Annual Report 2008

Year ended March 31, 2008

Well Prepared for Targeted Growth

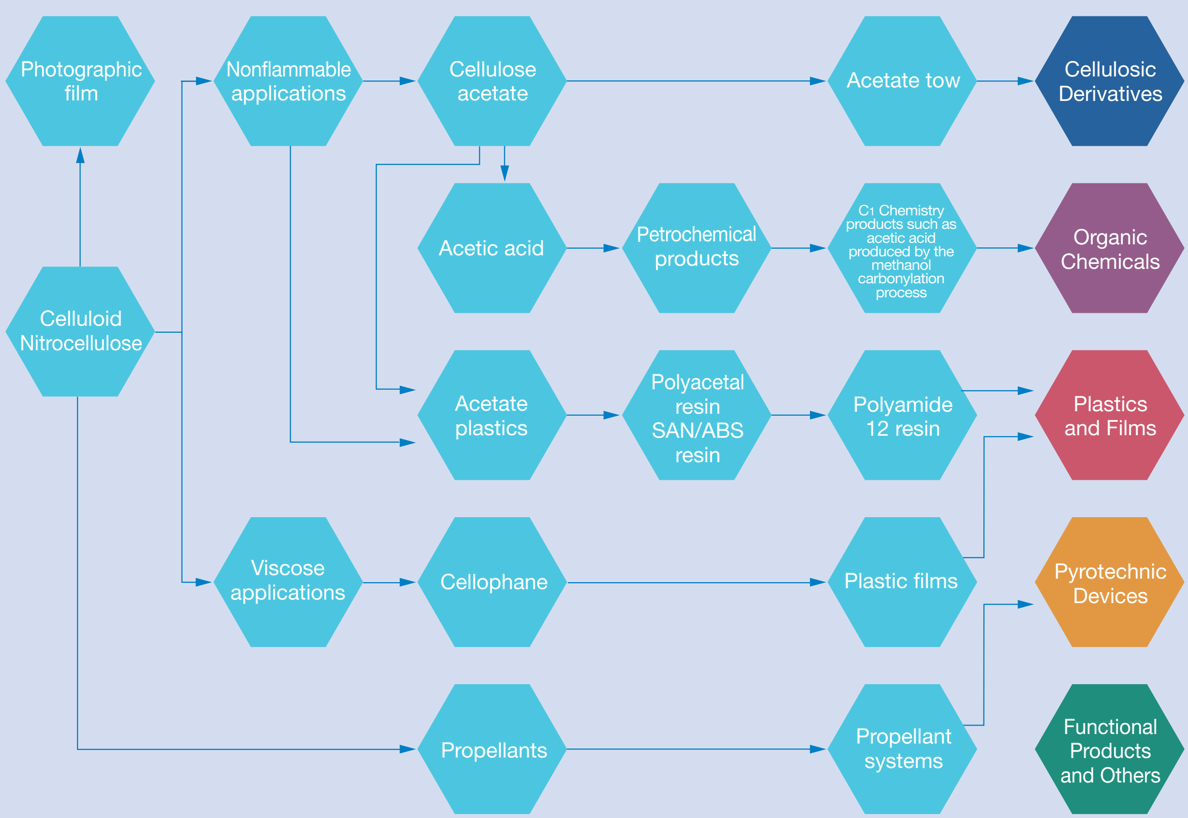
DAICEL CHEMICAL INDUSTRIES, LTD.

Profile

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

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

Business Development Flowchart



Contents

Caution with Respect to Forward-Looking Statements

This annual report contains forward-looking statements about the future plans, strategies, beliefs and performance of the Daicel Group as a whole and its individual consolidated companies. These forward-looking statements are not historical facts. They are expectations, estimates, forecasts and projections based on information currently available to the Daicel Group and are subject to a number of risks, uncertainties and assumptions, which, without limitation, include economic trends, fluctuations in foreign currency exchange rates, fluctuations in the price of raw materials, competition in markets where the Company is active, personal consumption, market demand, the tax system and other legislation. As such, actual results may differ materially from those projected and the Daicel Group cannot guarantee that these forward-looking statements are accurate or will be achieved.

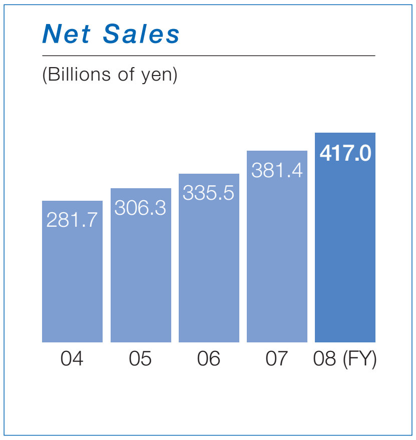
Consolidated Financial Highlights

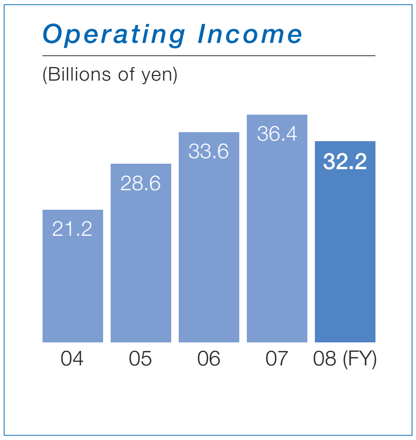
Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31

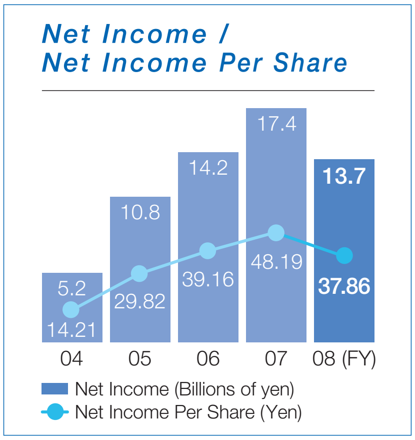
	Millions of yen					Thousands of U.S. dollars*3
	2004	2005	2006	2007	2008	2008
Results for the year						
Net sales	¥281,740	¥306,335	¥335,520	¥381,423	**¥416,990**	**$ 4,169,900**
Operating income	21,207	28,553	33,570	36,399	**32,164**	**321,640**
Income before income taxes and minority interests	8,055	22,380	29,386	33,185	**27,145**	**271,450**
Net income	5,166	10,844	14,221	17,438	**13,676**	**136,760**
Capital expenditures	20,991	25,377	59,018	55,316	**46,930**	**469,300**
Depreciation and amortization	24,514	22,490	22,484	23,774	**29,576**	**295,760**
Research and development expenses	11,085	11,219	11,221	11,717	**12,004**	**120,040**
At year-end						
Total assets	¥381,485	¥413,493	¥483,469	¥547,432	**¥515,618**	**$ 5,156,180**
Total equity*1	160,479	171,225	197,780	242,409	**239,148**	**2,391,480**

	Yen					U.S. dollars*3
Per share*2						
Net income	¥ 14.21	¥ 29.82	¥ 39.16	¥ 48.19	**¥ 37.86**	**$ 0.38**
Cash dividends applicable to the year	6.00	8.00	8.00	8.00	**8.00**	**0.08**

*1. From FY2007, Shareholders' equity is being shown as Total equity.
*2. The computations of net income per common share are based on the weighted average number of shares outstanding.
*3. The U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥100=$1, the approximate exchange rate at March 31, 2008.







