai Plant	December 2001	JCQA-E-0339

Certification Acquisition Dates and Certificate Numbers (Group Companies)

Group Companies	Year and Month	Certificate No.
Polyplastics Co., Ltd. (R&D Division)	February 1999	JQA-EM0337
Polyplastics Co., Ltd. (Fuji Plant)	April 1999	JQA-EM0414
Polyplastics Co., Ltd. (Ta Fa Plant, Taiwan)	February 1999	7XEE016-02 BSMI, Ministry of Economic Affairs, Taiwan
Polyplastics Asia Pacific Sdn. Bhd. (Kuantan Plant, Malaysia)	February 2001	197011 Lloyd's Register Quality Assurance
Dainippon Plastics Co., Ltd.	March 2002	JCQA-E-0355
Mikuni Plastics Co., Ltd.	June 2002	JCQA-E-0388
Daicel Novafoam Ltd. (Head Office, Nagano Workplace)	February 2003	C2003-00362 Perry Johnson Registrars Inc.
Daicel Novafoam Ltd. (Okayama Workplace)	June 2004	C2004-01523 Perry Johnson Registrars Inc.

ISO 14001 Certificate



Initiatives under the RC Medium-term Plan for Fiscal 2006

Daicel has developed a medium-term Responsible Care Plan (“the RC Medium-term Plan”) and is now taking steps to implement this plan.

As a result of our fiscal 2003 RC Medium-term Plan scheduled to conclude in fiscal 2006, we have achieved our RC medium-term targets for many items, including “energy conservation and the

prevention of global warming,” and “reduction and recycling industrial waste.”

Building on our previous initiative, we developed our fiscal 2006 RC Medium-term Plan, which is scheduled to conclude in fiscal 2009. As a result, we intend to maintain our commitment to achieving further improvements.

Definition of Term

Unit Rate

This value indicates the efficiency rate of a specified index. Taking the indexing of energy as an example, the total amount of energy consumed—such as electric power and heat (fuel)—to produce a unit volume of products is called the energy consumption rate. The lower the energy consumption rate, the greater is the production efficiency (energy conservation). This can be considered very effective at preventing global warming.

Unit Rate Index

Secular fluctuations are indexed to the unit rate of the baseline year; this is called the unit rate index. Taking the indexing of energy as an example, Energy consumption rate index for a particular year = (Energy consumption rate for a particular year) / (Energy consumption rate of baseline year) × 100.

Measures		Fiscal 2003 RC Medium-term Plan (fiscal 2004–06)	Measures for Fiscal 2006		Fiscal 2006 RC Medium-term Plan (fiscal 2007–09)		
		Details of Efforts and Targets for the Final Fiscal Year of the Plan	Targets	Results	Reference Page	Target for Final Fiscal Year of the Plan	Details of Initiatives
Environmental Preservation	Energy conservation and the prevention of global warming	Reduction of the energy consumption rate index (relative to the fiscal 1990 level of 100) to a maximum of 94 in fiscal 2006 and 90 in fiscal 2010	Maintain energy consumption rate index at 90 (relative to fiscal 1990 level of 100).	Achieved an energy consumption rate index of 84 (relative to the fiscal 1990 level of 100). Achieved the fiscal 2010 RC medium-term targets for the third consecutive year.	P18	Maintain energy consumption rate index at 90 (relative to the fiscal 1990 level of 100).	(1) Strengthen review of the voluntary action plan in response to the revision of laws related to the prevention of global warming, etc. (2) Apply the energy conservation assistance system. (3) Examine acquisition of emissions credits.
	Reduction and recycling industrial waste	Reduction of external disposal by landfill index (relative to the fiscal 1990 level of 100) to a maximum of 23 in fiscal 2006 and 20 in fiscal 2010	Reduction of external disposal by landfill to a maximum of 23 mainly by recycling residue resulting from incineration of waste tires	Reduced final landfill disposal index to 13 (relative to the fiscal 1990 level of 100) through utilization of all residue resulting from incineration of waste tires as a raw material for cement production, achieving the fiscal 2010 RC medium-term targets for the second consecutive year.	P20	Limit final landfill disposal index to a maximum of 20 (relative to fiscal 1990 level of 100).	(1) Continue to promote and improve proper waste disposal. (2) Strengthen the waste management system and recycling for the entire group.
Chemical and Product Safety	Relevant management and controlled emissions of chemical substances	Development and implementation of the 3rd-term plan to reduce emissions of chemical substances	Reduction of emissions of chemical substances in conformance with the 3rd-term plan to reduce emissions of chemical substances (including the VOC emissions reduction plan). Reduction target is 198 tons.	Achieved 75% target of the emissions reduction plan (198 tons) for fiscal 2006.	P22	Reduce fiscal 2010 VOC emissions by more than 30% relative to the fiscal 2000 level.	Ensure implementation of the plan each year and correct and strengthen if necessary.
	Compliance with global management policies for chemical substances	Accurate monitoring of global trends in chemical substance management policies and implementation of proper response	Monitoring of the enactment of the REACH Law and provision of information to related divisions within the Company. Identifying those products exceeding 1,000 tons in total within the EU and determining the test items.	Monitored the trend in legal enactment and identified the names and numbers of products exported to the EU. Roughly estimated testing costs. Achieved the targets.	P24	Register with REACH all products intended for export to EU and undertake safety tests.	Evaluate the trend toward enactment of laws in the EU and take the necessary responses such as undertaking prior registration and safety tests.
Occupational Health and Safety	Elimination of labor accidents	Establishment of an occupational health and safety management system to ensure continued improvement toward the goal of eliminating labor accidents	Improving our safety record by implementing initiatives at all plants as well as research center to achieve the goal of zero labor accidents accompanied by lost work days/not accompanied by lost work days during the year.	Achieved zero accidents, an improvement over the two accidents accompanied by lost work days that occurred in fiscal 2005. Achieved the targets.	P25	Eliminate labor accidents.	(1) Improve occupational safety efforts and systems that meet employment patterns. (2) Enhance safety training. (3) Standardize occupational safety and methods. (4) Devise an occupational health and safety management system feasible for acquiring certification.
Process Safety and Disaster Prevention	Elimination of plant-related accidents and enhancement of emergency response measures	Prevention of severe plant accidents (by stabilizing plant operations through stringent production reforms and by implementing strict static discharge-induced accident prevention guidelines)	Improvement of the Process Safety level and enhancement of emergency response measures. Achievement of zero accidents leading to fire, explosion, or leakage (severe plant-related accidents)	Zero accidents leading to fire, explosion or leakage. Achieved the targets	P26	Zero accidents leading to fire, explosion or leakage	(1) Horizontally extend the Aboshi Plant Process Safety Management System to other plants. (2) Strengthen preparedness through process safety and emergency drills. (3) Strengthen risk management by reviewing emergency measures and response measures for large-scale earthquakes. (4) Improve operation stability of plants by enhancing facility management, adopting extensive production innovations, and the like.
		Reconstruction and implementation of Process Safety and Disaster Prevention systems that reflect the situation in individual workplaces	Establishment of Process Safety System reconstruction activities under the workplace action plan reflecting the Process Safety and Disaster Prevention Guidelines.	Planned and implemented disaster prevention drills linked to improved emergency readiness at all workplaces. Achieved the targets.	P26		
Distribution Safety	Increased awareness of logistics safety and elimination of logistics accidents	Assumption of responsibility for zero logistics accidents (accidents involving fire and explosion or leakage, outflow, and loss of dangerous and harmful substances)	Achieving zero logistics accidents through elimination of at-fault accidents by maintaining safety measures when transporting hazardous materials, providing safety training to logistics companies, and holding emergency drills for assumed logistics accidents.	Elimination of at-fault accidents for zero logistics accidents. Achieved the targets	P26	Elimination of at-fault accidents for zero logistics accidents	(1) Clarify role sharing between Daicel and Daicel Logistics Service according to the total prime contractor system. (2) Promote a logistics safety campaign on the premises. (3) Promote logistics risk assessments.
	—————	—————	—————	—————	P26	Reduce energy consumption by logistics by more than 1% annually (relative to base rate).	(1) Promote energy conservation by Daicel in its role as a shipper. (2) Promote preparations of Daicel Logistics Service, as a carrier, for the revised Law Concerning the Rational Use of Energy.
Dialogue with Society	Communication with the Community (stakeholders)	Development of the current Environment and Safety Report into a Sustainability Report in order to respond to the needs of stakeholders	Updating of the report to a Sustainability Report and enhancing the content by incorporating information on social activities.	Published a substantial amount of information on social activities in the 2006 Environment and Safety Report. Achieved the targets.	P31–40	Clarify and publicly disclose Daicel's policy on corporate social responsibility (CSR).	Examine Daicel's CSR policies jointly with relevant divisions and make decisions on a company-wide level.

Business Activities and Their Environmental Impacts (Results for Fiscal 2006)



Environmental Accounting

Daicel introduced an environmental accounting system in fiscal 2001 with the goal of implementing efficient environmental preservation activities; ensuring further corporate transparency; and quantitatively assessing and evaluating the investments, costs, and effectiveness of our environmental preservation activities.

The values determined from our environmental accounting have been calculated according to the Environmental Accounting Guidelines, Year 2002 Edition, published by the Ministry of the Environment of Japan, and the Environmental Accounting Guidelines for the Chemical Industry published by the Japan

Chemical Industry Association (JCIA).

The amounts of investments are actual sums for capital investment in environmental preservation in fiscal 2006 (settlement basis). The cost amounts are the totals for actual expenses of equipment depreciation, maintenance, management, and labor related to environmental preservation. The economical achievements in fiscal 2006 are indicated as monetary benefits. The physical effects are summarized in the section "Environmental Preservation (page 18-21)."

Environmental Preservation Costs

Classification	Major efforts	Investment (¥ million)	Cost (¥ million)	
(1) Environmental preservation costs of controlling the environmental impacts in our production and service business activities (business area costs)		1,818	4,406	
Breakdown	[1] Pollution prevention costs	Prevention of air and water pollution, control of harmful substances, levies for pollution-related health damages	139	2,758
	[2] Global environmental preservation costs	Energy conservation, capital expenditures for fuel conversion, cost of thermal pinch analysis	1,334	167
	[3] Resource recycling costs	Appropriate treatment and disposal of industrial waste	344	768
(2) Costs of controlling environmental impacts of production and service activities occurring upstream or downstream (upstream and downstream costs)	Costs of recycling containers and packing materials and green purchasing	0	0	
(3) Environmental preservation costs in management activities (environmental management costs)	Labor costs of environmental management, expenses for EMS operations and maintenance, costs of environmental education, costs of environmental impact alleviation	2	554	
(4) Environmental preservation costs in R&D activities (R&D costs)	R&D work for reducing environmental impacts of products and technologies	72	104	
(5) Environmental preservation costs in community activities (community activities costs)	Costs of environmental promotion activities, and participation in community events	0	35	
(6) Costs of environmental damage (environmental damage costs)	Environmental remediation costs, compensation for damages related to environmental preservation, and insurance premiums and transfers to reserves for environmental damage	0	86	
Total		1,892	4,473	

Item	Amount (¥ million)	Environmental rate (%)
Capital expenditures in the applicable period	54,403	3.5
R&D expenditures in the applicable period	7,859	1.3

Economic effects (monetary benefits) resulting from environmental preservation activities	Amount (¥ million)
[1] Cost reduction through energy conservation	-321
[2] Improvement of total thermal efficiency through in-house power generation	2,808
[3] Cost reduction through resource conservation	231
[4] Benefits obtained by recycling	274
[5] Reduction of expenses for waste treatment or disposal	19
Total	3,012

Reported totals are the same as those appearing on the inside front cover of this report.

Environmental Preservation Energy Conservation and the Prevention of Global Warming

Three consecutive years of achieving the targets of our voluntary action plan for energy conservation

Daicel has long been committed to voluntarily promoting energy conservation and reducing emissions of greenhouse gases. Specifically, we have been focusing on reducing our energy consumption rate index to the target level of 90 (relative to the fiscal 1990 level of 100) by the end of fiscal 2010 as defined in the Chemical Industry Voluntary Environmental Preservation Action Plan proposed by the Japan Chemical Industry Association (JCIA).

Moreover, our commitment to energy conservation under our Manufacturing Renovation campaign is showing results. (See p. 19, "Energy Conservation Initiatives Incorporating Production Innovations.")

For our boilers and industrial furnaces, we have substituted natural gas and city gas for conventional heavy oil, and we continue to take steps to control greenhouse gas emissions. For example, in fiscal 2006, our Arai Plant converted its boiler to city gas; our Hirohata Plant converted its industrial heating furnace to city gas; and our Arai Plant converted its industrial cracking furnace to natural gas.

