Financial Section 2018

Contents

DAICEL

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2018 and 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥128,290	¥ 96,275	$1,210,283
Marketable securities (Notes 3 and 14)	929	29	8,764
Receivables (Note 14):			
Trade notes	3,380	3,592	31,886
Trade accounts	88,912	83,735	838,792
Unconsolidated subsidiaries and associated companies	5,393	4,346	50,877
Allowance for doubtful receivables	(44)	(80)	(415)
Inventories (Note 4)	109,295	100,657	1,031,084
Deferred tax assets (Note 10)	5,353	6,631	50,500
Other current assets	13,057	12,029	123,179
Total current assets	354,567	307,216	3,344,971
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 17):			
Land	26,754	26,760	252,396
Buildings and structures	162,111	157,581	1,529,349
Machinery and equipment	597,726	595,739	5,638,924
Construction in progress	14,053	19,762	132,575
Total	800,646	799,843	7,553,264
Accumulated depreciation	(616,605)	(614,662)	(5,817,028)
Net property, plant and equipment	184,041	185,180	1,736,235
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	72,535	72,094	684,292
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	11,119	10,357	104,896
Deferred tax assets (Note 10)	1,102	1,505	10,396
Net defined benefit asset (Note 7)	5,321	5,303	50,198
Other assets	15,390	18,049	145,188
Total investments and other assets	105,469	107,310	994,990
TOTAL	¥644,078	¥599,708	$6,076,207

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 10,117	¥ 7,788	$ 95,443
Current portion of long-term debt (Notes 6, 14 and 16)	13,733	4,513	129,556
Payables (Notes 14 and 16):			
Trade notes	284	170	2,679
Trade accounts	53,719	44,446	506,783
Nontrade accounts	11,077	12,353	104,500
Construction	7,377	9,937	69,594
Unconsolidated subsidiaries and associated companies	2,365	2,182	22,311
Income taxes payable (Notes 10 and 14)	4,271	7,432	40,292
Other current liabilities (Notes 10 and 16)	15,461	20,503	145,858
Total current liabilities	118,409	109,327	1,117,066
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 14 and 16)	75,884	59,983	715,886
Net defined benefit liability (Note 7)	12,318	12,249	116,207
Provision for environmental measures (Note 21)	4,000		37,735
Asset retirement obligations (Note 8)	1,238	1,036	11,679
Deferred tax liabilities (Note 10)	14,634	16,158	138,056
Other long-term liabilities	4,050	1,506	38,207
Total long-term liabilities	112,126	90,951	1,057,792
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 22)			
EQUITY (Notes 9 and 24):			
Common stock, authorized, 1,450,000,000 shares in 2018 and 2017; issued, 349,942,682 shares in 2018 and 349,942,682 shares in 2017	36,275	36,275	342,216
Capital surplus	31,642	31,867	298,509
Retained earnings	292,104	266,462	2,755,698
Treasury stock - at cost, 11,239,478 shares in 2018 and 3,737,941 shares in 2017	(14,004)	(4,025)	(132,113)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	33,410	34,978	315,188
Deferred gain (loss) on derivatives under hedge accounting	58	(16)	547
Foreign currency translation adjustments	4,805	4,212	45,330
Defined retirement benefit plans	583	(134)	5,500
Total	384,876	369,620	3,630,905
Noncontrolling interests	28,665	29,809	270,424
Total equity	413,541	399,429	3,901,330
TOTAL	¥644,078	¥599,708	$6,076,207