Year in Review

Revenue Up, but did not Achieve 10th Consecutive Year of Operating Income Increases

In fiscal 2008, ended March 31, 2008, despite firm demand for chemical products overall, a number of factors gave rise to uncertainty in terms of business conditions. These included the huge impact of soaring prices for crude oil and other materials, as well as worldwide financial instability stemming from the sub-prime mortgage crisis in the United States, and the sharp appreciation of the yen against the U.S. dollar since the beginning of 2008.

Under these circumstances, the Daicel Group continued to work urgently to improve results by adjusting selling prices and tirelessly striving to reduce costs. At the same time, we improved productivity through production and business process innovation activities, and we proactively invested in growth businesses.

As a result, we reported a 9.3% year-on-year increase in consolidated net sales, to a record-high ¥417.0 billion—the sixth consecutive year of new revenue records. This result was based on higher sales in our four main business segments.

However, earnings were severely impacted by higher depreciation costs accompanying a change in the depreciation system (up ¥5.4 billion year-on-year, of which ¥2.9 billion was the direct result of the change) and sharp rises in raw material prices. Operating income fell 11.6%, to ¥32.2 billion, and net income decreased 21.6%, to ¥13.7 billion. The decline ended our streak of nine years of consecutive increases in operating income.

Daicel's basic policy on the distribution of profits takes account of earnings forecasts and business development from a comprehensive perspective, looking ahead to the next fiscal year and beyond. In line with this policy, in fiscal 2008 we paid annual dividends of ¥8.00 per share, unchanged from the previous year and continuing stable dividend payments. In a separate measure aimed to ensure returns to shareholders, between November 2007 and

Daisuke Ogawa
President and CEO

February 2008 we repurchased 2.3 million shares of stock (0.63% of total shares issued, valued at around ¥1.4 billion).

Selection and Concentration—Sale of Shares in Dainippon Plastics

In fiscal 2008, Daicel sold its shares in consolidated subsidiary Dainippon Plastics Co., Ltd. to Takiron Co., Ltd.

Since its establishment in 1956 as part of our plastics and films business strategy, Dainippon Plastics had grown alongside other companies in the Daicel Group. The decision to sell the company took into account the few expected synergies between its activities and the Group's mainstay businesses. We also considered the severely competitive environment in the plastics processing business and concluded the company would be better positioned to further develop and strengthen its principal business by becoming an affiliate of Takiron, which manufactures similar products in many sectors.

At the end of the year under review, total assets stood at ¥516.6 billion, down ¥31.8 billion from a year earlier. Factors included a loss on revaluation of investment securities on top of the decline in current assets accompanying the sale of Dainippon Plastics. With respect to property, plant, and equipment, there was a ¥27.3 billion depreciation expense and ¥17.8 billion deduction entry*, which more or less offset capital expenditures for the year, which amounted to ¥50.4 billion.

* We recorded a direct write-down for equipment installed at the Ohtake Plant associated with the reassignment of operations from the Sakai plant, which was relocated due to the expropriation of some of the Sakai site's land for the Osaka Prefectural Yamato River Line Expressway Project. This led to a ¥16.8 billion reduction of property, plant, and equipment and a reversal by the same amount for a disposition of the deduction entry, resulting in a gain recorded as "Reversal of deferred gain from expropriation".

Large-Scale Capital Investments Complete—Key Facilities Come on Stream

Fiscal 2008 marked the completion of a number of large-scale capital investments carried out over the past several years.

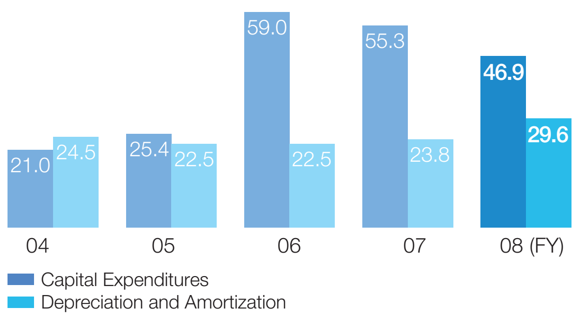
Several new facilities came on stream at the Ohtake Plant in Hiroshima Prefecture. They were a new acetate tow for cigarette filters production facility constructed following the reassignment of acetate tow production from the Sakai Plant in fiscal 2008, and a circulating fluidized bed boiler (total investment cost: ¥35.0 billion). In May 2008, we completed a new triacetyl cellulose (TAC) manufacturing facility (total investment cost: ¥40.0 billion) also at the Ohtake Plant. We constructed this facility to meet customer requirements on the back of rising demand for flat-panel televisions.

As a result, the Group has increased acetate tow production capacity by 20% and TAC production capacity by 80%. We also expect enhanced profitability from energy efficiency gains achieved by the introduction of the circulating fluidized bed boiler. As a result of this series of capital investments, the Ohtake Plant now ranks alongside the Aboshi Plant as one of the most important centers for the Group's core businesses. Meanwhile, the Sakai Plant, which was one of the first chemical plants constructed in Japan, ceased production in December 2007 after nearly a century of moving in-step with the chemical industry in Japan.

In line with the completion of these large-scale capital investment projects, we forecast total capital expenditures of ¥25.0 billion for the year ending March 2009. We expect ample cash flows from the peak out of capital investment and growing revenue from the expanding operating activities, including depreciation and amortization exceeding ¥40.0 billion. We will continue to reduce the Group's working capital and further reinforce our financial position by reducing interest-bearing debt.