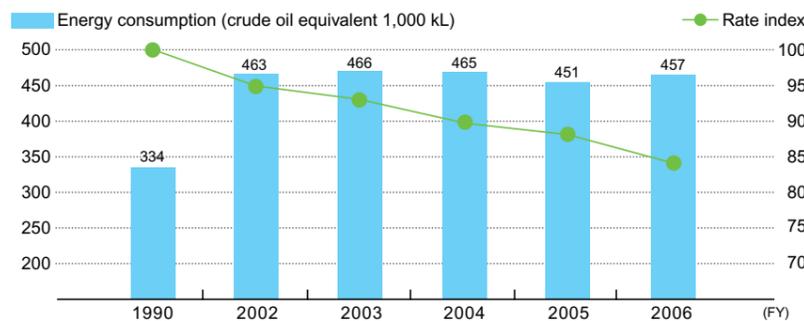
As a result of these initiatives, our energy consumption rate index for fiscal 2006 was 84 (relative to the fiscal 1990 level of 100); notably, this marked the third consecutive year in which we achieved our voluntary action plan target. For fiscal 2006, our emissions of energy-derived carbon dioxide totaled 1.29 million tons, and our emissions of five greenhouse gases (excluding carbon dioxide) totaled 1.38 million tons.

After fiscal 2007, we expect that our emissions of energy-derived carbon dioxide will increase as a result of expanded production activities, such as the opening of a third Ohtake Plant to accommodate growing demand.

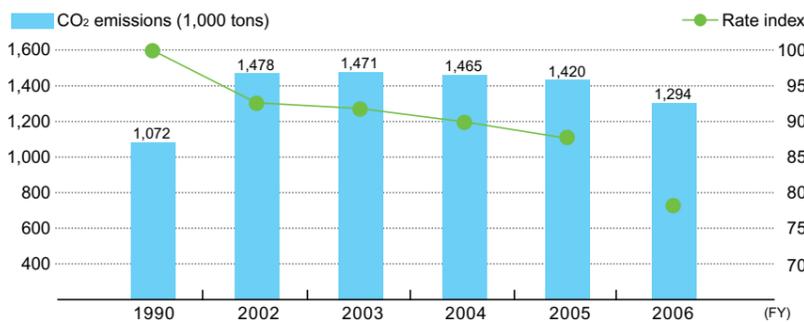
We intend to expand our fuel conversion program in order to promote sustainable development in harmony with the environment and business operations; moreover, we will remain committed to reducing greenhouse gas emissions well into the future.

Our logistics division is contributing to a considerable increase in greenhouse gas emissions. In response, we, as a shipper, will actively implement an energy conservation campaign targeting transportation in cooperation with Daicel Logistics Service Co., Ltd. (See p. 26, "Distribution Safety," and p. 5, "Introduction to the Companies of the Daicel Group.")

Energy Consumption and Rate Index



Amounts and Rate Index of CO₂ Emissions



Calculated from fiscal 2006 greenhouse gas emissions calculations and report manual. CO₂ emissions totaled 1.338 million tons and our energy consumption rate index was 86 (relative to the fiscal 1990 level of 100) calculated from fiscal 2005 greenhouse gas emissions calculations and report manual.

Definition of Term

Greenhouse Gas Control Effect of Conversion to Natural Gas and City Gas

These fuels produce about 50% fewer CO₂ emissions (per calorific value) compared with coal and about 30% fewer CO₂ emissions compared with petroleum; therefore, they contribute significantly to prevention of global warming.

The main component of type 13A city gas is natural gas and, like natural gas, it produces fewer CO₂ emissions. Daicel uses type 13A city gas.

Energy Conservation Initiatives Incorporating Production Innovations

Our novel production methods are conserving energy and curbing greenhouse gas emissions.

Daicel has long maintained a commitment to energy conservation; moreover, since fiscal 2002, we have been implementing a company-wide production innovation initiative.

Our efforts to conserve energy through production innovations are embodied in a three-pronged approach: **comprehensive optimization of energy use; standardization of operations; and improvement through individual efforts.**

Prior to fiscal 2006, these three initiatives enabled us to conserve 16,000 kL/year in crude oil equivalent, which represents a reduction in carbon dioxide emissions totaling 23,000 tons/year. Clearly, our efforts to conserve energy with production innovations are also contributing to a reduction in carbon dioxide emissions.

1. Comprehensive Optimization of Energy Use

By using the thermal pinch analysis technique, we have employed steam energy where appropriate. Moreover, following a survey of the entire plant in which we focused on optimizing the steam requirements, we incorporated many energy conservation initiatives, including an increase in private power generation. As of fiscal 2006, we had initiated a total of 30 such initiatives.

In addition, by using the simulation program of the thermal pinch analysis technique, we devised a system that serves as a follow-up guide to the optimum conditions for boiler turbine operation; this system is now in operation. By combining these steps, we have conserved a significant amount of energy.

2. Standardization of Operations

As of fiscal 2006, we had implemented 10 initiatives intended to conserve steam and electrical power. We targeted these improvements through integrated operability study methods intended to standardize operations from the point of view of safety, stability, quality, and cost. We also optimized plant operations by standardizing the operations through a system of unique elemental technologies.

3. Improvement Through Individual Efforts

As of fiscal 2006, we had implemented plans for energy conservation and reduced greenhouse gas emissions through roughly 20 individual initiatives. These have included reduced consumption of heavy oil resulting from the combustion of waste liquids; reduced coal consumption as a result of an increased use of tires for co-incineration; increased use of RPF (a solid fuel made from waste paper and waste plastic); improved recovery of drainage; and adoption of updated freezers.

Energy Savings Resulting from Production Innovations

Production Innovation Initiatives Intended to Conserve Energy	Energy Savings (crude oil equivalent)* (1,000 kL/year)
Comprehensive Optimization of Energy Use	6.8
Standardization of Operations	0.6
Improvement Through Individual Efforts	8.8
Total	16.2

* Cumulative total for fiscal 2002-06



Fiscal 2004 Presentation of achievements under the Enterprise Energy Use Rationalization Effort Assistance Program

These initiatives have been adopted by the Enterprise Energy Use Rationalization Effort Assistance Program operated by the New Energy and Industrial Technology Development Organization (NEDO), an independent administrative corporation. Our Ohtake Plant and Arai Plant have been accepted under this program and are receiving subsidiary aid.

At our Ohtake Plant, we are implementing energy conservation initiatives through production innovations centered on comprehensive energy optimization. As a result, this plant has reduced its energy consumption by 2,800 kL/year in crude oil equivalent in compliance with energy conservation targets. We presented the details of this initiative and the results in the 2004 presentation of achievements of the Enterprise Energy Use Rationalization Effort Assistance Program, and we received high praise for our achievements.

Going forward, we will continue to promote our production innovation efforts and will remain committed to aggressively advancing energy conservation initiatives.

Definition of Term

Thermal Pinch Analysis Technique

This is an energy conservation technique for understanding the thermal balance of an entire plant and optimizing the recovery and utilization of thermal energy. The focus of our previous efforts was optimum design for heat usage in specific plants; more recently, however, our focus has expanded to include optimization of the entire plant complex and a heat utilization system for the entire local area.

With this technique, the quantity of heat and the quality of heat (temperature) of fluids that constitute processes are determined, and the quantity and quality of heat are commonly plotted on a complex thermal diagram. As a result, the performance of the heat recovery system and possibility of energy conservation are comprehensively determined.

Enterprise Energy Use Rationalization Effort Assistance Program

This national program was established in 1998 and was implemented by the New Energy and Industrial Technology Development Organization (an independent administrative corporation) as a system intended to help prevent global warming by promoting further energy conservation initiatives in the industrial sector.

Environmental Preservation Reduction and Recycling of Industrial Waste

Strong proponents of reduction, reuse, and recycling

Because the number of available final disposal sites has been decreasing, waste is sometimes disposed of improperly. Consequently, it has become necessary to meet the significant challenge of devising measures for appropriate disposal, recycling, and commercialization of waste products.

Daicel intends to reduce the amount of external disposal by landfill to a maximum of 20% of the fiscal 1990 level by the end of fiscal 2010. This target is identical to that defined in the Chemical Industry Voluntary Environmental Preservation Action Plan proposed by the Japan Chemical Industry Association (JCIA).

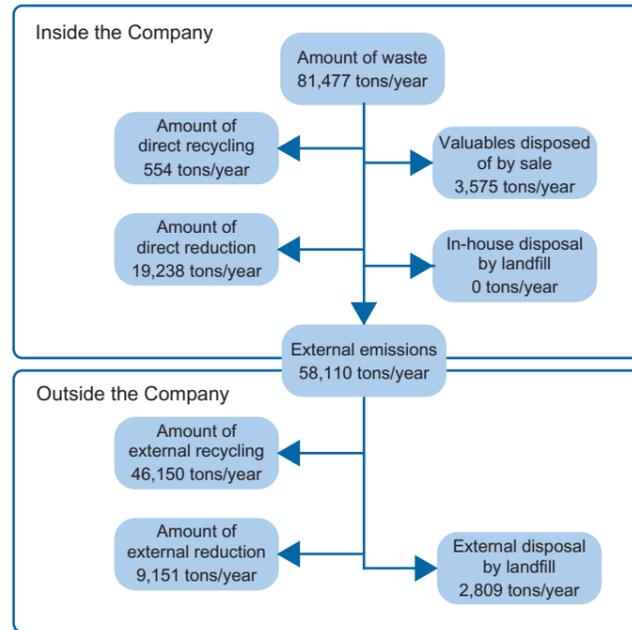
In fiscal 2006, we recycled the incineration residue (bottom ash) remaining from the incineration of waste tires, as it has value as a component of cement. Consequently, we have been able to reduce external landfill disposal to 13% of the fiscal 1990 rate, thus achieving our target for fiscal 2010 for the second consecutive year.

As a result of our proactive promotion of recycling in fiscal 2006, our Hirohata Plant, Ohtake Plant, Harima Plant, and Aboshi Plant achieved an external landfill disposal rate of less than 1% and maintained their zero emissions of industrial waste (refuse).

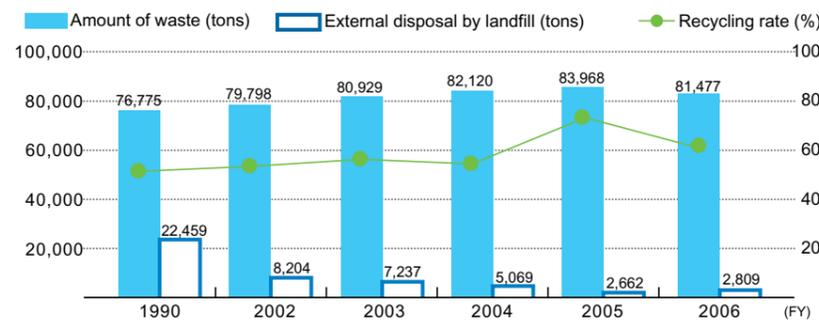
However, we expect to see an increase in the amount of waste due to our active production output to cope with growing demand for our products.

In the future, we will strongly promote the so-called 3R activities—reduction, reuse, and recycling.

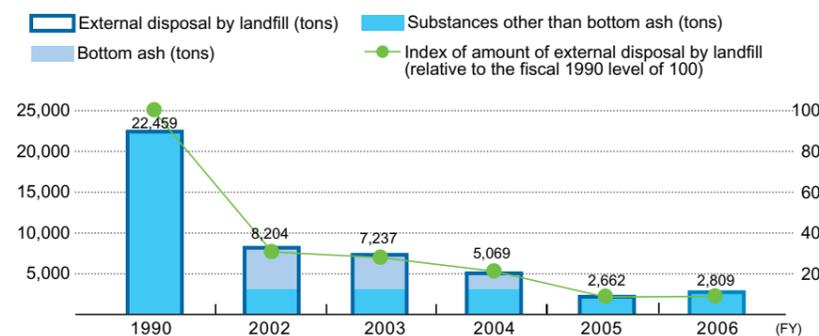
Flowchart of Waste Reduction and Recycling (record for fiscal 2006)



Amount of Industrial Waste



Amount and Index of External Disposal by Landfill



Definition of Term

3Rs

Specifically, the term means to produce little or no refuse, to reuse used products and parts that are no longer needed, and to recycle waste products. An abbreviation of the expression "reduce, reuse and recycle," this term represents the essence of the effort to establish a recycle-oriented society while maintaining compatibility between the environment and the economy.

Daicel is focused on 3R activities under the Basic Law for Establishing the Recycling-Based Society.

Recycling Rate

This term represents the ratio of the amount reused and recycled to the amount of waste generated or emitted. Daicel defines the term as the ratio of the amount reused and recycled (including heat recovery) by Daicel and by treatment contractors to the amount of industrial waste generated.

Environmental Preservation Air and Water Pollution Control

Complying with laws and regulations as well as values negotiated with local communities; promoting reduced emissions of substances with an environmental impact

Daicel has actively implemented air and water pollution controls. We comply with laws and regulations covering emissions of air pollutants as well as values each plant has negotiated with its neighboring community.