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	2018
NET SALES	¥462,956	¥440,061	¥449,878	$4,367,509
COST OF SALES (Notes 11 and 16)	325,754	303,229	316,049	3,073,150
Gross profit	137,201	136,832	133,829	1,294,349
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	78,269	72,526	69,479	738,386
Operating income	58,932	64,306	64,349	555,962
OTHER INCOME (EXPENSES):				
Interest and dividend income	1,770	1,821	2,367	16,698
Gain on sales of investment securities	3,914	2,461	2,719	36,924
Subsidies from municipal governments (Note 17)			793	
Equity in earnings of unconsolidated subsidiaries and associated companies	1,336	870	1,094	12,603
Insurance income (Note 18)	854			8,056
Interest expense (Note 16)	(1,203)	(958)	(1,131)	(11,349)
Foreign exchange gain (loss)	(730)	(1,599)	(2,065)	(6,886)
Loss on dispositions of property, plant and equipment	(2,260)	(3,361)	(4,311)	(21,320)
Loss on claim compensation (Note 19)	(85)	(989)	(1,557)	(801)
Loss on disaster (Note 20)	(677)			(6,386)
Provision for environmental measures (Note 21)	(4,000)			(37,735)
Reduction of cost of property, plant and equipment (Note 17)			(561)	
Other – net	1,379	1,822	1,793	13,009
Other income (expenses) – net	297	66	(858)	2,801
INCOME BEFORE INCOME TAXES	59,229	64,373	63,491	558,764
INCOME TAXES (Note 10):				
Current	14,537	15,996	16,630	137,141
Prior periods		690		
Deferred	225	(2,439)	305	2,122
Total income taxes	14,763	14,246	16,935	139,273
NET INCOME	44,466	50,126	46,555	419,490
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	7,404	6,928	6,242	69,849
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 37,062	¥ 43,198	¥ 40,313	$ 349,641

	Yen			U.S. Dollars (Note 1)
	2018	2017	2016	2018
PER SHARE INFORMATION (Notes 2.s and 12):				
Basic net income	¥ 107.81	¥ 124.61	¥ 115.02	$ 1.02
Cash dividends applicable to the year	32.00	30.00	26.00	0.30

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	**2018**
NET INCOME	¥44,466	¥50,126	¥46,555	$419,490
OTHER COMPREHENSIVE INCOME (LOSS) (Note 23):				
Unrealized gain (loss) on available-for-sale securities	(1,563)	3,546	(3,563)	(14,745)
Deferred gain (loss) on derivatives under hedge accounting	113	222	(94)	1,066
Foreign currency translation adjustments	91	(1,340)	(10,503)	858
Defined retirement benefit plans	869	(210)	(1,578)	8,198
Share of other comprehensive income (loss) in associates	236	(404)	(736)	2,226
Total other comprehensive income (loss)	(252)	1,813	(16,476)	(2,377)
COMPREHENSIVE INCOME	¥44,214	¥51,939	¥30,079	$417,113
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	¥36,880	¥44,937	¥26,394	$347,924
Noncontrolling interests	7,334	7,001	3,684	69,188

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2018, 2017 and 2016

		Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2015	351,320,519	¥36,275	¥31,579	¥211,478	¥ (6,385)	¥35,014	¥(88)	¥14,674	¥1,619	¥324,167	¥32,010	¥356,177
Net income attributable to owners of the parent				40,313						40,313		40,313
Cash dividends, ¥26.00 per share				(9,134)						(9,134)		(9,134)
Repurchase of treasury stock	(2,148,198)				(4,003)					(4,003)		(4,003)
Disposal of treasury stock	76		0		0					0		0
Change in the parent's ownership interest due to transactions with noncontrolling interests											(540)	(540)
Net change in the year						(3,514)	(58)	(8,789)	(1,556)	(13,918)	(174)	(14,092)
BALANCE, MARCH 31, 2016	349,172,397	36,275	31,579	242,657	(10,388)	31,499	(146)	5,885	62	337,424	31,296	368,720
Net income attributable to owners of the parent				43,198						43,198		43,198
Cash dividends, ¥26.00 per share				(9,039)						(9,039)		(9,039)
Repurchase of treasury stock	(2,967,656)				(4,001)					(4,001)		(4,001)
Retirement of treasury stock			(11)	(10,353)	10,364							
Change in the parent's ownership interest due to transactions with noncontrolling interests			298							298	(2,228)	(1,930)
Net change in the year						3,479	130	(1,672)	(197)	1,739	742	2,481
BALANCE, MARCH 31, 2017	346,204,741	36,275	31,867	266,462	(4,025)	34,978	(16)	4,212	(134)	369,620	29,809	399,429
Net income attributable to owners of the parent				37,062						37,062		37,062
Cash dividends, ¥33.00 per share				(11,419)						(11,419)		(11,419)
Repurchase of treasury stock	(7,501,649)				(9,979)					(9,979)		(9,979)
Disposal of treasury stock			0		0					0		0
Retirement of treasury stock	112											
Change in the parent's ownership interest due to transactions with noncontrolling interests			(225)							(225)	(324)	(549)
Net change in the year						(1,568)	75	593	718	(181)	(818)	(1,000)
BALANCE, MARCH 31, 2018	338,703,204	¥36,275	¥31,642	¥292,104	¥(14,004)	¥33,410	¥ 58	¥ 4,805	¥ 583	¥384,876	¥28,665	¥413,541