Capital Expenditures, Depreciation and Amortization

(Billions of yen)



Progress of the Medium-Term Business Plan

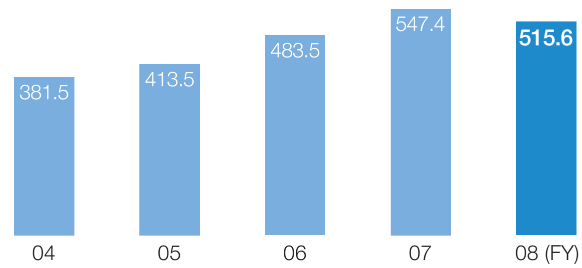
The Daicel Group is currently implementing its three-year medium-term business plan, scheduled for completion in March 2010. Under the plan we are targeting consolidated net sales of ¥450 billion, operating income of ¥55 billion, and an ROA of 9% or higher*.

The Company's business results for fiscal 2008, the first year of the plan, fell short of expectations. Nonetheless, we steadily implemented our strategies toward achieving the plan's targets, and the Group's businesses progressed more or less according to plan. Contributing factors included the coming on stream of the new acetate tow production facility at the Ohtake Plant and the sale of Dainippon Plastics as part of our strategy of selection and concentration.

* Since Daicel formulated and announced this medium-term plan in February 2007, the plan does not take into account the effect of changes to the depreciation system.

Total Assets

(Billions of yen)



Environmental Initiatives

In an initiative aimed to lower the impact of the Group's activities on the environment, in December 2007 we began operating an ethylamine production facility to boost utilization of bioethanol. Construction is also under way at the Ohtake Plant for an ethyl acetate facility scheduled to come on stream in spring 2009. We believe the facility will have huge benefits not only with respect to the environment, but also in terms of profitability due to current high naphtha prices. A further example of the Group's steady implementation of "green" processes is the launch in April 2008 of a pilot plant for a new method we developed of manufacturing adipic acid using an NHPI catalyst.

With the completion of the construction of the acetate tow production facility at the Ohtake Plant in October 2007, we began a shift from land to marine transportation for the shipment of raw materials and products between Hanshin ports and our facilities in Himeji and Ohtake. Through this action, we expect to achieve energy savings of 12% and an annual reduction of carbon dioxide emissions of 3,200 tons.

Fiscal 2009 Outlook

Pyrotechnic Devices Positioned as Performance Driver

For fiscal 2009, Daicel forecasts net sales of ¥438.0 billion (up ¥21.0 billion, or 5%, from fiscal 2008) and operating income of ¥34.5 billion (up ¥2.3 billion, or 7.3%). We also forecast recurring income of ¥32.5 billion (up ¥4.6 billion, or 16.6%) and net income of ¥16.5 billion (up ¥2.8 billion, or 20.7%). This outlook, which positions fiscal 2009 for a resumption in earnings growth, is based on a number of factors. They include rising demand for cellulose acetate used in LCD films, significantly higher sales volumes of automobile airbag inflators, adjustments to selling prices to reflect surging raw material prices, and cost-reduction efforts.

We project considerable earnings growth in the pyrotechnic devices segment underpinned by improved earnings and productivity at our overseas subsidiaries engaged in the production of automobile airbag inflators. This inflators business has recorded a phenomenal increase in overseas sales, and we forecast overseas unit sales to surpass 50% of total inflators unit sales in the year ending March 2009. The robust performance of this business is testament to the success of the Group's strategy of establishing overseas manufacturing and sales operations.

Fiscal 2009 Outlook by Segment

(Billions of yen)

	Net sales	Operating income
Cellulosic Derivatives	86.1	8.5
Organic Chemicals	109.8	12.0
Plastics and Films	162.2	13.5
Pyrotechnic Devices	72.5	8.3
Functional Products and Others	7.4	0.9
Corporate and Eliminations	—	-8.7
Total	438.0	34.5

To Shareholders and Other Investors

For fiscal 2009, we forecast operating income of ¥34.5 billion after accounting for an annual depreciation and amortization of ¥40.0 billion. I firmly believe that our strategic investment in the Group's businesses in recent years gives us the ability to achieve these forecasts.

We will continue to meet the expectations of shareholders and other investors through ongoing enhancement of corporate value and by differentiating the Company from its competitors. We will achieve these aims by advancing the Daicel Group's strategy, which calls for reinforcing its strengths sustained by the stable earnings capacity of its four key business segments.

I look forward to your continued understanding and support.

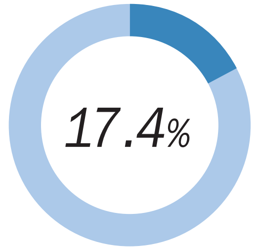
Daisuke Ogawa
President and CEO

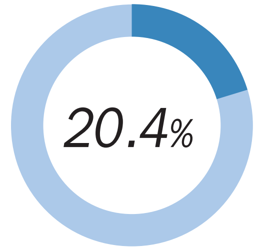
Review of Operations

At a Glance

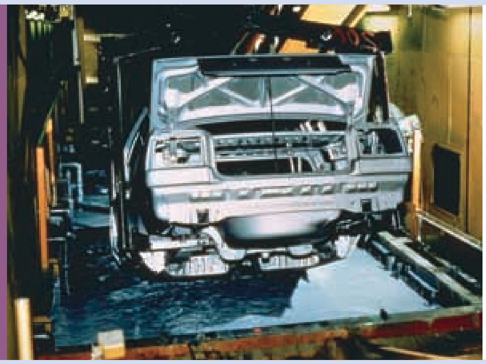
Business Segment | Sales | Operating Income