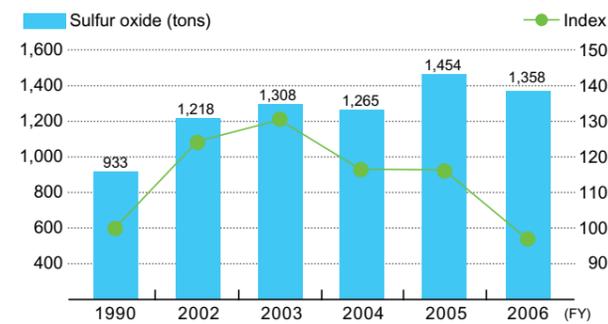
We are upgrading our facilities in order to comply with laws and regulations as well as the values negotiated with local communities. In fiscal 2005, we introduced full-scale operation of our wastewater treatment facilities in order to accommodate the requirements for total phosphorus emissions as stipulated by the 5th total water quality regulation of the Law Concerning Special Measures for

Conservation of the Environment of the Seto Inland Sea.

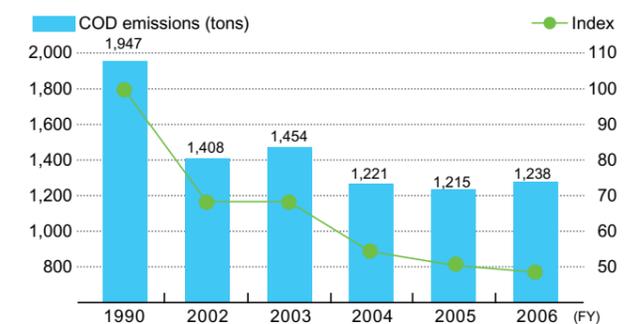
As for air pollution control, emissions of sulfur oxide (SOx), nitrogen oxide (NOx), and dust totaled 1,358 tons, 1,132 tons, and 67 tons, respectively, in fiscal 2006.

Looking to the water pollution, emissions of COD, total phosphorus, and total nitrogen totaled 1,238 tons, 71 tons, and 161 tons, respectively. The year-on-year rise in total nitrogen was 25 tons, caused by a deterioration in operational efficiency, production of nitrogen-containing products, and reduced efficiency of biological treatments for nitrogen removal.

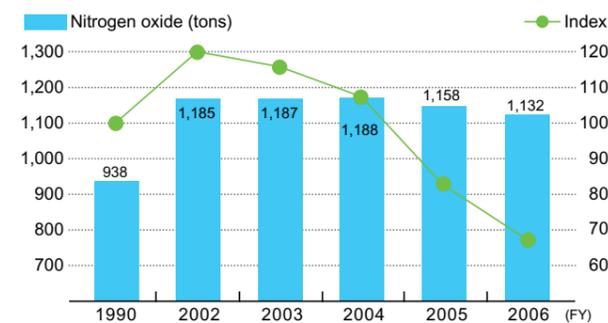
Amounts and Index of Sulfur Oxide Emissions



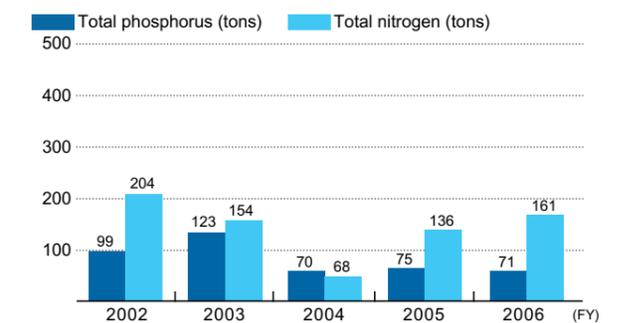
Amounts and Index of COD Emissions



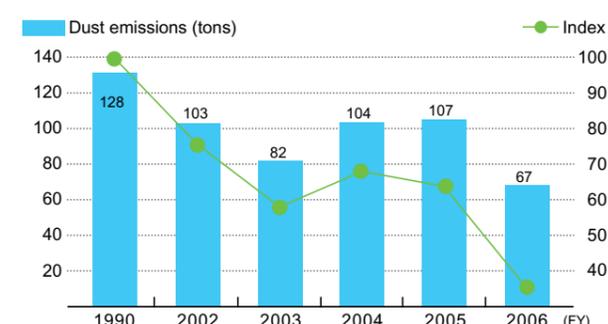
Amounts and Index of Nitrogen Oxide Emissions



Total Phosphorus and Total Nitrogen Emissions



Amounts and Index of Dust Emissions



Definition of Term

SOx

SOx is a generic term for sulfur oxides including sulfur dioxide (SO₂) and sulfur trioxide (SO₃). They are all hazardous substances released into the atmosphere by human activities, typically by the burning of petroleum fuels.

NOx

NOx is a generic term for nitrogen oxides, which include nitrogen monoxide (NO) and nitrogen dioxide (NO₂), which are causes of acid rain and photochemical smog.

COD (Chemical Oxygen Demand)

COD is an index of water pollution caused by organic matter that measures the amount of oxygen required for an oxidizing agent to chemically oxidize the organic matter that is polluting the water.

Chemical and Product Safety

Relevant Management and Controlled Emissions of Chemical Substances

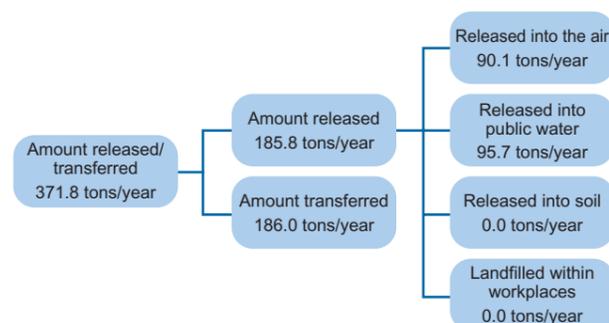
Ensuring relevant management and control of emissions of chemical substances under a voluntary reduction plan in compliance with laws and regulations

Monitoring and Reduction of Released or Transferred Chemical Substances

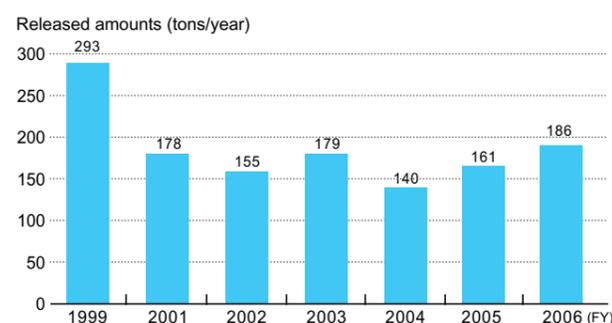
Since 1996, Daicel, as a member of the JCIA, has been voluntarily monitoring the amounts, produced or used by any of our workplaces in amounts exceeding one ton per year, of JCIA-specified chemical substances being released or transferred. Furthermore, under our unique chemical substance emission reduction plan, we have been substituting substances with fewer health risks and have initiated emission control measures such as stricter prevention of waste gas leakage and introduction of waste gas absorption facilities.

Incidentally, since the Pollutant Release and Transfer Register (PRTR) Law came into effect in March 2000, it has become mandatory for manufacturers to investigate and report to the national government the amounts of the specified substances being released or transferred (354 substances). Below is PRTR data for fiscal 2006 covering the 51 specified substances handled by Daicel.

Released or Transferred Amounts of Substances Subject to PRTR Law (fiscal 2006)



Released Amounts of Substances Subject to PRTR Law



Reducing Emissions of Specified Hazardous Chemical Substances Contributing to Air Pollution

The Air Pollution Control Law specifies a number of hazardous air pollutants under its priority initiative. Daicel handles seven of these: acrylonitrile, acetaldehyde, ethylene oxide, 1,3-Butadiene, 1,2-dichloroethane, benzene, and formaldehyde. We have subjected these seven substances to systematic emission reduction measures. The amount of these substances released into the air in fiscal 2006 totaled 26.7 tons, representing a reduction of 10.2% from the total at the initial implementation in fiscal 1996.

The Revised Air Pollution Control Law of May 2004 targets control of emissions of volatile organic compounds (VOCs), which are believed to be harmful to human health, as they contribute to the formation of photochemical oxidants and suspended particulate matter in the atmosphere.

We are now implementing measures that respond to legally mandated VOC regulations and have adopted a voluntary plan to reduce chemical emissions (third term), particularly through controls of VOC emissions. This plan targets a 30% reduction in VOC emissions in fiscal 2010 compared with the benchmark level of fiscal 2000. Regarding our voluntary plan to reduce chemical emissions by 198 tons for fiscal 2006, we posted a 75% achievement rate. Going forward, we will actively implement reductions in VOC emissions according to this plan.

Relevant Control of PCBs

In compliance with the Law Concerning Special Measure against PCB waste, Daicel's workplaces practice appropriate storage at proper storage sites of PCB-contaminated objects as well as capacitors and transformers employing PCBs (polychlorinated biphenyls), which are persistent chemical substances and strongly toxic. Every year, Daicel's workplaces report the results to the appropriate municipalities. Moreover, we are addressing the conditions under which PCBs are stored at all our workplaces.

In 2005, Daicel undertook early registration of high-voltage transformers and capacitors, which comprise some of our stored PCB wastes. This step was undertaken in relevant workplaces according to the early registration system of the Japan Environmental Safety Corporation, an enterprise wholly owned by the national government.

Definition of Term

PRTR (Pollutant Release and Transfer Register)

This system calculates the extent to which the production, use, and storage of chemical substances result in the release and transfer of those substances into the environment.

To encourage the development of a system to reduce the amounts of chemical substances released or transferred, the PRTR Law was originally enacted in July 1999. According to the PRTR Law, an amount transferred is defined as the total sum of amounts commissioned to waste disposal and treatment contractors and amounts released into public sewage systems.

Breakdown of Main Target Substances under the PRTR Law (tons/year) (Note 1)

Designed by government ordinance	Substance description	Total amount released					Transferred to sewage	Transferred to outside of workplaces
		Released into the air	Released into public water	Released into soil	Landfilled within workplaces			
259	Pyridine (PY)	51.2	0.1	51.1	0.0	0.0	0.0	0.0
227	Toluene	48.0	46.7	1.3	0.0	0.0	0.0	35.1
336	3-Methyl pyridine	27.9	0.1	27.9	0.0	0.0	0.0	0.0
299	Benzene	15.1	14.8	0.3	0.0	0.0	0.0	0.0
11	Acetaldehyde	11.0	9.0	2.0	0.0	0.0	0.0	0.0
177	Styrene	9.2	9.0	0.2	0.0	0.0	0.0	0.0
102	Vinyl acetate	7.1	2.6	4.5	0.0	0.0	0.0	0.0
80	Chloroacetate	3.7	0.5	3.2	0.0	0.0	0.0	0.1
42	Ethylene oxide	2.6	2.5	0.1	0.0	0.0	0.0	0.0
121	CFC-12	2.1	2.1	0.0	0.0	0.0	0.0	0.0
22	Allyl alcohol (ALY)	1.6	0.5	1.1	0.0	0.0	0.0	0.0
145	Dichloromethane	1.1	1.1	0.0	0.0	0.0	0.0	6.3
70	Chloroacetyl chloride	0.8	0.1	0.7	0.0	0.0	0.0	0.0
45	Ethylene glycol monomethyl ether (MMG)	0.8	0.0	0.8	0.0	0.0	0.0	0.0
181	Thiourea	0.7	0.0	0.7	0.0	0.0	0.0	0.0
8	Acrolein	0.5	0.5	0.0	0.0	0.0	0.0	0.0
7	Acrylonitrile	0.3	0.3	0.0	0.0	0.0	0.0	0.0
43	Ethylene glycol	0.3	0.0	0.3	0.0	0.0	0.0	56.0
320	Methyl methacrylate (MMA)	0.3	0.0	0.3	0.0	0.0	0.0	0.0
44	Ethylene glycol monoethyl ether (EMG)	0.3	0.0	0.3	0.0	0.0	0.0	0.0
103	Ethylene glycol monomethyl ether acetate (MMGAC)	0.2	0.0	0.2	0.0	0.0	0.0	0.0
4	Ethyl acrylate (EA)	0.2	0.0	0.2	0.0	0.0	0.0	0.0
63	Xylene	0.2	0.0	0.2	0.0	0.0	0.0	0.0
310	Formaldehyde	0.2	0.0	0.2	0.0	0.0	0.0	0.0
268	Butadiene	0.1	0.1	0.0	0.0	0.0	0.0	0.0
270	Di-n-butyl phthalate	0.1	0.0	0.0	0.0	0.0	0.0	0.0
12	Acetonitrile	0.0	0.0	0.0	0.0	0.0	0.0	0.0
56	1,2-Epoxy propane (PO)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
3	Acrylic acid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
314	Methacrylic acid	0.0	0.0	0.0	0.0	0.0	0.0	0.0
172	N,N-dimethylformamide	0.0	0.0	0.0	0.0	0.0	0.0	0.0
316	2,3-epoxypropyl methacrylate	0.0	0.0	0.0	0.0	0.0	0.0	0.0
255	Vinylcyclohexene	0.0	0.0	0.0	0.0	0.0	0.0	0.0
2	Acrylamide (AAM)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
319	n-Butyl methacrylate (BMA)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
313	Maleic anhydride	0.0	0.0	0.0	0.0	0.0	0.0	0.0
95	Chloroform	0.0	0.0	0.0	0.0	0.0	0.0	0.0
261	Styrene oxide	0.0	0.0	0.0	0.0	0.0	0.0	0.0
—	Others (Note 2)	0.0	0.0	0.0	0.0	0.0	0.0	82.6
179	Dioxins (Note 3)	5.2	4.2	1.0	0.0	0.0	0.0	7.7

Note 1: The threshold for amounts handled was 1 ton/fiscal year/workplace.