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2017	$342,216	$300,632	$2,513,792	$(37,971)	$329,981	$(150)	$39,735	$(1,264)	$3,486,981	$281,216	$3,768,198
Net income attributable to owners of the parent			349,641						349,641		349,641
Cash dividends, $0.31 per share			(107,726)						(107,726)		(107,726)
Repurchase of treasury stock				(94,141)					(94,141)		(94,141)
Disposal of treasury stock		0		0					0		0
Retirement of treasury stock											
Change in the parent's ownership interest due to transactions with noncontrolling interests		(2,112)							(2,112)	(3,056)	(5,179)
Net change in the year					(14,792)	707	5,594	6,773	(1,707)	(7,716)	(9,433)
BALANCE, MARCH 31, 2018	$342,216	$298,509	$2,755,698	$(132,113)	$315,188	$547	$45,330	$5,500	$3,630,905	$270,424	$3,901,330

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2018, 2017 and 2016

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2018	2017	2016	2018
OPERATING ACTIVITIES:				
Income before income taxes	¥ 59,229	¥64,373	¥63,491	$ 558,764
Adjustments for:				
Income taxes - paid	(16,607)	(16,272)	(20,895)	(156,669)
Depreciation and amortization	32,229	29,926	24,958	304,047
Amortization of goodwill	727	910	1,011	6,858
Loss on dispositions of property, plant and equipment	2,260	3,361	4,311	21,320
Provision for environmental measures	4,000			37,735
Gain on sales of investment securities	(3,914)	(2,461)	(2,719)	(36,924)
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,336)	(870)	(1,094)	(12,603)
Reduction of cost of property, plant and equipment			561	
Subsidies from municipal governments			(793)	
Changes in assets and liabilities:				
Decrease (increase) in notes and accounts receivable	(5,243)	(4,161)	(4,987)	(49,462)
Decrease (increase) in inventories	(8,624)	3,778	(1,317)	(81,358)
Increase (decrease) in notes and accounts payable	9,952	(3,165)	1,325	93,886
Other – net	(5,786)	10,751	1,566	(54,584)
Net cash provided by operating activities	66,888	86,168	65,419	631,018
INVESTING ACTIVITIES:				
Net decrease (increase) in time deposits	241	468	640	2,273
Net decrease (increase) in short-term investment securities	(575)	59	(397)	(5,424)
Capital expenditures	(33,433)	(38,014)	(35,851)	(315,405)
Payment for purchases of investment securities	(5,103)	(524)	(23)	(48,141)
Proceeds from sales and redemption of investment securities	6,641	5,232	5,622	62,650
Proceeds from sales of property, plant and equipment	415	521	1,433	3,915
Increase in finance receivables	(499)	(76)	(413)	(4,707)
Collection of finance receivables	73	51	107	688
Subsidies from municipal governments			793	
Other – net	(948)	(2,440)	(3,318)	(8,943)
Net cash used in investing activities	(33,189)	(34,722)	(31,407)	(313,103)
FINANCING ACTIVITIES:				
Net change in short-term bank loans	2,268	831	(5,930)	21,396
Proceeds from issuance of long-term debt	513	5,771	382	4,839
Repayments of long-term debt (Note 16)	(4,499)	(5,318)	(8,415)	(42,443)
Proceeds from issuance of bond	29,849			281,594
Dividends paid	(11,412)	(9,036)	(9,105)	(107,660)
Dividends paid to noncontrolling interests	(8,153)	(6,259)	(3,858)	(76,915)
Payment for purchases of treasury stock	(9,979)	(4,001)	(4,003)	(94,141)
Payment for acquisition of interests in a subsidiary from noncontrolling interests	(549)	(1,930)	(539)	(5,179)
Net cash used in financing activities	(1,962)	(19,942)	(31,470)	(18,509)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	278	(465)	(4,041)	2,622
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	32,014	31,037	(1,500)	302,018
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	96,275	65,237	66,737	908,254
CASH AND CASH EQUIVALENTS, END OF YEAR	¥128,290	¥96,275	¥65,237	$1,210,283

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2017 consolidated financial statements to conform to the classifications used in 2018. Amounts less than one million yen and one thousand U.S. dollars are rounded down, except for per share data. Therefore, total amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106 to $1, the approximate rate of exchange at March 31, 2018. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation** - The consolidated financial statements as of March 31, 2018, include the accounts of the Company and its 62 significant (62 in 2017 and 59 in 2016) subsidiaries (collectively, the "Companies").