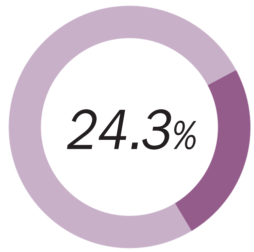
Cellulosic Derivatives

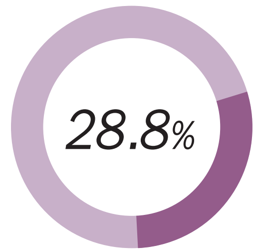
Sales


Operating Income


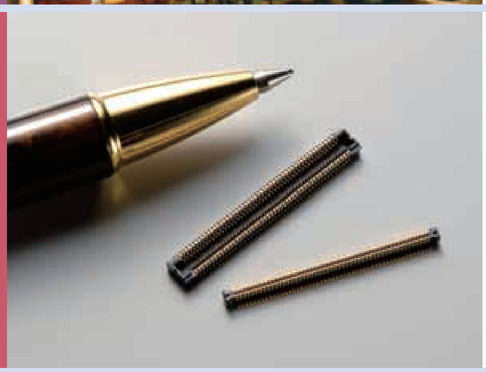
Organic Chemicals

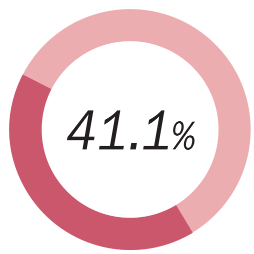


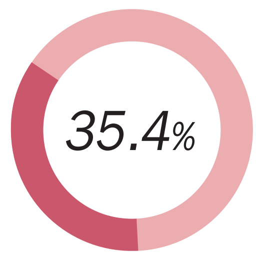
Sales


Operating Income


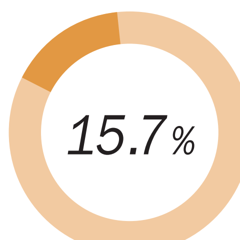
Plastics and Films

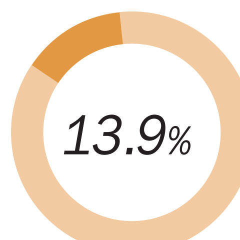


Sales


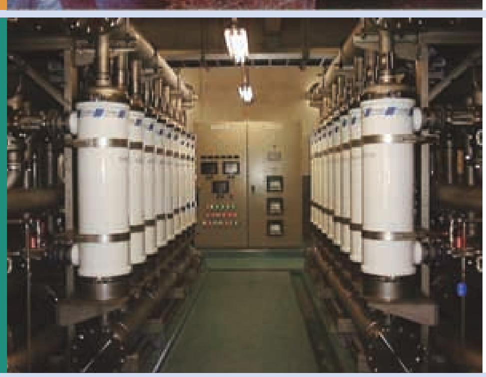
Operating Income


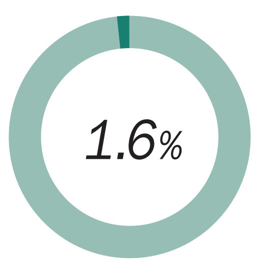
Pyrotechnic Devices

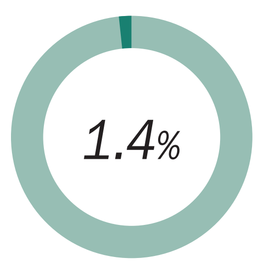
Sales


Operating Income


Functional Products and Others



Sales


Operating Income


Major Products	Uses	Market Position
Cellulose acetate	LCD films, acetate fibers, photographic films, plastics	• Overwhelming market share in the manufacture and sale of triacetyl cellulose (TAC) used in film for LCDs. • Stable supplier of acetate tow for cigarette filters to a number of leading cigarette manufacturers.
Acetate tow	Cigarette filters	
Carboxymethyl cellulose (CMC) and other water-soluble polymers (WSP)	Foods, pharmaceuticals, cosmetics, adhesives, textiles, mud stabilizers, thickeners	
Acetate plastics	Frames for glasses, other products	
Celluloid		
Acetic acid	Cellulose acetate, vinyl acetate	• Acetic acid is a mainstay product, and Daicel is a leading manufacturer of this product in Asia. • Sales of peracetic acid to expand due to withdrawal of a competitor. • World's largest manufacturer of chiral columns used for the separation of optical isomers.
	Auxiliary dyeing agents, pharmaceuticals	
	Agricultural chemicals, pure terephthalic acid (PTA)	
Solvents		
Chiral columns	Separation of optical isomers	
Other organic and inorganic industrial-use chemicals		
Polyacetal resin	Electric and electronic appliance parts, automobile parts	• Polyplastics holds the top share in Asia for POM, PBT, and LCP, and ranks second for PPS.
Polybutylene terephthalate (PBT) resin	Communications appliance parts, household goods, sundry goods	
SAN/ABS resins and alloys		
Polystyrene sheets and plastics products		
Moisture-proof packaging films	Packaging for foods, drugs, textiles	
Inflators	Automobile airbag systems	• Market share for car airbag inflators has increased annually, and today Daicel is the top manufacturer of inflators in Japan and third globally.
Aircrew emergency-escape systems	Fighters, trainers, helicopters	
Rocket motors	Missiles	
Propellants		
Separation membrane modules	Water treatment	

Cellulosic Derivatives

Operations

	Millions of yen				
	2004	2005	2006	2007	2008
Sales to outside customers	¥ 48,180	¥ 50,132	¥ 55,899	¥ 63,501	¥ 72,467
Intersegment sales	1,785	1,942	2,222	2,355	2,852
Total sales	49,965	52,074	58,121	65,856	75,319
Total cost and expenses	39,139	42,409	47,290	54,226	67,056
Operating income	¥ 10,826	¥ 9,665	¥ 10,831	¥ 11,630	¥ 8,263
Total assets	¥ 55,103	¥ 57,894	¥ 86,828	¥ 118,803	¥ 126,435
Depreciation	4,254	4,127	4,131	4,549	7,855
Capital investments	4,440	4,398	30,154	32,267	23,357

Overview

The Cellulosic Derivatives segment produces a wide range of cellulosic derivatives that draw on the manufacturing technologies of the celluloid business on which Daicel was founded. Today, our lineup includes cellulose acetate, which accounts for the largest sales in the segment and whose many applications include liquid crystal display (LCD) and photographic films, cigarette filters, and acetate fibers.

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

In addition to cellulose acetate and cigarette filter acetate tow, the Company also makes water-soluble polymers (WSP); carboxymethyl cellulose (CMC) for use in the civil engineering, oil drilling, and fish feed; and hydroxyethyl cellulose (HEC) for use in paint products, polymerization, and cosmetics.

Acetate Tow is used in Cigarette Filters.

Performance

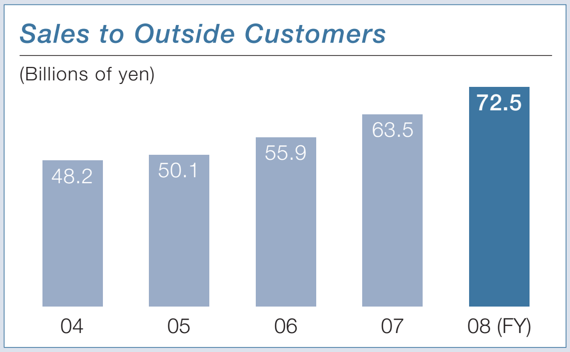
In fiscal 2008, sales to outside customers amounted to ¥72,467 million, up 14.1% compared with the previous year.