Note 2: Substances emitted at levels less than 1 kg/year are included under "Others."

Note 3: The unit used for measurement of dioxin emissions is mg-TEQ/year.

Chemical and Product Safety

Safety Assessments of Chemical Substances

Promoting safety assessments to ensure the safety of our chemical products

To ensure the safety of the chemical products we supply to our customers, Daicel has been actively promoting product safety assessments. As control of chemical substances has intensified worldwide, we are participating in the HPV (High Production Volume) Program and the Japan Challenge Program. We also promote the improvement and collection of safety data for chemical substances.

● Implementation of Safety Assessments at Our GLP-certified Laboratories

Our laboratories that have been certified as Good Laboratory Practice (GLP) assess the safety of chemical substances through biodegradability tests, bioaccumulation tests, and partition coefficient tests specified in accordance with the Law Concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances. We will continue to develop and market products that are friendly to humans and the environment through safety assessments of chemical substances.



Biodegradability tests unit



Partition coefficient tests unit

● Implementation of the HPV Program

In 1992 the OECD (Organization for Economic Co-operation and Development) began coordinating the collection of safety data on chemical substances used in high production volumes (more than 1,000 tons/year per country). This initiative is known as the HPV (High Production Volume) Program.

We are supporting the OECD's HPV Program by undertaking safety assessments of all products we produce that have been specified as assessment target substances under the program.

As a leading member of the program, we have completed the safety assessment of two chemical substances; as a cosponsor working in cooperation with the manufacturers, we have completed safety assessments of another five chemical substances.

While we are addressing three chemical substances, we will continue to assess the safety of new substances in cooperation with other companies and corporations, both domestic and overseas.

● Participation in the Japan Challenge Program

In 2005, the Japanese Government launched the Japan Challenge Program, a public-private initiative to gather and disseminate safety information on existing chemical substances. This step was taken to further facilitate the compiling of safety information on existing chemical substances under an initiative the national government had long been promoting. Daicel announced its participation in the program by targeting four manufactured substances. Adoption of the plan under this program is expected to advance the improvement and collection of safety data.

● Complying with the REACH Law

The new European law on chemicals known as REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) entered into force in June 2007. The law requires registration and safety assessments for all chemical substances that are newly manufactured in Europe or imported into Europe, as well as those chemical substances already on the market, if they are manufactured or imported in quantities of one ton or more. Manufacturers and importers must submit a sample of the substance itself as well as notification of products—from daily necessities to industrial commodities—containing chemical substances that are intended to be released into the environment and products containing hazardous substances that are at risk of being released into the environment.

To ensure conformity with such laws and regulations, we will continue to collect information through the Japan Chemical Industry Association and promote additional measures to comply with the REACH Law.

Definition of Term

Law Concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances (established in 1973)

Prompted by public attention to the pollution and health hazards caused by PCBs, this law was established in 1973 to prevent environmental pollution and human health problems from general chemical substances. This law was first in the world to incorporate the practice of pre-evaluation of products.

GLP (Good Laboratory Practice)

This standard stipulates, among other things, operational management of testing facilities as well as examination results and the like in order to ensure the reliability of safety testing of chemical substances. The GLP system was introduced in 1984 under the Law Concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances.

Occupational Health and Safety

Zero labor accidents (accompanied by lost work days): The result of our strong focus on continual improvement

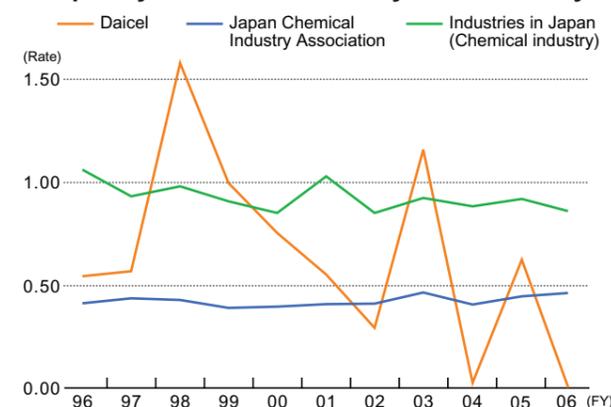
With the goal of zero labor accidents at our plants and research center, we have maintained a singular focus on continual improvement by repeatedly applying the PDCA cycle to our Responsible Care activities. Also, in a manner appropriate for each plant and research center, we routinely practice industrial accident prevention by implementing hazard prediction (KY) and incident avoidance initiatives, risk assessments, and the STOP (Safety Training Observation Program) initiative devised by DuPont & Co.

We are seeking to improve our safety record by implementing these activities to achieve zero labor accidents. In fiscal 2006, we achieved zero labor accidents accompanied by lost work days; however, considering the high frequency of labor accidents not accompanied by lost work days caused by unsafe actions such as breaches of basic safety rules, we will take steps to provide comprehensive safety training (including reviewing training to raise awareness of risks through simulated experience and safety education for leaders) and will strive for zero labor accidents not accompanied by lost work days.

● Responding to Revisions to the Occupational Safety and Health Law

In 2006, the Industrial Safety and Health Law was substantially revised in order to enhance improvements to measures taken by employers to reduce risk and harm as well as measures to counter overwork and improve mental health. In response to the revised law, we strengthened guidance provided by doctors who interview employees who work long hours, increased the duties of general safety and health supervisors, and raised issues for discussion in our Safety and Health Committee.

■ Frequency of Labor Accident by Lost Work Days



Definition of Term

Frequency of Labor Accident by Lost Work Days

This safety index reflects the incidence of work-related accidents using the following method of calculation: Frequency of Labor Accident by Lost Work Days = (Number of work days lost to injury) / (Total working hours in one million working hours)

● The Regional Community's Acknowledgement of the Sakai Plant's Safety Initiatives

The Sakai Plant's active efforts to address safety issues have eliminated significant accidents at the plant. The plant is also taking an active part in the Sakai Labor Standards Association. These activities attracted significant praise and the plant was presented with the Safety Division Excellence Award of the Osaka Labor Standards Federation Chairman's Awards.



● Responding to Asbestos Issues

With regard to the use of asbestos, which has become a serious social issue, we have undertaken the following initiatives.

- We put in place countermeasures for practices that present a risk of exposure, such as asbestos spraying.
- In accordance with the Ordinance on Prevention of Hazards Due to Asbestos, we are taking steps to ensure safe practices in dismantling work and the like.
- Medical examinations of workers previously engaged in tasks involving asbestos exposure have confirmed that no worker had health problems attributable to asbestos.
- In accordance with the independent plan submitted to the Ministry of Economy, Trade and Industry, we are launching a project to complete the phasing out of gaskets containing asbestos by fiscal 2008.

Daicel will maintain its focus on dealing aggressively with the asbestos issue.



Responsible Care Calendar featuring prize-winning responsible care posters and slogans

Process Safety and Disaster Prevention and Emergency Response

With a record of zero fire, explosion, and leakage accidents, Daicel is taking steps to strengthen its emergency response.

Daicel is committed to accommodating legal reforms such as the Fire Services Law and the Petroleum Complex Disaster Prevention Act. We are also committed to various process safety and disaster prevention activities such as practicing disaster preparedness drills, reducing facility malfunctions, and responding to the Tonankai and Nankai Earthquakes.

In fiscal 2006, Daicel's plants and research center took steps in line with our disaster preparedness action plan to reduce equipment malfunctions encountered in daily operations. The purpose of this effort was to achieve zero fire, explosion, and leakage accidents, also known as "serious plant accidents." In addition, after having reviewed our standard emergency responses to accidents, we have taken steps to reinforce our emergency response capability by conducting general emergency drills. As a result of these efforts, we have achieved our goal of ensuring zero serious plant accidents.

In fiscal 2005, at our Aboshi Plant, our acetic acid production facility acquired certification for two years of continuous operation by implementing process safety inspections according to the safety regulations for industrial complexes under the revised High Pressure Gas Safety Law.

In fiscal 2006, in conforming with the law, the Head Office audited such matters as the operation of the security control system in the plant and confirmed that the operation was carried out properly.

In the future, by applying the security control system established in the Aboshi Plant to other plants, we will strive to improve our security level and, at the same time, address the need to strengthen our emergency response capability by conducting emergency drills.

Distribution Safety

Daicel achieved zero at-fault logistics accidents and initiated a modal shift program to conserve energy.

Daicel, together with Daicel Logistics Service Co., Ltd., a Daicel Group company involved in transportation and warehousing, continues to work to ensure all company distribution operations remain safe and eco-friendly.

The following are our major initiatives for fiscal 2006.

To ensure the safety of our logistics operations, we established the goal of achieving zero at-fault logistics accidents (including fire, explosion, and leakage, outflow, and loss of dangerous and harmful substances). In cooperation with Daicel Logistics Service Co., Ltd., we implemented several initiatives: to maintain safety measures during the transport of hazardous materials on our company's premises; to provide safety training for logistics companies; and to provide training in the assumed emergency response to be taken in the event of a logistics accident. As a result of these initiatives, we attained our goal of zero at-fault logistics accidents.

Looking to the logistics environment, in response to revisions to the Law Regarding the Rationalization of Energy Use that accompanied the signing of the Kyoto Protocol, our company and Daicel Logistics Service Co., Ltd. jointly planned a modal shift from truck transportation to ship transportation. In accordance with this plan, we will promote energy-efficient transportation through a fiscal 2006 business-subsidized project to rationalize energy use.

In addition, in response to Improvements in the Labeling and Document Issuance System for Chemical Substances (the revised Industrial Safety and Health Law enforced on December 1, 2006), we modified our container yellow cards (product labels) for products containing chemical substances subject to laws and regulations. The modified cards now bear GHS labels.

For the content of initiatives carried out by Daicel Logistics Service Co., Ltd., please refer to page 5, "Introduction to the Companies of the Daicel Group."

Definition of Term

GHS

The Globally Harmonized System of Classification and Labelling of Chemicals (GHS), which was introduced by the United Nations in 2003, addresses the classification of chemical hazards according to global standards. It proposes labeling with the use of pictographs (marks and symbols) on MSDS and containers according to classification with the goal of preventing accidents while protecting human health and the environment.

Container Yellow Card (Product Label)

Previously used yellow cards were hard to carry when transporting many hazardous substance types in small amounts or when transferring small amounts of hazardous substances beyond stockyards. In order to solve this problem, JICA developed "First Aid Guidelines—Application of Container Yellow Cards (Label Type)" and decided that chemical products should have labels indicating First Aid Guideline Numbers and UN Numbers.



Sakai Plant

Location: 1, Teppo-cho, Sakai-ku, Sakai-shi, Osaka 590-0905, Japan
 Total area: 110,000 m² Number of employees: 123

At the Sakai Plant, all members of the worksite undergo training in the safety initiatives of hazard prediction (KY) and incident avoidance. Each division makes an effort to ensure safety by discussing the issues identified through the incident avoidance initiatives, implements countermeasures; and improves equipment and standard documentation.

With regard to the environment, the plant manages energy and waste appropriately and actively promotes activities hand in hand with the local community, including cleaning around the plant on a regular basis.

The plant's objective is to continue to earn the confidence of customers and local residents.

Kazuo Notsu, Safety & Environment Control



Office of the Sakai Plant



Clean-up Campaign

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	820	
Energy Consumption (crude oil equivalent in kL)	31,552	
SOx Emissions (tons)	2	
NOx Emissions (tons)	98	
Dust Emissions (tons)	15	
Greenhouse Gas Emissions (1,000 tons)	80.8	
COD (BOD) Emissions (tons)	10	
Substances Subject to PRTR Law	Released (tons)	—
	Transferred (tons)	—
Waste Disposal by Landfill (tons)	223	

Kanzaki Plant

Location: 12-1, Kanzaki-cho, Amagasaki-shi, Hyogo 661-0964, Japan
 Total area: 66,000 m² Number of employees: 258

All employees of the Kanzaki Plant participate daily in Responsible Care activities according to our policy of "strengthening our business foundation and cultivating human resources through infrastructure improvement initiatives."