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

The Company's wholly owned subsidiary, Daicel America Holdings, Inc., formerly known as Daicel (U.S.A.), Inc., acquired 100% of shares of Special Devices, Inc. on April 16, 2012, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 10 years. The Company's subsidiary, Polyplastics Co., Ltd. acquired 100% of shares of LCP Leuna Carboxylation Plant GmbH on August 31, 2012, and accounted for it by the purchase method of accounting. The related goodwill is amortized over 5 years.

Investments in one (one in 2017 and 2016) unconsolidated subsidiary and seven (seven in 2017 and 2016) associated companies are accounted for by the equity method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company and certain subsidiaries account for the net defined benefit liability based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

t. Accounting Changes and Error Corrections - Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1)

Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

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

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

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

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

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Current:			
Government and corporate bonds	¥ 929	¥ 29	$ 8,764
Non-current:			
Equity securities	¥68,422	¥71,995	$645,490
Government and corporate bonds	4,097	96	38,650
Other	15	3	141
Total	¥72,535	¥72,094	$684,292

The costs and aggregate fair values of marketable and investment securities at March 31, 2018 and 2017, were as follows:

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

	Millions of Yen			
	2017			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥21,558	¥49,196	¥(1)	¥70,753

	Thousands of U.S. Dollars			
	2018			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$187,556	$447,037	$(820)	$633,773
Debt securities	46,679	0	(169)	46,518

Securities whose fair values are not readily determinable as of March 31, 2018 and 2017, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Available-for-sale:			
Equity securities	¥1,241	¥1,241	$11,707
Debt securities	96	125	905
Other	15	3	141
Total	¥1,353	¥1,370	$12,764

Proceeds from sales of available-for-sale securities for the years ended March 31, 2018, 2017 and 2016, was ¥6,641 million ($62,650 thousand), ¥5,252 million and ¥5,645 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥3,914 million ($36,924 thousand) respectively, for the year ended March 31, 2018.

4. INVENTORIES

Inventories at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished products	¥ 54,878	¥ 50,358	$ 517,716
Semi-finished products and work in process	17,283	15,197	163,047
Raw materials and supplies	37,133	35,101	350,311
Total	¥109,295	¥100,657	$1,031,084

5. INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. Rental income for the years ended March 31, 2018, 2017 and 2016 was ¥509 million ($4,801 thousand), ¥507 million and ¥516 million respectively.

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

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2016	Increase/(Decrease)	March 31, 2017	March 31, 2017
¥3,146	¥(79)	¥3,066	¥13,795

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2017	Increase/(Decrease)	March 31, 2018	March 31, 2018
$28,924	$(254)	$28,669	$162,216

Notes:
1. Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2018 and 2017 due to insignificance.
2. Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3. Fair values of properties as of March 31, 2018 and 2017, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

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

Short-term bank loans were principally represented by bank overdrafts. Weighted-average annual interest rate of short-term bank loans at March 31, 2018 and 2017, was 1.95% and 1.39%, respectively.

Long-term debt at March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
1.69% bonds due 2019	¥10,000	¥10,000	$94,339
0.41% bonds due 2018	10,000	10,000	94,339
1.05% bonds due 2023	10,000	10,000	94,339
0.14% bonds due 2022	10,000		94,339
0.23% bonds due 2024	10,000		94,339
0.37% bonds due 2027	10,000		94,339
Unsecured loans from banks and other financial institutions, due through 2025, with interest rates ranging from 0.42% to 5.50% for 2018 (from 0.40% to 5.50% for 2017)	29,618	34,496	279,415
Total	89,618	64,496	845,452
Less current portion	(13,733)	(4,513)	(129,556)
Long-term debt, less current portion	¥75,884	¥59,983	$715,886