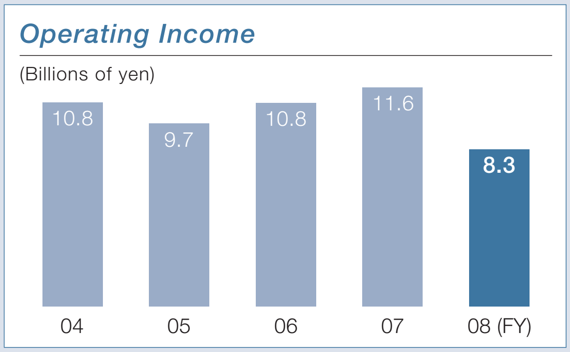
Sales of cellulose acetate increased, owing mainly to our revision of sales prices to reflect rises in the prices of raw materials and fuel.

Despite a slight decrease in demand for cigarettes in Japan, we reported an increase in sales of acetate tow for cigarette filters. This was due to strong demand for exports to the overseas production bases of leading cigarette makers, higher sales volumes stemming from deployment of a new facility at the Ohtake Plant, and sales price revisions.

Sales of WSPs declined due to a fall in overseas sales. This was despite an increase in sales in Japan for use in medical and cosmetic applications.

Operating income for the segment declined 29.0% year-on-year, to ¥8,263 million. This decrease stemmed from a rise in depreciation expenses accompanying a change in the depreciation system and the deployment of the new filter tow facility, as well as the sharp appreciation of the yen in the fourth quarter.





New Production Facility for Cigarette Filter Acetate Tow Comes on Stream at Ohtake Plant

In October 2007, Daicel's new production facility for cigarette filter acetate tow, built on the grounds of the Ohtake Plant in Hiroshima Prefecture, came on stream.

We reassigned the production of acetate tow from the Sakai Plant to the Ohtake Plant due to the closure of the Sakai Plant* to make way for the construction of an expressway. Daicel now conducts its production operations for acetate tow for cigarette filters at the Aboshi Plant of the Himeji Production Sector and the Ohtake Plant. We have increased total production capacity, including the Aboshi Plant, by approximately 20%.

* The Sakai Plant ceased production in December 2007.

New Manufacturing Facility for Cigarette Filter Acetate Tow

Organic Chemicals

Operations

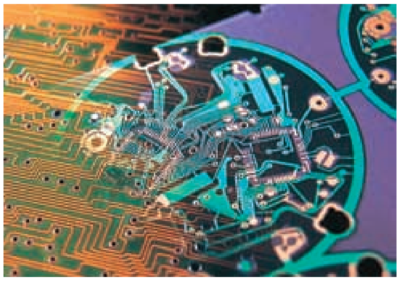
	Millions of yen				
	2004	2005	2006	2007	2008
Sales to outside customers	¥ 74,916	¥ 79,087	¥ 84,435	¥ 93,839	**¥ 101,246**
Intersegment sales	9,816	11,083	10,989	14,126	**16,948**
Total sales	84,732	90,170	95,424	107,965	**118,194**
Total cost and expenses	79,930	83,310	85,947	96,641	**106,533**
Operating income	¥ 4,802	¥ 6,860	¥ 9,477	¥ 11,324	**¥ 11,661**
Total assets	¥ 84,530	¥ 82,321	¥ 82,909	¥ 93,690	**¥ 91,035**
Depreciation	7,861	7,062	6,426	5,881	**7,590**
Impairment loss on fixed assets	—	—	895	—	**114**
Capital investments	4,585	5,209	5,461	5,499	**9,936**

Overview

The Organic Chemicals segment consists of three main business categories: (1) organic chemical products, primarily acetic acid and its derivatives, (2) organic-designed products, primarily peracetic acid derivatives, and (3) chiral pharmaceutical ingredients, such as chiral chemicals and pharmaceutical intermediates.

Acetic acid is one of Daicel's mainstay products, and the Company is a leading manufacturer of this product in Asia. The withdrawal of a company from the peracetic acid business has presented an opportunity for Daicel to expand the business.

We are also the world's largest manufacturer of chiral columns used for the separation of optical isomers. We have responded to the rapid increase in R&D of chiral compounds in China and India, primarily among European and U.S. pharmaceutical companies, by establishing new operations in those countries, giving us operations in five regions around the world: Japan, the United States, Europe, China, and India.



Epoxy resins and performance chemicals are used in printed circuit boards and other electronic materials.

Performance

In fiscal 2008, sales to outside customers in this segment totaled ¥101,246 million, up 7.9% over the previous year.

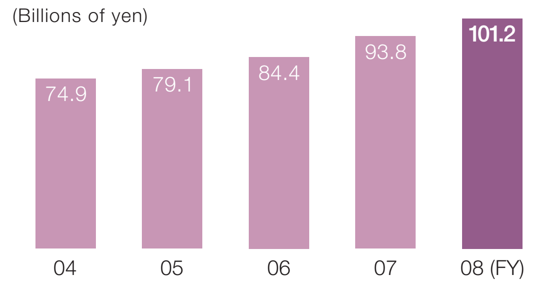
Sales of acetic acid, a core Daicel product, rose on the back of revised selling prices. We also generated increased sales of general-use products such as acetic acid derivatives and solvents. Here, too, revenue was boosted by strong domestic demand coupled with sales price increases brought about by higher raw material prices.

Sales of organic-designed products, including caprolactone derivatives, epoxy compounds, and semiconductor resist materials, increased owing to higher sales of epoxy compounds and sales price increases.

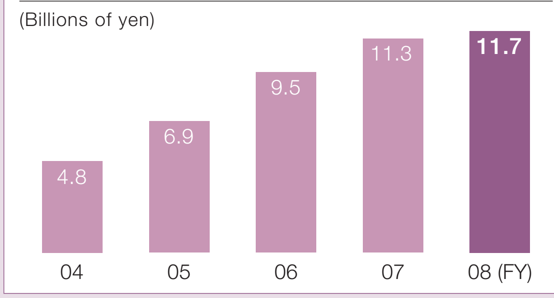
Our chiral chemical business, which produces chiral chromatographic columns and pharmaceutical intermediates, reported higher overall sales despite a decrease in demand for some products. Strong sales of chiral columns and separation services contributed to overall sales growth in this business.

Operating income in this segment rose 3.0%, to ¥11,661 million, boosted by sales price revisions.