Specifically, the plant is taking steps intended to achieve zero accidents under the hazard prediction (KY) and incident avoidance initiatives. Moreover, the plant is actively participating in community programs such as a clean-up campaign in response to the requests of the City of Amagasaki and the local community.

The plant will continue its Responsible Care activities in order to gain the greater trust of local residents and customers.

Yasuo Takahara, Safety & Environment Control



Entrance to the Kanzaki Plant



Emergency Response Vehicle

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	328	
Energy Consumption (crude oil equivalent in kL)	9,529	
SOx Emissions (tons)	0	
NOx Emissions (tons)	18	
Dust Emissions (tons)	0	
Greenhouse Gas Emissions (1,000 tons)	25.5	
COD (BOD) Emissions (tons)	52	
Substances Subject to PRTR Law	Released (tons)	29
	Transferred (tons)	35
Waste Disposal by Landfill (tons)	944	

Aboshi Plant

■ Location: 1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1281, Japan
 ■ Total area: 790,000 m² ■ Number of employees: 613

The Safety and Health Promotion Subcommittee of the Aboshi Plant has implemented a new initiative intended to eliminate the recurrence of accidents. Supported by the participation of all employees, this initiative makes use of a new troubleshooting database system that recognizes commonalities.

The following is a brief description of the initiative:

1. When an accident occurs in the Aboshi Plant or another plant, the Safety and Environmental Control enters the circumstances of the accident into its new database as part of its initiative. It also provides a prompt report to help eliminate the risk of a similar accident recurring.
2. Each division (individual or team) reads this information; makes the assumption that the accident occurred in its workplace; records an action statement and makes an entry for similar locations.
3. If the Division Manager determines that safety measures are required for the similar locations in his or her division, the manager and all division members conduct a risk assessment before formulating and implementing appropriate safety measures.

Under this initiative, the recording of similar locations and other information increases the safety awareness of each employee. It is expected that this initiative will therefore reduce the risks in each division in which it is implemented.

Furthermore, because the Safety and Health Promotion Subcommittee monitors the initiatives implemented by all divisions, it can increase safety awareness throughout the plant, resulting in an improved safety record.



Meeting of the Safety and Health Promotion Subcommittee, Aboshi Plant

Hirofumi Nakaoka, Safety & Environment Control



Entrance to the Aboshi Plant

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	30,815	
Energy Consumption (crude oil equivalent in kL)	270,606	
SOx Emissions (tons)	262	
NOx Emissions (tons)	392	
Dust Emissions (tons)	21	
Greenhouse Gas Emissions (1,000 tons)	809.4	
COD (BOD) Emissions (tons)	321	
Substances Subject to PRTR Law	Released (tons)	21
	Transferred (tons)	130
Waste Disposal by Landfill (tons)	427	

Hirohata Plant

■ Location: 12, Fuji-cho, Hirohata-ku, Himeji-shi, Hyogo 671-1123, Japan
 ■ Total area: 170,000 m² ■ Number of employees: 106

The Hirohata Plant has not recorded a single accident accompanied by lost work days since June 1997; however, accidents not accompanied by lost work days (including minor accidents) occur every year. In fiscal 2006, under the slogan "A safe plant without a single injury, no matter how slight," the Hirohata Plant undertook an initiative intended to eliminate hazardous locations by making use of a new troubleshooting database system that recognizes commonalities; as a result of this effort, it recorded 152 improvements. Consequently, in fiscal 2006, the plant was able to attain zero labor accidents, including both accidents accompanied by lost work days and those not accompanied by lost work days. This initiative will be promoted within our partner companies with the goal of ensuring an even higher level of safety.

As for environmental conservation, the plant undertook to switch the fuel for its industrial furnaces from heavy oil to city gas, which comprises mainly natural gas. This substitution contributed to a 25% reduction in emissions of carbon dioxide, a greenhouse gas, and a 70% reduction in emissions of sulfur oxide and soot.

Through such initiatives, the Hirohata Plant is working to earn the confidence of the public to an even greater degree.

Kazumi Arimoto, General, Safety & Environment Control



Safety slogan at the Hirohata Plant



Entrance to the Hirohata Plant

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	369	
Energy Consumption (crude oil equivalent in kL)	9,310	
SOx Emissions (tons)	0	
NOx Emissions (tons)	1	
Dust Emissions (tons)	0	
Greenhouse Gas Emissions (1,000 tons)	27.1	
COD (BOD) Emissions (tons)	1	
Substances Subject to PRTR Law	Released (tons)	12
	Transferred (tons)	1
Waste Disposal by Landfill (tons)	5	

Harima Plant

■ Location: 805, Umaba, Ibogawa-cho, Tatsuno-shi, Hyogo 671-1681, Japan
 ■ Total area: 3,200,000 m² ■ Number of employees: 2,146

In years past, the Harima Plant had been promoting an initiative in which employees were required to report any "incidents (close calls)" they experienced; the working team would discuss the circumstances of the incidents, devise appropriate countermeasures, and inform other teams of their results. In an effort to expand this approach, the plant introduced the "KH2 initiative" in fiscal 2007. This is an effort to identify and eliminate without delay all possible causes of incidents, especially those that are a source of concern or unease. With the participation of all employees in this initiative, the Harima Plant is seeking to create an environmentally friendly plant in which all employees can work in complete confidence.

Masaru Sakai, Safety & Environment Control



Health & safety slogan at the Harima Plant



Entrance to the Harima Plant

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	263	
Energy Consumption (crude oil equivalent in kL)	14,297	
SOx Emissions (tons)	4	
NOx Emissions (tons)	11	
Dust Emissions (tons)	0	
Greenhouse Gas Emissions (1,000 tons)	26.9	
COD (BOD) Emissions (tons)	0	
Substances Subject to PRTR Law	Released (tons)	0
	Transferred (tons)	0
Waste Disposal by Landfill (tons)	1	

Arai Plant

■ Location: 1-1, Shinko-cho, Myoko-shi, Niigata 944-8550, Japan
 ■ Total area: 180,000 m² ■ Number of employees: 462

The Arai Plant is located on the Kubiki Plain at the foot of Mt. Myoko in Joshinetsu National Park, an area blessed with a rich natural environment that is appealing in all seasons. An exceptional environment for both working and living, it enables all members of the Arai Plant of the Daicel Group to address Responsible Care activities with the aim of developing the plant into a pleasant and safe workplace while earning the trust of both the local community and society at large. Plant employees also actively participate in local events such as the "eco treks" held on the neighboring highlands in spring and fall and, especially, the Arai Festival, a charming event held on a summer evening. In this way, plant employees are expanding the scope of exchanges with local residents.

Tadahiro Sato, Safety & Environment Control



Entrance to the Arai Plant



Arai Festival

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	19,890	
Energy Consumption (crude oil equivalent in kL)	40,336	
SOx Emissions (tons)	863	
NOx Emissions (tons)	295	
Dust Emissions (tons)	21	
Greenhouse Gas Emissions (1,000 tons)	152.9	
COD (BOD) Emissions (tons)	89	
Substances Subject to PRTR Law	Released (tons)	28
	Transferred (tons)	16
Waste Disposal by Landfill (tons)	1,171	

Ohtake Plant

■ Location: 1-4, Higashisakae 2-chome, Otake-shi, Hiroshima 739-0695, Japan
 ■ Total area: 330,000 m² ■ Number of employees: 438

For 14 consecutive years, the Ohtake Plant has maintained a spotless record of zero labor accidents accompanied by lost work days. Moreover, since fiscal 2006, the plant has been implementing key measures to enhance occupational health and safety by promoting discussion practice through the Safety Training Observation Program (STOP) initiative and hazard prediction (KY) activities.

The plant is also committed to maintaining open communication with the local community. For example, regarding the opportunity to construct large-scale facilities, the plant held explanatory meetings with community associations and the local government, and the Ohtake Plant earned recognition for a plan that is specific and easy to understand.

In addition, the Ohtake Plant participated in the "Career Start Week" program for junior high school students, introducing the students to fire drills and the like. In an industrial complex disaster-preparedness drill held by the Special Disaster Prevention Zone Council, the Ohtake Plant demonstrated its rapid fire-fighting capability in its role as a manager of the council.

Tsutomu Mizuta, Safety & Environment Control



Junior high school students during Career Start Week

STOP patrol



Disaster-preparedness drill for an industrial complex

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	46,044*	
Energy Consumption (crude oil equivalent in kL)	80,344	
SOx Emissions (tons)	228	
NOx Emissions (tons)	318	
Dust Emissions (tons)	9	
Greenhouse Gas Emissions (1,000 tons)	258.3	
COD (BOD) Emissions (tons)	764	
Substances Subject to PRTR Law	Released (tons)	96
	Transferred (tons)	3
Waste Disposal by Landfill (tons)	36	

* Includes 39.1 million tons of seawater.

Himeji Research Center

■ Location: 1239, Shinzaike, Aboshi-ku, Himeji-shi, Hyogo 671-1283, Japan
 ■ Total area: 25,000 m² ■ Number of employees: 258

As a facility that is required to handle a variety of chemicals, the Himeji Research Center is upholding its responsibility to safeguard such chemicals by actively promoting measures targeting health, safety, and the environment. One such measure is a control system for chemical substances; this system is now being used to control the research center's chemicals through all processes from purchase to disposal. The center is currently addressing ways to improve control functions by upgrading the enumeration function. In addition, the center implements thorough leakage countermeasures when disposing of waste fluids. The center remains committed to promoting Responsible Care activities, maintaining close communication with the local community, and continuing its activities with the aim of maintaining the complete confidence of the public as an advanced research center.

Hiroto Matsumura, Safety & Environment



Himeji Research Center



Chemical control system

Environmental impact data

Item	Fiscal 2006	
Water Consumption (1,000 tons)	43	
Energy Consumption (crude oil equivalent in kL)	1,033	
SOx Emissions (tons)	—	
NOx Emissions (tons)	—	
Dust Emissions (tons)	—	
Greenhouse Gas Emissions (1,000 tons)	1.3	
COD (BOD) Emissions (tons)	0	
Substances Subject to PRTR Law	Released (tons)	—
	Transferred (tons)	—
Waste Disposal by Landfill (tons)	2	

Daicel's Social Activities

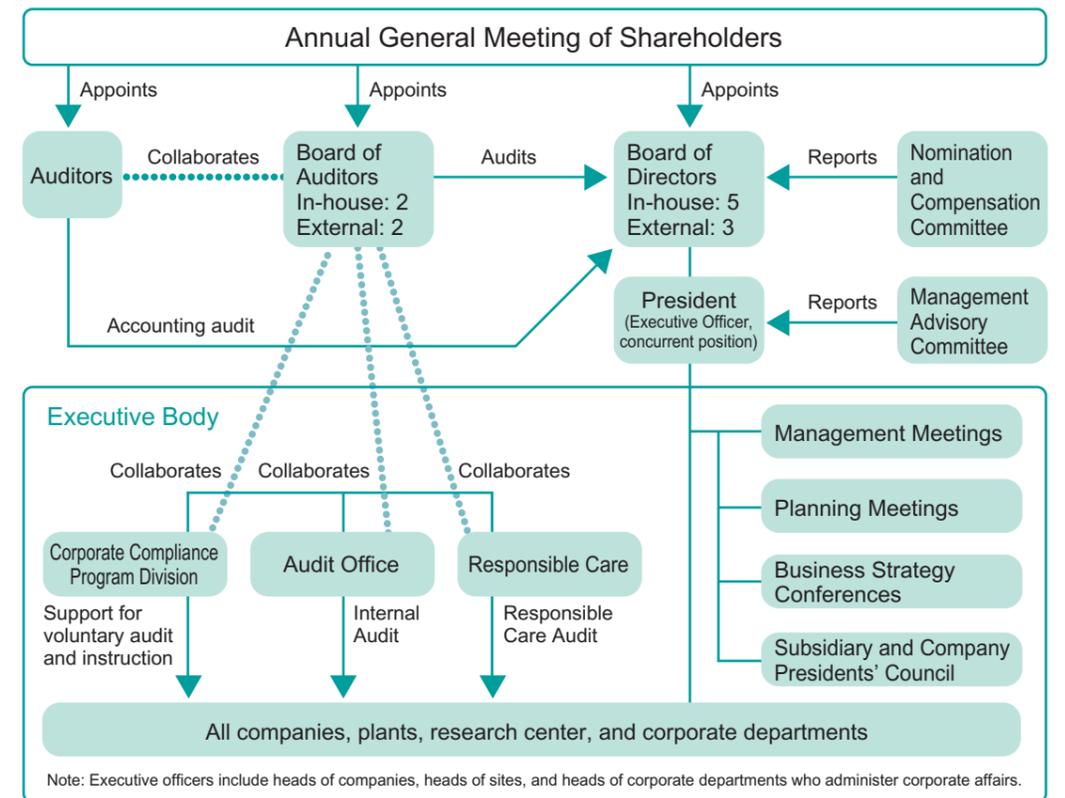
Corporate Governance

Basic Approach

Daicel recognizes corporate governance as an important aspect of business that can contribute to improved corporate value. As a publicly listed enterprise, Daicel is committed to carrying out its social mission and responsibilities. We believe in the need to strengthen our relationships with various stakeholders.