At March 31, 2018, annual maturities of long-term debt were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥13,733	$129,556
2020	18,352	173,132
2021	8,257	77,896
2022	2,080	19,622
2023	11,976	112,981
2024 and thereafter	35,217	332,235
Total	¥89,618	$845,452

7. RETIREMENT AND PENSION PLANS

Years Ended March 31, 2018 and 2017

(1) The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥35,434	¥34,571	$334,283
Current service cost	1,933	1,926	18,235
Interest cost	215	213	2,028
Actuarial (gains) losses	(522)	236	(4,924)
Benefits paid	(1,243)	(1,602)	(11,726)
Others	(45)	88	(424)
Balance at end of year	¥35,770	¥35,434	$337,452

(2) The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥31,610	¥31,463	$298,207
Expected return on plan assets	363	361	3,424
Actuarial gains	(160)	(503)	(1,509)
Contributions from employer	1,000	986	9,433
Benefits paid	(752)	(784)	(7,094)
Others	(22)	88	(207)
Balance at end of year	¥32,039	¥31,610	$302,254

(3) The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥3,032	¥2,983	$28,603
Retirement benefit cost	442	345	4,169
Benefits paid	(275)	(254)	(2,594)
Contributions from employer	(48)	(47)	(452)
Others	74	5	698
Balance at end of year	¥3,226	¥3,032	$30,433

(4) Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥36,453	¥36,104	$343,896
Plan assets	(32,625)	(32,142)	(307,783)
	3,827	3,961	36,103
Unfunded defined benefit obligation	3,129	2,894	29,518
Net liability arising from defined benefit obligation	¥ 6,957	¥ 6,856	$ 65,632

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Net defined benefit liability	¥12,279	¥12,159	$115,839
Net defined benefit asset	(5,321)	(5,303)	(50,198)
Net liability arising from defined benefit obligation	¥ 6,957	¥ 6,856	$ 65,632

Note: Including defined benefit obligation under the simplified method.

(5) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥1,933	¥1,926	$18,235
Interest cost	215	213	2,028
Expected return on plan assets	(363)	(361)	(3,424)
Recognized actuarial losses	841	470	7,933
Amortization of transitional obligation	448	345	4,226
Balance at end of year	¥3,075	¥2,593	$29,009

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial (gains) losses	¥1,207	¥(283)	$11,386

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial (gains) losses	¥593	¥(613)	$5,594

(8) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2018 and 2017, consisted of the following:

	2018	2017
Debt investments	27%	30%
Equity investments	50	51
General accounts of insurance companies	8	8
Others	15	11
Total	100%	100%

Note: Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2018 and 2017, were 14% and 14%, respectively.

b. Method of determining the expected rate of return on plan assets

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

(9) Assumptions used for the years ended March 31, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	1.2%	1.2%
Lump-sum election rate	82.5%	82.5%

(10) The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2018 and 2017 was ¥419 million ($3,952 thousand) and ¥393 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Net defined benefit liability" in the consolidated balance sheets. The amount was ¥39 million ($367 thousand) and ¥89 million at March 31, 2018 and 2017, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥1,036	¥1,091	$ 9,773
Reconciliation associated with passage of time	6	9	56
Reduction associated with settlement of asset retirement obligations	(8)	(52)	(75)
Other	217	(11)	2,047
Balance at end of year	¥1,252	¥1,036	$11,811

9. EQUITY

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

a. Dividends

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

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

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

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2018 and 2017, and 33% for the year ended March 31, 2016. Foreign subsidiaries are subject to income tax of the countries in which they operate. Income taxes for prior periods are due to payments based on Advance Pricing Agreements of transfer pricing taxation for prior years.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2018, 2017 and 2016, was as follows:

	2018	2017	2016
Normal effective statutory tax rate	31%	31%	33%
Increase or decrease of valuation allowance	(0)	(0)	(1)
Different tax rate in foreign countries	(4)	(2)	(2)
Equity in earnings of associated companies	(1)	(0)	(1)
Amortization of goodwill	0	0	1
Tax credit primarily for research and development costs	(4)	(5)	(3)
Effect of transfer pricing taxation	2		
Effect of tax rate reduction			1
Other – net	1	(2)	(1)
Actual effective tax rate	25%	22%	27%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Accrued enterprise taxes	¥ 344	¥ 620	$ 3,245
Accrued bonuses	1,751	1,717	16,518
Net defined benefit liability	5,071	5,065	47,839
Provision for environmental measures	1,223		11,537
Investment securities	174	184	1,641
Tax loss carryforwards	2,572	2,323	24,264
Intercompany profits	2,332	2,313	22,000
Other	4,899	6,251	46,226
Less valuation allowance	(2,815)	(2,758)	(26,556)
Deferred tax assets	¥15,554	¥15,717	$146,735
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥13,547	¥13,899	$127,801
Tax purpose reserves regulated by Japanese tax law	746	708	7,037
Undistributed earnings of foreign subsidiaries	5,637	4,546	53,179
Securities contributed to employees' retirement benefit trust	2,655	2,708	25,047
Intangible fixed assets	738	1,448	6,962
Other	635	612	5,990
Deferred tax liabilities	¥23,960	¥23,922	$226,037
Net deferred tax liabilities	¥ 8,406	¥ 8,204	$ 79,301

At March 31, 2018, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,572 million ($24,264 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending March 31	2018	2018
2019	¥ 80	$ 754
2020		
2021		
2022		
2023		
2024 and thereafter	2,491	23,500
Total	¥2,572	$24,264

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥18,843 million ($177,764 thousand), ¥16,806 million and ¥15,306 million for the years ended March 31, 2018, 2017 and 2016, respectively.

12. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted-average number of shares outstanding. The weighted-average number of common shares in the computation was 343,761,655, 346,660,483, and 350,498,782 for the years ended March 31, 2018, 2017 and 2016, respectively.

13. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.

Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases		
	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Due within one year	¥1,129	¥1,083	$10,650
Due after one year	1,974	2,111	18,622
Total	¥3,103	¥3,195	$29,273

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

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

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

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

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

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms.

The Companies manage their credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Please see Note 15 for more detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2018.

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

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

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

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

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

Liquidity risk management

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

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

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

March 31, 2017	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 96,275	¥ 96,275	¥
Marketable securities	29	29	
Receivables	91,674	91,674	
Investment securities	70,724	70,724	
Total	¥258,703	¥258,703	¥
Short-term bank loans	¥7,788	¥7,788	
Payables	69,089	69,089	
Income taxes payable	7,432	7,432	
Long-term debt	64,496	65,502	¥(1,006)
Total	¥148,807	¥149,813	¥(1,006)

March 31, 2018	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	$1,210,283	$1,210,283	$
Marketable securities	8,764	8,764	
Receivables	921,566	921,566	
Investment securities	671,528	671,528	
Total	$2,812,150	$2,812,150	$
Short-term bank loans	$ 95,443	$ 95,443	
Payables	705,886	705,886	
Income taxes payable	40,292	40,292	
Long-term debt	845,452	851,481	$(6,028)
Total	$1,687,094	$1,693,122	$(6,028)

Cash and Cash Equivalents

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

Marketable and Investment Securities

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

Receivables, Payables and Income Taxes Payable

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

Short-Term Bank Loans

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

Long-Term Debt

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

	Carrying Amount	
March 31, 2018	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥5,207	$49,122

	Carrying Amount
March 31, 2017	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥5,514

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

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

	Millions of Yen			
March 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 96,275			
Receivables	91,674			
Marketable securities and investment securities:				
Government bonds	29	¥96	¥	¥
Total	¥187,978	¥96	¥	¥

	Thousands of U.S. Dollars			
March 31, 2018	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$1,210,283			
Receivables	921,566			
Marketable securities and investment securities:				
Government bonds	273	$ 622	$	$
Corporate bonds	8,490	37,735		
Total	$2,140,622	$38,358	$	$

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

15. DERIVATIVES

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

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

March 31, 2017	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥24,002		¥27	¥27
Selling Euro	2,721		6	6
Buying U.S.$	2,774		(44)	(44)
Buying Japanese yen	103		(0)	(0)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	983	¥ 983	(78)	(78)
Receiving U.S.$, paying KRW	2,026	2,026	(19)	(19)

March 31, 2018	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	$134,537		$1,566	$1,566
Selling Euro	6,330		75	75
Buying U.S.$	19,933		(122)	(122)
Buying Japanese yen	2,745		(9)	(9)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	9,273		(160)	(160)
Receiving U.S.$, paying KRW	18,971	$9,575	(952)	(952)