Sales to Outside Customers



Operating Income



Launching Production of Ethyl Acetate from Bioethanol

Daicel is currently constructing a new facility at the Ohtake Plant in Hiroshima Prefecture that will produce ethyl acetate using the ester process, which uses bioethanol as a raw material. A first in Japan, the facility is scheduled to come on stream in April 2009 and will have an annual production capacity of 50,000 tons.

Demand for ethyl acetate has increased mainly due to more stringent regulations on volatile organic compounds, which has prompted a switch to alternative products. In addition to strengthening our acetic acid derivatives business, one of Daicel's mainstay products, the deployment of the new facility will bring the added benefit of shielding the Company from soaring prices for naphtha, which is used in conventional manufacturing processes. An expected decrease in carbon dioxide emissions is yet another advantage from the switch to bioethanol.

Strengthening the Chiral Chemical Business

In response to advances in the worldwide development of chiral pharmaceuticals, we are reinforcing and expanding our activities in the chromatographic separation of optical isomers, a strength of the Group.

Daicel is currently reinforcing its chiral chemical business in the rapidly expanding markets of China and India. In early 2006, we commenced full-scale sales of chiral columns in China, and in January 2008 we established a new company to handle the chiral compound separation business. In India, we established a technical service center in February 2007, which became a local subsidiary in April 2008.

Under a strategic alliance with Group Novasep SAS, we offer the simulated moving bed (SMB) system of continuous high-performance liquid chromatography (HPLC) to pharmaceutical manufacturer clients engaged in the development and production of new drugs containing chiral compounds. Both companies aim to expand their SMB commercial separation business by providing customers with optimal industrial-scale solutions that combine Daicel's abundant range of chiral stationary phases with Group Novasep's systems.

Plastics and Films

Operations

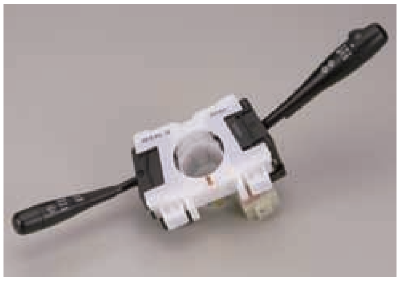
	Millions of yen				
	2004	2005	2006	2007	2008
Sales to outside customers	¥ 119,299	¥ 133,390	¥ 142,556	¥ 161,881	¥ 171,337
Intersegment sales	46	49	37	29	22
Total sales	119,345	133,439	142,593	161,910	171,359
Total cost and expenses	111,796	120,430	129,421	147,135	157,047
Operating income	¥ 7,549	¥ 13,009	¥ 13,172	¥ 14,775	¥ 14,312
Total assets	¥ 128,172	¥ 135,949	¥ 149,738	¥ 159,234	¥ 150,113
Depreciation	7,491	6,770	6,887	7,473	7,009
Impairment loss on fixed assets	—	—	15	66	100
Capital investments	5,615	10,583	6,960	4,677	6,777

Overview

This segment consists of several businesses, notably engineering plastics, including polyacetal (POM), polybutylene terephthalate (PBT), polyphenylene sulfide (PPS), and liquid crystal polymers (LCP); and the plastic compound business, centering on acrylonitrile styrene (AS) and acrylonitrile butadiene styrene (ABS). This segment also encompasses the Company's sheet business, molded vessels and shock-absorbing materials business, film business, and other plastic products business.

Polyplastics Co., Ltd., a Daicel subsidiary, is responsible for the engineering plastics business. As a leading manufacturer and marketer of engineering plastics, it holds the top share in Asia for POM, PBT, and LCP, and ranks in second place for PPS. Polyplastics supplies products for a wide range of applications, including those used in precision machinery, construction materials, and household consumer appliances, to the electronics and automobile industries, mainly in the Asia-Pacific region.

Daicel Polymer Ltd., also a subsidiary, manufactures and markets plastic compounds and polystyrene sheets. It meets increasingly sophisticated user needs and the needs of users expanding globally by focusing on supplying high-performance products such as engineering plastic alloys and through its close-knit network of operations in Japan, Hong Kong, Shanghai, and Singapore.



Polyacetal are used in Parts of Combination Switches.

Performance

In fiscal 2008, sales to outside customers amounted to ¥171,337 million, up 5.8% over the previous year.

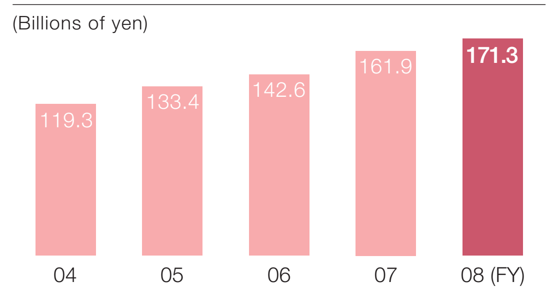
Sales of engineering plastics, such as polyacetal and PBT, increased thanks to strong demand from the automobile and electronic device sectors, as well as revised sales prices accompanying increases in the price of raw materials and fuel.

The plastic compound business, centering on AS, ABS, and engineering plastic alloys, also performed strongly. This business benefited from increased sales of long fiber reinforced thermoplastics and other high-value-added products, and sales price revisions due to higher raw material prices.

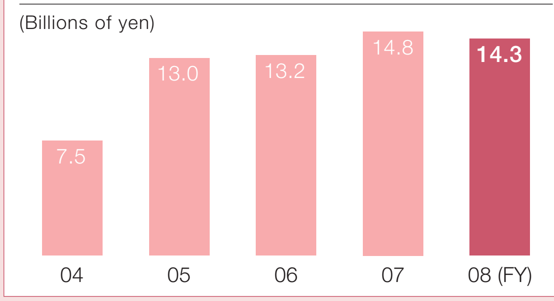
In the sheet business, we reported growth in sales, boosted by higher sales to leading food container manufacturers, as well as revised sales prices.

Harsh market conditions continued in the molded vessels and

Sales to Outside Customers



Operating Income



shock-absorbing materials business. In the year under review, sales in this business declined despite efforts to increased sales of high-value-added products and revisions to sales prices.

Sales in the film business remained flat, as the Company's efforts to revise sales prices and expand sales of barrier films were unable to overcome the impact of customer inventory adjustments for some applications.

In other plastic products, sales declined, due partly to Sheedom Co., Ltd., a subsidiary of Dainippon Plastics, moving out of the scope of consolidation.

Operating income in fiscal 2008 decreased 3.1%, to ¥14,312 million. This stemmed mainly from our inability to completely absorb soaring raw material prices, primarily in the resin processing business, despite cost reduction efforts and sales price revisions.