We ensure our maneuverability by clarifying the role-sharing of various organs, and we have implemented an agile management system capable of timely decision-making and execution. We can respond quickly to opinions from outside the Company and can apply them to our corporate operations. We intend to maintain our company management by improving the transparency and fairness.

Corporate Governance Framework



Major Corporate Governance Initiatives

March 2006

- The Information Disclosure Code was established to set out the information disclosure policy and disclosure criteria to ensure timely and appropriate information disclosure.
- The Information Disclosure Committee was established with the president as chairman to deliberate and determine specific details, timing and method of information disclosure. As well, this committee deliberates on issues that could be covered by information disclosure requirements in the future.

April 2006

- The Risk Management Code was established to ensure a proper response to the risks that exist among the activities of the Daicel Group companies.

- The Risk Management Committee was established to deliberate and determine policies for the company-wide promotion of risk management. The committee is also charged with evaluating the risk management circumstances of Daicel and each group company.

May 2006

- The board of directors was obliged to resolve on improving the internal control system in the Company Act executed in May 1, 2006. The board of directors meeting held on May 10, 2006, voted on the Basic Guidelines for Construction of the Internal Control System.

March 2007

- In order to ensure the reliability of the financial reports of the Daicel Group, Daicel established the Project to Implement Internal Controls for Financial Reporting and began full-scale implementation of this initiative.

Addressing Risk Management

In April 2006, Daicel adopted a Risk Management Code that stipulates a company-wide risk management policy. In addition, a Risk Management Committee was formed to control and promote company-wide risk management. At present, under the instructions of the Risk Management Committee, and according to the Risk Management System Establishment Project launched during the same period, Daicel is considering a system for applying the PDCA cycle of risk management throughout all group companies. In November 2006, our company created its first inventory of risks, which comprehensively investigated and shed light on significant challenges in that area. In the future, we plan to assign priority

levels to significant risks we have identified and implement appropriate countermeasures.

With regard to the initial response to the identification of significant risk, we will establish new regulations after reviewing the content of existing regulations and expanding the scope of possible plant accidents.

In our fiscal 2006 Medium-term Plan, we targeted the reinforcement of our foundation and identified two key initiatives: risk management and internal controls. We will improve these initiatives and link them to the creation of a foundation for our corporate social responsibility.

In-house Audits

Daicel's in-house audits include internal audits of our audit office, voluntary audits and reviews relating to corporate ethics, and Responsible Care (RC) audits.

● Internal Audits of the Audit Office

In accordance with the basic principles of the internal control system, we are striving to ensure appropriate business operation.

The Audit Office draws up audit master plans relating to the principles, scope, period, and target items of internal audits; carries out internal audits; and makes suggestions for correcting problems. The office supports appropriate business activities and reports to management with the results of the audit.

● Voluntary Audits and Reviews Relating to the Corporate Compliance Program Division

In order to ensure the establishment, practice, and continuous improvement of corporate ethics, we have employed a PDCA cycle to create a corporate ethics management system through which all divisions operate independently.

To verify that our corporate ethics are appropriate and that their practice is effective, each division conducts voluntary audits. The Corporate Compliance Program Division uses the results of these audits to carry out a company-wide review. Management responds by undertaking a top management review. These results are incorporated in corrective and preventive actions relating to corporate ethics; the courses of action, rules of conduct, and corporate ethics management system are revised accordingly.

● RC Audit

In conformity with the Guideline for Implementation of Responsible Care Internal Audits established by the Japan Responsible Care Council (JRCC), we undertake an annual audit of the status of implementation of RC activities and the status of compliance with RC-related laws and regulations. Daicel's plants and research center conduct annual reviews of their RC activities, while audit members carry out an RC audit, draw up a report on the results of the RC audit, and provide feedback to the plants and research center. These audit results are reported to management.

The RC audit results are incorporated in the action plan for the subsequent fiscal year of the Company, including the research center and all plants, and are reflected in continuous improvements and enhancement of RC activities.

These three in-house audits were carried out jointly in fiscal 2006 as efficient and effective audits of our plants and research center. In examining the effectiveness of these joint audits, we were able to exclude items common to the three audits and reduce the burden on the audited divisions. In addition, the audited divisions made use of this opportunity to exchange information, resulting in deeper understanding of the scope of the audits.



Joint audit in progress in the Ohtake Plant

Our Commitment to Corporate Ethics

● Daicel's Corporate Ethics Management System

We believe that each employee's adherence to corporate ethics is an essential management issue and are promoting this initiative company-wide.

This is not a temporary initiative; in order to ensure it is practiced continuously, we established our Corporate Ethics Management System by following the PDCA cycle. Through activities involving the participation of all employees, we are striving to maintain and improve this system.

● Practical Implementation of the Daicel Chemical Industries Code of Conduct

To ensure the specific practice of the Daicel Group Conduct Policy (see p. 2) within the Company as a standard, we established the Daicel Chemical Industries Code of Conduct and made a concerted effort to advise all employees of its existence. We formulated this code of conduct to incorporate the requirements for corporate social responsibility (CSR). By ensuring the thorough implementation of this code of conduct, we are seeking to raise the CSR awareness of all employees.

● Promotion System

We established the Corporate Compliance Program Division to promote corporate ethics activities and appointed our president and CEO as our corporate ethics officer. The Corporate Compliance Program Division supports the independent initiatives

of each section based on the Corporate Ethics Management System and continuously promotes activities to ensure compliance. These activities are summarized by management and reflected in the following activities. Upper management undertakes reviews on a regular basis.

● Corporate Ethics Training Program

Daicel provides position-specific training to union members, leaders, directors, and presidents of group companies. Carefully planned corporate ethics training is provided at important occasions when employees are promoted. Moreover, Daicel has continually offered in-house seminars to impart the knowledge of laws and regulations required for business operations.

● The Consultation and Report System (Corporate Ethics Help Line)

In the spirit of providing a protection system for whistleblowers who act in the public interest, Daicel is taking steps to ensure that the employees of each workplace are able to issue reports and hold consultations without difficulty; however, for cases where circumstances prevent a superior from devising a quick solution, we have put in place the Corporate Ethics Help Line—a unique in-house reporting system—to ensure appropriate advice is available. To further promote use of this initiative, we have also provided an external Corporate Ethics Help Line.

■ Daicel Chemical Industries Code of Conduct

• Daicel Chemical Industries Code of Conduct stipulates 35 items as specific criteria for the practice of the nine guidelines in the Daicel Group Conduct Policy and provides detailed descriptions. Below we list the primary headings.

• The Daicel Chemical Industries Code of Conduct lists criteria according to the steps to be taken in each area of the economy, the environment, and society.

- **Commerce**
 - Offer of products and services that are of use to society
 - Safety and quality assurances of products and services
 - Provision of product quality information
 - Response to incidents involving products
 - Procurement transactions
- **Finance**
 - Disclosure of corporate information
 - Fair accounting procedures
 - Prohibition of insider trading
- **The Global Environment**
 - Reduction of environmental impact
 - Realization of a sustainable society
- **Safety and the Environment**
 - Safe working environments

The Economy

The Environment

Society

- **Compliance**
 - Compliance with laws and ethics
 - Maintenance of effective internal systems and training
 - Compliance with international rules and the laws of each country
 - Compliance with antitrust laws
 - Compliance with laws relating to imports/exports
 - Handling of confidential information
 - Maintenance and protection of intellectual property (IP) rights
 - Control of personal information
 - Appropriate use of information systems
- **Humanity**
 - Contribution to the development of local society
 - Effective use of corporate resources
 - Behavior causing damage to the Company
 - Human rights/discrimination, harassment
 - Lively workplace environment
 - Respect for individual ability
- **Accommodating Society**
 - Response with integrity to stakeholders
 - Response to antisocial influences
 - Social contribution activities
 - Coexistence with society at national and local levels
 - Contribution to the development of local society
 - Advertisements
 - Highly transparent political and governmental relationships
 - Business entertainment, etc.

Daicel Group Basic Philosophy
Daicel Group Conduct Policy
Daicel Chemical Industries Code of Conduct
[Established July 1, 2006]

Our Commitment to Our Employees

● Personnel System

At Daicel, we are driving improvements in productivity by creating a human resource platform built on meritocracy and human resource development.

● Personnel Remuneration System

We have introduced individual performance evaluations and behavior evaluations as the basis for our merit-based personnel evaluation system. Moreover, we have adopted an MBO (management by objectives) framework as a management tool to reflect the results of individual evaluations (performance and behavior evaluations) in remuneration. The principles of our remuneration system are outlined below.

- A person with achievements is rewarded; a person lacking in achievements is not rewarded.
- The linkage between the company's performance and employee remuneration is clarified and implemented.
- Remuneration is defined on the basis of annual income.
- The best personnel are promoted, regardless of their age.
- In evaluations, priority is placed on ability (growth) as well as results.
- A minimum living standard is guaranteed.
- The objective is to establish a foundation on which employees can live a healthy corporate life in both mind and body.

● Retiree Rehiring System

In 2003, we introduced our Retired Re-employment Program to make the best use of the experience and abilities of many of our retirees.

We will continue to maintain workplaces in which veteran employees can make full use of their skills and experience.

● Creating Satisfying Workplaces

In light of Japan's declining birthrate and aging population, we have implemented the following programs in an effort to provide a work environment in which employees can work with a sense of security while devoting themselves to child rearing or nursing care responsibilities.

• Child-rearing Leave and Nursing Care Leave

Employees are entitled to take advantage of child-rearing leave until their child has reached the age of one year (or 18 months for certain prescribed cases). For nursing care leave, employees are entitled to a maximum leave of one year.

• Reduced Work Hours

Employees have the option of reducing their working hours by a maximum of two hours per day for reasons of pregnancy, childbirth, child-rearing, and nursing care.

• Employment of Persons with Disabilities

We have attained the official employment rate of 1.8% and will continue to employ persons with disabilities to enable many more of them to participate in society through work while experiencing the joy of working and a purposeful life. We are also contributing to their skill development.

With regard to workplace assignments, we identify appropriate employment according to the degree of disability faced by the individual and carefully consider ways in which we can enable such employees to demonstrate their capabilities to the maximum in accordance with the special qualities of each individual.

● Human Resource Cultivation Efforts

Daicel believes that personal growth also means corporate growth and it is therefore committed to various aspects of human resource cultivation.

Specifically, Daicel offers programs such as the following to promote personal growth from various perspectives.

1. an MBO (management by objectives) framework that helps employees develop by allowing them to challenge objectives;
2. identification of objectives for programmed personnel development targeting each employee (Personnel Plan);
3. a voluntary reporting system according to which all employees express their wishes and consider their future careers (Personnel Development Report); and
4. implementation of various education and training curriculums (Engineer Development Program, etc.).

● Responsible Care—Education and Training

To increase awareness of the philosophy and policy of Responsible Care and improve the quality of our activities, we have convened Daicel Group RC Promotion Conventions and RC Conventions at plants and research center. These include group-wide collective education and workplace education and training programs.