Derivative Transactions to Which Hedge Accounting Is Applied

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

March 31, 2017	Millions of Yen Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	¥11,532	¥8,455	¥(20)

March 31, 2018	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	$87,726	$72,405	$1,000

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

16. RELATED PARTY DISCLOSURES

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

The balances due to Nippon Life Insurance Company at March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Long-term debt	¥1,600	¥2,375	$15,094
Current portion of long-term debt	775	775	7,311
Interest expense payable	1	2	9
Repayments of long-term loans payable	775	1,275	7,311
Interest expenses paid	41	60	386

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

The Companies had trade accounts payables from SEIWA INDUSTRY CO., LTD., whose close relatives substantially preserve the majority of voting rights, has served as the representative director and president of the one of the Companies since June 2017.

The balance due to SEIWA INDUSTRY CO., LTD. at March 31, 2018 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Trade accounts payables	¥ 1	$ 9
Purchase	47	443

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

17. MUNICIPAL GOVERNMENT SUBSIDIES

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

18. INSURANCE INCOME

Insurance income due to compensation related to the quality of products on prior period and the fire accident occurred at Ohtake Plant on July 18, 2017.

19. LOSS ON CLAIM COMPENSATION

Compensation related to the quality of products.

20. LOSS ON DISASTER

Losses related to the fire accident occurred at Ohtake Plant on July 18, 2017.

21. PROVISION FOR ENVIRONMENTAL MEASURES

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

22. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2018, for loans guaranteed amounted to ¥242 million ($2,283 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

23. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2018, 2017 and 2016, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2018	2017	2016	2018
Unrealized gain (loss) on available-for-sale securities:				
Gains (losses) arising during the year	¥ 2,011	¥ 7,509	¥ (3,172)	$ 18,971
Reclassification adjustments to profit or loss	(3,925)	(2,482)	(2,742)	(37,028)
Amount before income tax effect	(1,913)	5,027	(5,915)	(18,047)
Income tax effect	349	(1,481)	2,351	3,292
Total	¥(1,563)	¥ 3,546	¥(3,563)	$(14,745)
Deferred gain (loss) on derivatives under hedge accounting:				
Adjustments arising during the year	¥ 84	¥ 152	¥ (227)	$ 792
Reclassification adjustments to profit or loss	41	78	127	386
Amount before income tax effect	126	230	(99)	1,188
Income tax effect	(12)	(7)	5	(113)
Total	¥ 113	¥ 222	¥ (94)	$ 1,066
Foreign currency translation adjustments - Adjustments arising during the year	¥ 91	¥(1,340)	¥(10,503)	$ 858
Defined retirement benefit plans:				
Adjustments arising during the year	¥ 398	¥ (754)	¥ (2,449)	$ 3,754
Reclassification adjustments to profit or loss	809	470	106	7,632
Amount before income tax effect	1,207	(283)	(2,343)	11,386
Income tax effect	(338)	73	764	(3,188)
Total	¥ 869	¥ (210)	¥ (1,578)	$ 8,198
Share of other comprehensive income in associates - Gains arising during the year	¥ 236	¥ (404)	¥(736)	$ 2,226
Total other comprehensive income	¥ (252)	¥ 1,813	¥(16,476)	$ (2,377)

24. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2018, was approved at the shareholders' general meeting of the Company held on June 22, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥16 ($0.15) per share	¥5,419	$51,122

25. SEGMENT INFORMATION

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

Segment Information

1. Description of Reportable Segments

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

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

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

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

Millions of Yen

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

Millions of Yen

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

Millions of Yen

Year Ended March 31, 2016	Reportable Segment: Cellulosic Derivatives	Reportable Segment: Organic Chemicals	Reportable Segment: Plastics	Reportable Segment: Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥104,481	¥81,793	¥161,085	¥ 95,914	¥443,274	¥ 6,604	¥449,878		¥449,878
Intersegment sales or transfers	2,176	13,732	17		15,925	10,134	26,059	¥(26,059)	
Total sales	¥106,657	¥95,525	¥161,102	¥ 95,914	¥459,200	¥16,738	¥475,938	¥(26,059)	¥449,878
Segment profit	¥ 29,667	¥11,179	¥ 20,508	¥ 13,884	¥ 75,240	¥ 181	¥ 75,421	¥(11,071)	¥ 64,349
Segment assets	113,120	68,730	166,727	104,812	453,392	11,716	465,108	95,081	560,190
Depreciation	6,745	4,431	5,574	5,858	22,609	273	22,882	1,032	23,914
Investments in associated companies	7,806	140	2,571		10,517		10,517		10,517
Amortization of goodwill			476	534	1,011		1,011		1,011
Increase in property, plant and equipment	13,472	5,801	4,296	15,100	38,670	279	38,949	1,306	40,256