In March 2008, as part of its selection and concentration strategy, the Group sold Dainippon Plastics, in which Daicel had a 60% stake, to Takiron.

Sales Bases for Engineering Plastics Established in Guangzhou, Shenzhen, and Chongqing

In August 2008, Polyplastics (Shanghai) Ltd. established branches in Guangzhou, Shenzhen, and Chongqing with a view to expanding sales in China.

The three new branches are concentrating on sales of POM resins made by PTM Engineering Plastics (Nantong) Co., Ltd.; increasing sales of products imported from Polyplastics Group in Japan, Taiwan, and Malaysia; and augmenting marketing activities and technical services.

Demand for engineering plastics is steadily increasing in China in response to the establishment of not only automobile production plants, but also manufacturing operations for electrical and electronic products by companies from Japan, Taiwan, United States, and Europe. China (excluding Taiwan) sales already account for more than 30% of overall sales for the Polyplastics Group and China is expected to play an increasingly important role in the future.

To step up development of new markets in China, we believe that it is important to adopt our Japanese business model, which focuses on boosting technical marketing services and close customer liaison for the development of applications.

We plan to further reinforce our activities targeting the fast-growing market in China, which is also becoming increasingly sophisticated, by capitalizing on synergies gained from the technical solution center we established in Shanghai.

Pyrotechnic Devices

Operations

	Millions of yen				
	2004	2005	2006	2007	2008
Sales to outside customers	¥ 32,541	¥ 36,605	¥ 44,090	¥ 55,496	¥ 65,375
Total sales	32,541	36,605	44,090	55,496	65,375
Total cost and expenses	26,573	30,063	37,473	49,449	59,748
Operating income	¥ 5,968	¥ 6,542	¥ 6,617	¥ 6,047	¥ 5,627
Total assets	¥ 32,418	¥ 39,730	¥ 52,786	¥ 59,965	¥ 67,789
Depreciation	3,000	3,069	3,434	4,393	5,087
Capital investments	5,559	4,449	12,678	4,227	9,331

Overview

This segment consists of two main businesses: the motor vehicle safety devices business, which handles inflators (gas-generating devices) for automobile airbags; and the aerospace & defense business, made up mainly of aircrew emergency-escape systems, gun propellants, and rocket motors.

Airbag systems are constantly changing as a result of technical advances. Daicel has earned high praise for its automobile airbag inflators, which are the most important component of these systems. Our market share has increased annually, and today we are the top manufacturer of inflators in Japan and rank number three in the world.

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

Gun Propellants

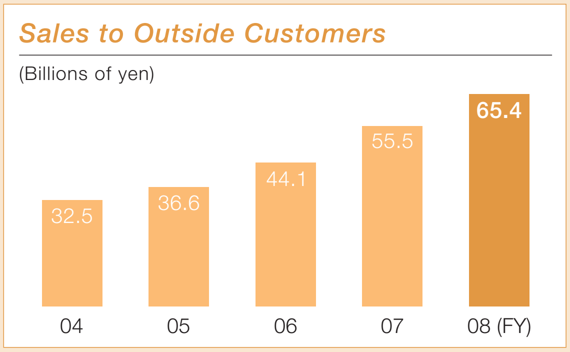
Performance

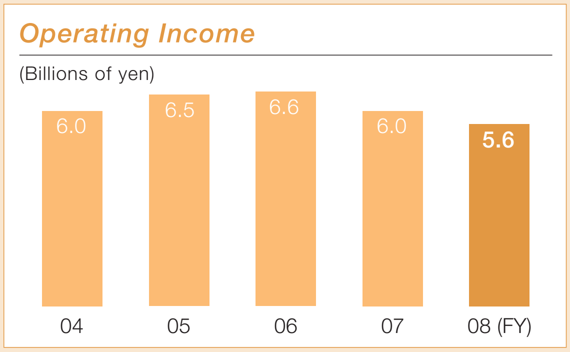
In fiscal 2008, sales to outside customers rose 17.8%, to ¥65,375 million.

Sales of automobile airbag inflators grew substantially thanks to the increasing adoption of side impact airbags as a standard feature in new vehicles. Sales at our overseas production bases were boosted by the expanding global operations of Japanese automobile manufacturers.

In the aerospace & defense business, which handles gun propellants, missile components and aircrew emergency-escape systems, sales increased thanks mainly to higher sales of gun propellants.

Operating income declined 6.9%, to ¥5,627 million, primarily due to higher unit costs for parts used in airbag inflators and increased spending at domestic and overseas manufacturing bases to strengthening Daicel's business foundation.





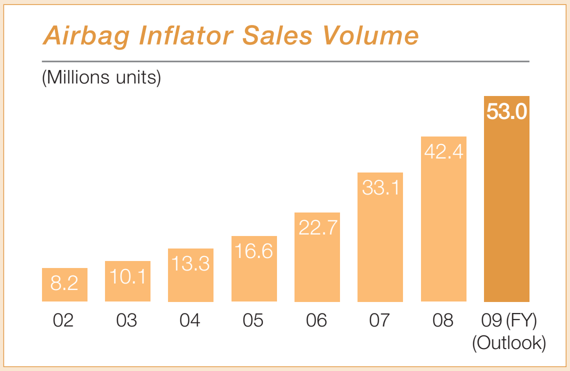
Airbag Inflator Business Expansion

In the automobile airbag inflator business, we have a five-pronged global production system encompassing Japan, the United States, Thailand, Poland, and China. Through this network, we address the needs of automakers pursuing worldwide business strategies. Unit sales of inflators continue to increase, owing to growth in the average number of inflators per vehicle, as well as worldwide growth in vehicles fitted with inflators. By the year ending March 2011, we are targeting a 20% share of the global automobile airbag inflator market.

Our strength lies in our comprehensive lineup covering all inflator types (driver, passenger, side, curtain, and knee) and styles (pyro, hybrid, and stored), as well as a production network encompassing the world's five major automotive economic regions. We also make pyrotechnic components, such as gas-generating agents and initiators at multiple locations. Our system is designed to disperse business risk while offering an extensive range of production capabilities.

To meet the current growth in demand, we will increase the capacity of our five existing production operations while monitoring trends in peripheral markets. We are also actively addressing the requirements of overseas users. By expanding our customer base, we will raise our presence in overseas markets while further boosting our technological capabilities. In expanding our business, we will place top priority on securing profits rather than simply seeking growth in unit volume.

Meanwhile, we will continue actively enhancing and developing products that meet our customers' requirements. Demand for products that are lighter and more compact is particularly strong. In addition to meeting such demand, we will ensure that our products are safe and reliable to operate and strive to reduce the number of components, improve ignition mechanisms and design, and develop materials for gas-generating agents.