Daicel Group Responsible Care Promotion Convention



Responsible Care Convention at the Harima Plant

■ Training Curriculums

- Daicel Group policy curriculum**
- Corporate ethics & compliance training
 - Responsible Care training
 - Mental health training

Training systems by class

Leadership positions	Functional ability class	Director	External seminars for top management Basic managerial seminar Training of new superintendents
		Councilor	
		Superintendent	
Union members	Functional ability class	Class 2 senior position	Training for class 1 new senior positions
		Class 1 senior position	
		Class 2 intermediate position	Basic training for core employees
		Class 1 intermediate position	
		Junior position	

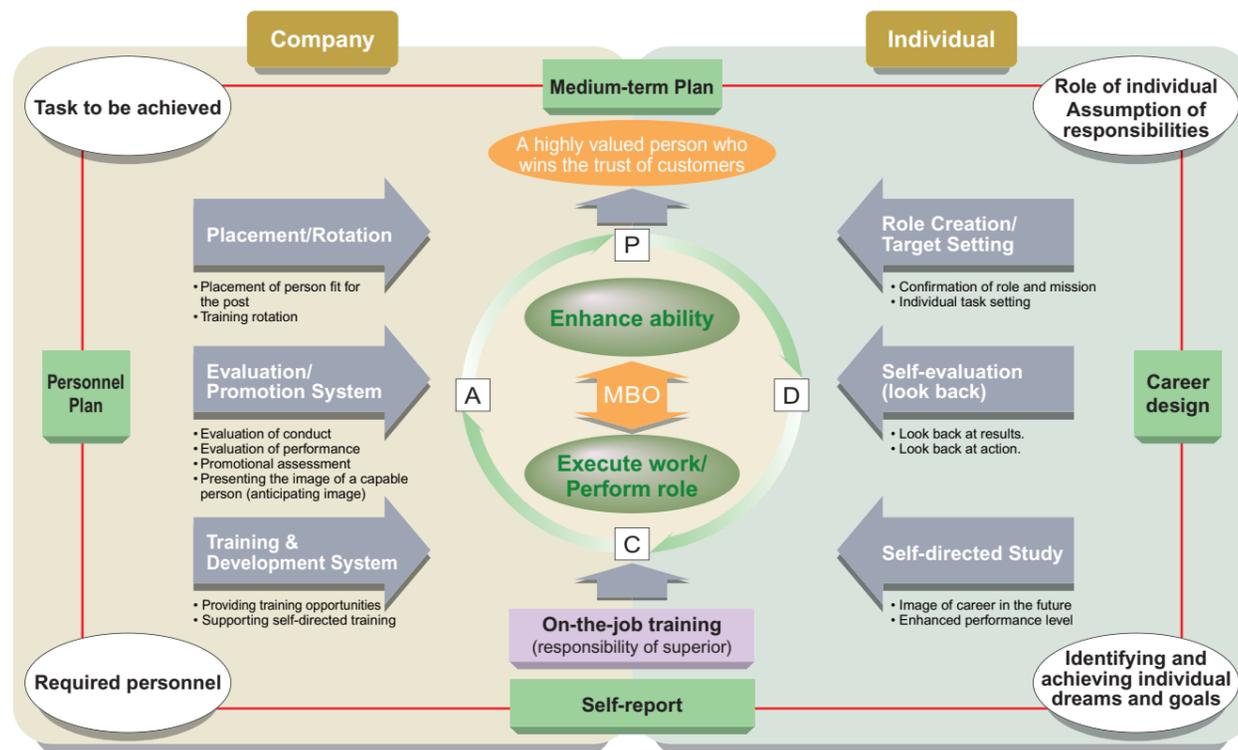
Development of special skills

Production staff	• Training Center (TRC) Operator training (plant practice and the like)
Engineers	• Engineer development program • Manufacturing training New employees (3-shift on-site practice)

Development of common business skills

Internationalization	• Language training for international postings • Overseas training • Study in China • Interview counseling • Seminar on motivation to learn English • TOEIC
Self-directed development	• Distance learning • External seminars • Acquisition of qualifications • Cross-industrial exchanges
Law	• Antitrust Law • Contracts and other legal affairs • Document management
Computer literacy	• Application development • Mobile courses • VPN courses • ACCESS courses • PC introductory courses
Action skills	• Presentation skills • Problem-solving skills • Logical document writing skills
Intellectual property	• Intellectual property seminar
Accounting and financial affairs	• Financial affairs seminar/novice level, intermediate level • Financial affairs seminar/initial cost

■ A Varied Personnel System Focused on Development of Personnel



Our Commitment to Our Employees

● Training for Manufacturing

At Daicel, we fully emphasize the importance of manufacturing and remain completely committed to the pursuit of excellence in manufacturing. This attitude has enabled us to earn the recognition and trust of our customers as we contribute to society at large. Accordingly, we have identified training of our engineers as a critical issue for the Company. We therefore provide new technical employees with training that provides a good grounding in manufacturing.

In their first year with the Company, new technical employees are assigned to production sites and are trained in the fundamentals of manufacturing: specifically, safety, cost, lead time, and quality. In their second year in an assignment suited to their aptitude, such employees determine their own specialty by applying the fundamentals they learned in their first year. Immediately after entering the Company, they undergo practical experiential training in the plant workshop at the Operating Training Center located in the Aboshi Plant.



Operating Training Center



Computer control practice at the plant training workshop



Production site practice at the plant training workshop



■ A Training Center that Brings Employees Together for Study and Interchange

In order to provide a facility in which Daicel employees can study together, communicate, and refresh themselves, Daicel opened the H.R. Training Center in 1998. Capable of housing up to 70 trainees, this facility offers seven training rooms with a daily capacity of 160 trainees. Situated at a distance from Daicel's other facilities, this training center gives trainees the opportunity to think deeply, discover new ideas, and develop intellectual skills.

More than 80,000 trainees have already used this facility for training courses, in-company testing, project meetings and discussions.



H.R. Training Center

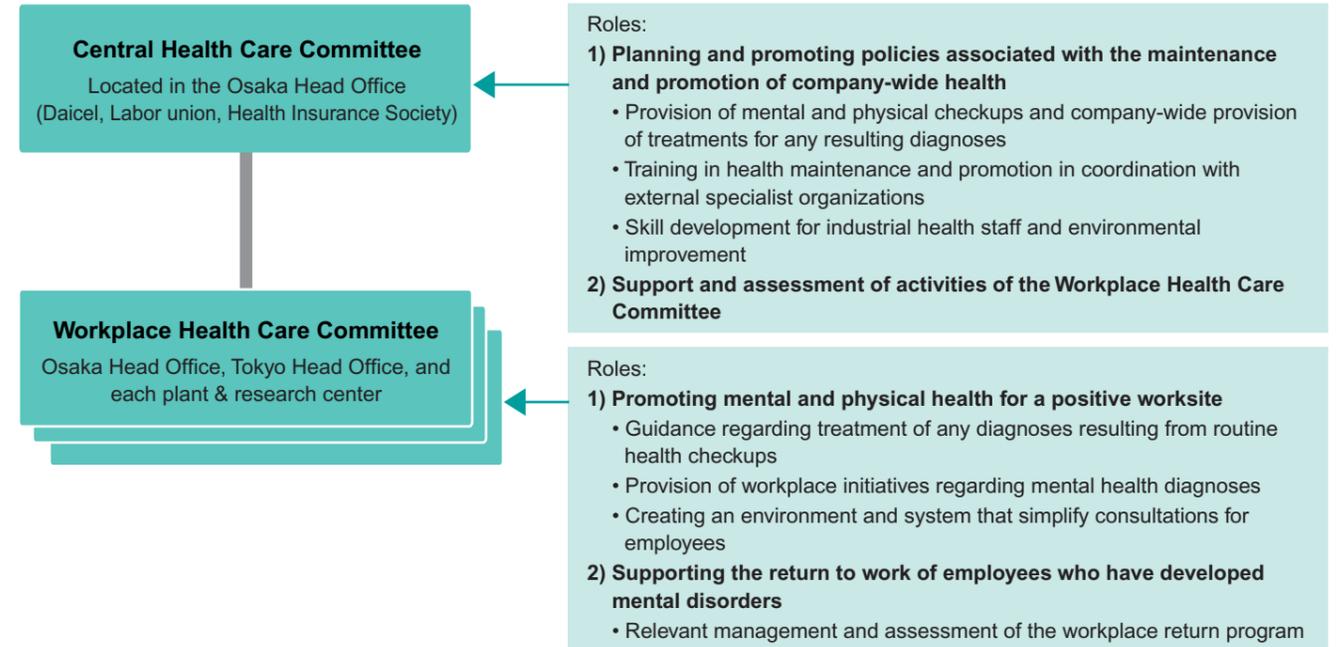
● Promoting Good Health

Established in 2003, Daicel's Health Care Committee is promoting company-wide health management of physical and mental health issues. It encourages the creation of a pleasant environment in the

workplace while contributing to worker health.

The following describes the promotion system of the Health Care Committee and the implementation themes.

■ Organizations Promoting the Health Care Committee



■ Implementation Themes of the Health Care Committee

• Mental Health Checkups

Daicel offers its employees mental health checkups with the intention of enabling all Daicel employees to maintain good mental and physical health through a clearer understanding of their own mental health. These checkups have been offered every two years since 1999.

• Stress Management Handbook (scheduled for renewal in fiscal 2007)

We developed this handbook and distributed it to all Daicel employees. Its purpose is to eliminate misunderstandings about mental health and allow Daicel employees to gain clear knowledge about mental health while enhancing their immunity to stress through routine health management. The Workplace Health Care Committee also utilizes the handbook in its activities.

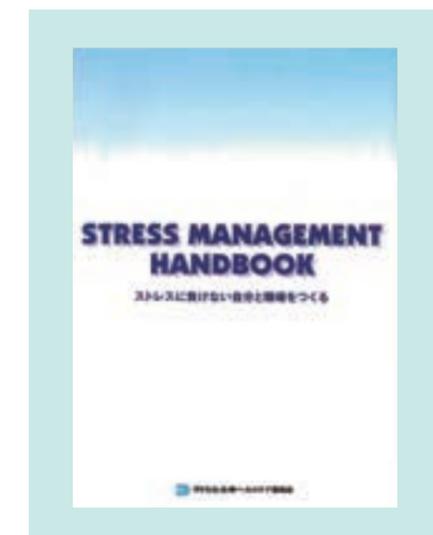
• Guide to Mental Disorders

Every worksite creates various stresses. Extremely severe stresses can prompt employees to take sick leave. To help absent employees solve this problem, we have developed and adopted the Problem-solving Flow Model.

• System of Abbreviated Work Hours for Sick or Injured Employees

On January 1, 2004, Daicel introduced a system of abbreviated work hours for sick or injured employees (work during rehabilitation system).

This system is intended to allow an employee with a physical or mental disorder or one who wishes to return to work after hospitalization or recuperation at home to undergo a scheduled rehabilitation process through abbreviated work hours that enable a smoothly return to duty.



Stress Management Handbook

Commitment to Our Customers (Quality Assurance and Provision of Product Safety Data)

In order to provide products that earn the confidence of our customers, we have undertaken a range of measures for our customers, including incorporating prior assessments of product safety; implementing quality management based on the ISO 9001 international standards for quality management systems; and formulating and providing Material Safety Data Sheets (MSDS) for products.

● Prior Assessment of Product Safety

To ensure the safety of our products and fulfill the responsibilities associated with Product Liability (PL), Daicel has incorporated Product Safety Assessment Standards into its Total ESH Assessment System to evaluate their safety prior to production and marketing in order to prevent hazards arising from products.

● Quality Assurance

All Daicel's plants have acquired certification of registration with ISO 9001:2000, the international standard for quality management. Our plants are committed to addressing the maintenance and management of product quality and to ensuring continuous improvements in their quality management systems. We are also proud to have obtained certification of registration with ISO/TS 16949:2002, the quality management system standard for the automobile industry, after an evaluation of our air bag inflator manufacturing; moreover, we have obtained certification of registration with JIS Q 9100:2004, the quality management system standard for the aerospace industry, for our manufacture of special machinery products.

For medical and pharmaceutical products, we undertake manufacturing, management, and quality control under organizational and management criteria that conform to legally mandated regulations covering the manufacturing, management, and quality control of pharmaceutical products (GMP). For our sorbic acid manufacturing process, we follow a management process that has passed the AIB Consolidated Standards for Food Safety and are committed to offering products that customers can use with complete confidence.

● Provision of Product Safety Data

Whenever legally regulated chemical substances are supplied, the law stipulates the distribution of Material Safety Data Sheets (MSDS) containing safety information so that appropriate precautions can be taken. Daicel also prepares MSDS for products other than legally regulated chemical substances to ensure such products can be used safely.



Our Arai Plant received a high rating following an AIB auditor's inspection of our sorbic acid processing system.



MSDS

Definition of Term

MSDS (Material Safety Data Sheet)
This sheet contains chemical safety data. Such sheets are provided to the suppliers, users, and handlers of each of our products in order to prevent chemical accidents.

AIB (American Institute of Baking) Consolidated Standards for Food Safety
The AIB promotes the specialized standards for food safety developed by the North American wholesale and retail baking industries.

GMP (Good Manufacturing Practice)
These requirements apply to the control and management of manufacturing as well as quality control regulations that ensure pharmaceutical products are consistently produced and controlled to safety and quality standards in all processes from intake of raw materials to the warehouse to manufacturing and shipping.

Our Commitment to Our Suppliers and Investors

● Establishment and Disclosure of Policies Stipulating the Purchase of Fuels and Raw Materials

Our Raw Material Purchasing Center has established policies and is conducting its purchasing activities in conformity to the Daicel Group Conduct Policy and the Daicel Chemical Industries Code of Conduct. Specifically, we are implementing secure procurement of

fuels and raw materials in light of today's focus on risk management. Our policies for purchasing fuels and raw materials are available to the public on our website (www.daicel.co.jp/purchase/index.html).

■ Policies Regarding the Purchase of Fuels and Raw Materials

Our Raw Material Purchasing Center carries out its purchasing activities in conformity with the policies outlined below.

Fair & Rational Transactions

- We remain committed to operating on a basis of economic rationality under our motto of remaining dedicated to just and fair transactions.
- Our overall considerations are matters of price, quality, stability of supply, technological development capability, and consideration for the environment.
- We conduct our purchasing activities in an open manner with no regard for previous dealings or for whether the provider is located inside or outside Japan.

Confidentiality and Compliance with Laws and Regulations

- We comply with laws and regulations relating to purchasing activities.
- We request that our suppliers comply with such laws and regulations and we select only those suppliers who demonstrate such a commitment.
- We maintain our duty of nondisclosure of confidential information obtained from our suppliers during such transactions.