Year Ended March 31, 2018	Reportable Segment: Cellulosic Derivatives	Reportable Segment: Organic Chemicals	Reportable Segment: Plastics	Reportable Segment: Pyrotechnic Devices	Reportable Segment: Total	Others	Total	Reconciliations	Consolidated
	Thousands of U.S. Dollars								
Sales to external customers	$ 840,292	$773,990	$1,587,358	$1,105,528	$4,307,179	$ 60,320	$4,367,509		$4,367,509
Intersegment sales or transfers	20,150	167,311	75		187,556	100,047	287,603	$(287,603)	
Total sales	$ 860,443	$941,311	$1,587,443	$1,105,528	$4,494,735	$160,377	$4,655,113	$ (287,603)	$4,367,509
Segment profit	$ 182,584	$ 74,698	$ 219,367	$ 209,179	$ 685,839	$ 7,103	$ 692,943	$ (136,981)	$ 555,962
Segment assets	1,013,132	716,122	1,508,801	1,065,037	4,303,113	69,735	4,372,849	1,703,349	6,076,207
Depreciation	90,047	66,962	46,103	79,745	282,877	3,207	286,094	13,150	299,245
Investments in associated companies	67,933	1,330	25,641		94,915		94,915		94,915
Amortization of goodwill			2,198	4,650	6,858		6,858		6,858
Increase in property, plant and equipment	42,216	73,726	44,641	107,000	267,603	8,707	276,311	14,424	290,745

Notes:

1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥14,520 million ($136,981 thousand), ¥13,804 million and ¥11,071 million for the years ended March 31, 2018, 2017 and 2016, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.
   (2) The unallocated corporate assets included in "Reconciliations" amounted to ¥184,073 million ($1,736,537 thousand), ¥145,072 million and ¥98,318 million for the years ended March 31, 2018, 2017 and 2016, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥3,518 million ($33,188 thousand), ¥8,564 million and ¥3,236 million for the years ended March 31, 2018, 2017 and 2016, respectively.
   (3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.
2. The aggregated amounts of operating income were equal to those in the consolidated statements of income.

Related Information

1. Information about Products and Services

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

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

	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
	Millions of Yen					
	2016					
Sales to external customers	¥104,481	¥81,793	¥161,085	¥ 95,914	¥6,604	¥449,878

	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
	Thousands of U.S. Dollars					
	2018					
Sales to external customers	$840,292	$773,990	$1,587,358	$1,105,528	$60,320	$4,367,509

2. Information about Geographical Areas

(1) Sales

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

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

Millions of Yen				
2016				
	Asia			
Japan	China	Other	Other	Total
¥204,777	¥72,106	¥81,695	¥91,299	¥449,878

Thousands of U.S. Dollars				
2018				
	Asia			
Japan	China	Other	Other	Total
$2,046,075	$668,886	$817,226	$835,301	$4,367,509

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

(2) Property, Plant and Equipment

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

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

Millions of Yen					
2016					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥115,406	¥16,887	¥17,248	¥9,626	¥16,407	¥175,576

Thousands of U.S. Dollars					
2018					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$1,105,896	$199,971	$142,669	$132,735	$154,943	$1,736,235

Note: Change in presentation

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

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

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

	Millions of Yen						
	2016						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/Corporate	Total
Amortization of goodwill	¥	¥	¥476	¥ 534	¥	¥	¥1,011
Goodwill at March 31, 2016			687	3,006			3,694

	Thousands of U.S. Dollars						
	2018						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/Corporate	Total
Amortization of goodwill	$	$	$2,198	$4,650	$	$	$ 6,858
Goodwill at March 31, 2018				17,867			17,867

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

We have audited the accompanying consolidated balance sheets of Daicel Corporation and its consolidated subsidiaries as of March 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2018, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Corporation and its consolidated subsidiaries as of March 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2018, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC.

June 22, 2018

Member of
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