Establishing a Relationship of Trust

- We strive to establish partnerships with our suppliers by pursuing mutual benefit.
- We conduct business with our suppliers with complete honesty and in good faith.

* These policies have not been set forth in the form of a contract and should not be construed as an offer of a contract.

● Constructive Investor Relations

In order to ensure a continuous increase in shareholder value, Daicel is actively addressing its responsibilities in the area of investor relations so that our investors clearly understand the nature of our businesses and any changes in our performance. Every year, our IR staff holds roughly 200 IR meetings with

analysts and institutional investors, and handles requests for information.

Our management holds meetings for analysts and institutional investors after releasing our year-end financial report in May, our interim financial report in November, and our medium-term plan.



Meeting on our medium-term plan in fiscal 2006



Annual Report



Shareholder news

Our Commitment to Society and Local Communities

Daicel's Emergency Response to the Disruption of the Water Supply in Kure and Edashima

On August 25, a water supply tunnel belonging to the water service managed by Hiroshima prefecture suffered a collapse. This led to suspension of the water supply across an extensive area centered in the cities of Kure and Edashima. This mishap seriously disrupted residents and businesses in the region.

All neighboring companies were committed to providing emergency assistance, including the provision of industrial water. Our Ohtake Plant responded to an urgent request made by the City of Otake to supply seawater. The Ohtake Plant provided our third plant's water supply connections as well as the land extending to the Port of Otake for the installation of temporary pipes.



Temporary water supply piping

Volunteer Activities of Daicel Labor Union

The Daicel Labor Union carries out a variety of volunteer activities. The labor union undertakes an annual fund-raising campaign at year-end and donates the funds to welfare organizations in various regions. Additionally, the labor union collaborates with the Japanese Federation of Chemical Workers' Unions (JFCWU) to collect misaddressed postcards and unwanted prepaid cards and the like. These items are sent through JFCWU to HUNGER FREE WORLD, a Specified Non-profit Corporation (an international NGO dedicated to creating a world free of hunger and poverty). After that, they are returned for cash that contributes to the economic independence of developing countries.

In addition, each district participates in a variety of activities, and the Arai district participates in window cleaning and garden maintenance at the senior citizens' home twice a year.

Plant Museum is Opened to the Public

As part of our effort to contribute to the local community, we opened the Daicel Ijinkan, a collection of Western-style houses, at the site of the Aboshi Plant. This museum, open to the general public, attracts many visitors who are interested in the history of celluloid, a thermoplastic resin closely tied to the history of our company.

The Aboshi Plant was founded as Japan Celluloid Artificial Silk Co., Ltd.; the Daicel Ijinkan was constructed to serve as accommodations for engineers who were invited from Britain and Germany in 1910 to provide technical guidance on celluloid manufacturing. The City of Himeji has designated the Ijinkan as an important urban landscape structure; it has also been selected as one of Hyogo prefecture's "One Hundred Best Residential Buildings." Eucalyptus trees surrounding the Ijinkan have been maintained since the buildings were constructed and have been designated by the City of Himeji as trees to be preserved. One of the buildings is open to the general public as a museum displaying items related to celluloid, such as toys and a black kewpie doll, one of only several found in Japan.



Exhibits (top) and Ijinkan at the Aboshi Plant

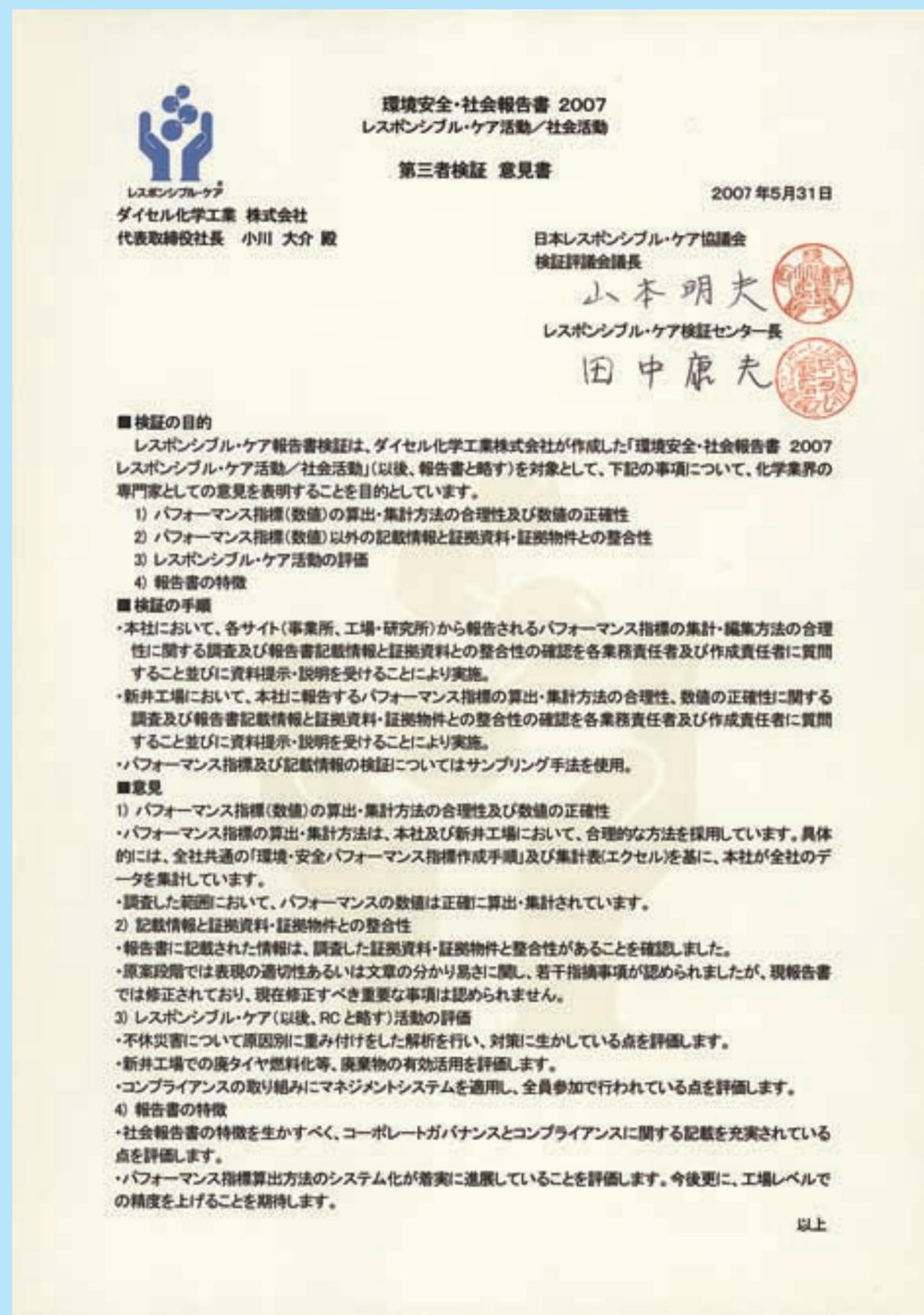
- Free of charge
- Open 10:00–17:00
- Closed on Saturdays, Sundays and public holidays
- Allow about 15 minutes to view all exhibits

History of Daicel's Responsible Care and Commitment to Society and Its Employees

1969	• The Safety Management Department is established.
1986	• Official GLP certification is awarded to the Himeji Research Center under the Law Concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances (Chemical Substances Control Law).
1988	• The Safety Management Department is reorganized as the Environment and Safety Division.
1991	• The Global Environment Preservation Promotion Committee is established.
1993	• The voluntary environment and safety plan is established. • The "Manufacturer of Excellence" Commendation of the Minister of International Trade and Industry is awarded to the Arai Plant for high-pressure gas security.
1994	• The "Excellent Workplace that Handles Hazardous Materials" Prize of the Director-General of the Fire and Disaster Management Agency is awarded to the Sakai Plant.
1995	• The Global Environment Department replaces the Global Environment Preservation Promotion Committee. • The Company joins the Japan Responsible Care Council. • The Company establishes the Basic Policies of Responsible Care (RC) and Responsible Care activities begin.
1998	• ISO 14001 compliance activities are begun.
1999	• Executive officers are appointed. • The Environment and Safety Division is reorganized as the Safety Department.
2000	• The Minister of Labor's Commendation—the Safety Promotion Prize—is awarded to the Ohtake Plant. • The first annual Environment and Safety Report is published. • Outside directors are elected. Nomination and Compensation Committee is established. • The Corporate Compliance Program Division is founded and the director is appointed.
2001	• The Daicel Policy for Ethical Conduct and Guidelines for Business Activities are established. • The Safety Department and Global Environment Department merge to form the Responsible Care Office. • All Daicel plants and research centers acquire certification of ISO 14001 registration. • Environmental accounting system is introduced.
2002	• Internal Company System is introduced. Management Advisory Committee is established. • Data reporting is initiated for amounts of substances released and transferred under the PRTR Law.
2003	• The Corporate Ethics Help Line is established. • The Health Care Committee is established. • Term of office of company directors is reduced from two years to one year. Operating Standards for Group Enterprise Management are established.
2004	• Daicel is presented with the 53rd CSJ Technical Development Award for the Novel Environmentally Benign Aerobic Oxidation Technology using NHPI catalyst. • The improved wastewater treatment facility at the Aboshi Plant begins operation to satisfy the 5th total water quality regulation of the Law Concerning Special Measures for Conservation of the Environment of the Seto Inland Sea. • The Inflator Recycling Center begins operation at the Harima Plant.
2005	• Daicel launches the Project to Promote Reinforcement of Internal Controls on Information Disclosure. • For the second consecutive year, the Aboshi Plant obtains certification as a safety inspector in conformity with the revised High Pressure Gas Safety Law. • The Ohtake Plant is awarded the Excellence Prize by the Minister of Health, Labour and Welfare as part of the Minister of Health, Labour and Welfare's commendations for excellent enterprises, organizations, and deserving individuals in the area of health and safety for fiscal 2005.

Opinions of Third Parties

This document appearing below contains the opinions (in Japanese) of third parties regarding the 2007 edition of this report.



■ 検証の目的

レスポンシブル・ケア報告書検証は、ダイセル化学工業株式会社が作成した「環境安全・社会報告書 2007 レスポンシブル・ケア活動/社会活動」(以後、報告書と略す)を対象として、下記の事項について、化学業界の専門家としての意見を表明することを目的としています。

- 1) パフォーマンス指標(数値)の算出・集計方法の合理性及び数値の正確性
- 2) パフォーマンス指標(数値)以外の記載情報と証拠資料・証拠物件との整合性
- 3) レスポンシブル・ケア活動の評価
- 4) 報告書の特徴

■ 検証の手順

- 本社において、各サイト(事業所、工場・研究所)から報告されるパフォーマンス指標の集計・編集方法の合理性に関する調査及び報告書記載情報と証拠資料との整合性の確認を各業務責任者及び作成責任者に質問すること並びに資料提示・説明を受けることにより実施。
- 新井工場において、本社に報告するパフォーマンス指標の算出・集計方法の合理性、数値の正確性に関する調査及び報告書記載情報と証拠資料・証拠物件との整合性の確認を各業務責任者及び作成責任者に質問すること並びに資料提示・説明を受けることにより実施。
- パフォーマンス指標及び記載情報の検証についてはサンプリング手法を使用。

■ 意見

- 1) パフォーマンス指標(数値)の算出・集計方法の合理性及び数値の正確性
 - パフォーマンス指標の算出・集計方法は、本社及び新井工場において、合理的な方法を採用しています。具体的には、全社共通の「環境・安全パフォーマンス指標作成手順」及び集計表(エクセル)を基に、本社が全社のデータを集計しています。
 - 調査した範囲において、パフォーマンスの数値は正確に算出・集計されています。
- 2) 記載情報と証拠資料・証拠物件との整合性
 - 報告書に記載された情報は、調査した証拠資料・証拠物件と整合性があることを確認しました。
 - 原案段階では表現の適切性あるいは文章の分かり易さに関し、若干指摘事項が認められましたが、現報告書では修正されており、現在修正すべき重要な事項は認められません。
- 3) レスポンシブル・ケア(以後、RCと略す)活動の評価
 - 不特定災害について原因別に重み付けをした解析を行い、対策に生かしている点を評価します。
 - 新井工場での廃タイヤ燃料化等、廃棄物の有効活用を評価します。
 - コンプライアンスの取り組みにマネジメントシステムを適用し、全員参加で行われている点を評価します。
- 4) 報告書の特徴
 - 社会報告書の特徴を生かすべく、コーポレートガバナンスとコンプライアンスに関する記載を充実されている点を評価します。
 - パフォーマンス指標算出方法のシステム化が着実に進展していることを評価します。今後更に、工場レベルでの精度を上げることを期待します。

以上



<http://www.daicel.co.jp/indexe.html>

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