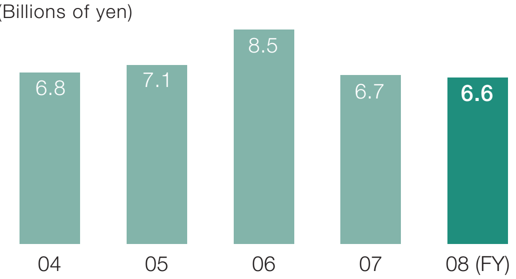
Functional Products and Others

Operations

	2004	2005	2006	2007	2008
	Millions of yen				
Sales to outside customers	¥ 6,804	¥ 7,121	¥ 8,540	¥ 6,706	**¥ 6,565**
Intersegment sales	9,293	10,082	10,267	11,876	**12,348**
Total sales	16,097	17,203	18,807	18,582	**18,913**
Total cost and expenses	15,831	16,723	17,490	17,657	**18,354**
Operating income	¥ 265	¥ 480	¥ 1,317	¥ 925	**¥ 559**
Total assets	¥ 8,372	¥ 10,323	¥ 10,908	¥ 9,704	**¥ 7,981**
Depreciation	406	348	290	327	**361**
Capital investments	392	190	340	224	**279**

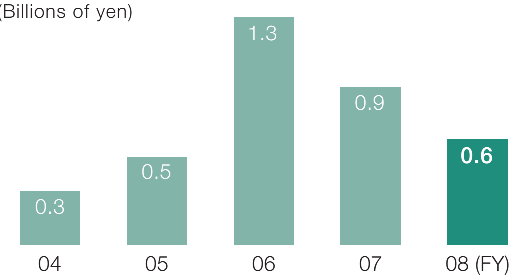
Sales to Outside Customers

(Billions of yen)



Operating Income

(Billions of yen)



Performance

In fiscal 2008, sales in this segment amounted to ¥6,565 million, down 2.1% over the previous year.

In the membrane systems business, which includes separation membrane modules and other products for water treatment, we posted a decline in sales to water purification plants stemming from a downturn in public sector demand. Overall sales in this business increased, however, thanks to higher sales to the wastewater treatment sector, as well as strong maintenance demand from the medical sector.

Sales of new functional materials declined despite our strong emphasis on sales to the electronic materials sector.

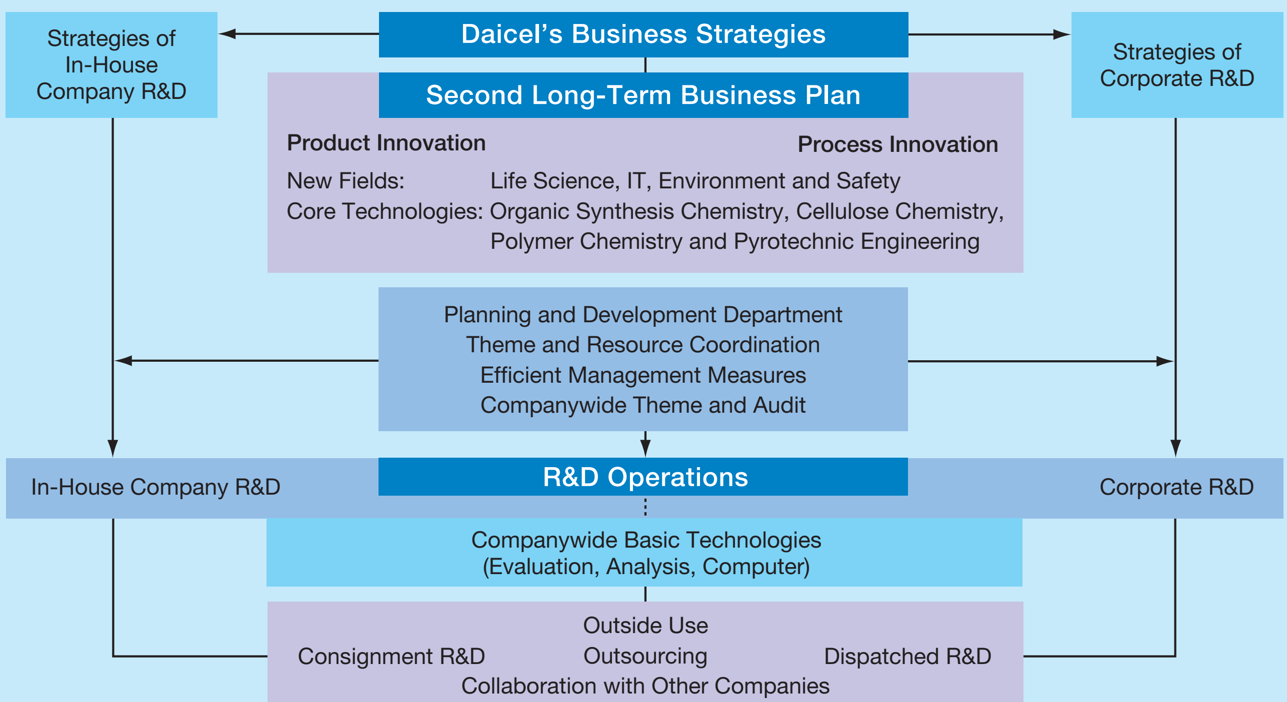
Operating income in this segment declined 39.5%, to ¥559 million.

Daicel's Growth Foundation

Importance of R&D in Group Operations

Given Japan's lack of natural resources, to achieve continued profitable growth chemical manufacturers must demonstrate their ability to seamlessly introduce creative, highly distinctive products, embodying proprietary technologies, into the market. The Daicel Group recognizes that research and development is a key factor in this ability. For this reason, we consider R&D to be one of our most important management priorities. Based on the core technologies it has amassed over the years in organic synthesis chemistry, cellulose chemistry, polymer chemistry, and pyrotechnic engineering, Daicel aims to create new levels of value for customers. Specifically, we seek to establish pioneering, world-first technologies; develop high-value-added, high-performance products; and focus on R&D connected to new business creation. By also developing technologies that lead to significant cost reductions, moreover, we will target R&D initiatives that contribute to enhanced profitability.

The Position of R&D



R&D Structure and Policies

Features of R&D under our In-House Company System

The Daicel Group's R&D system is based on two streams of R&D activities—those conducted by each in-house company, and corporate R&D initiatives conducted by the Corporate Department. All entities involved have clear definitions of their respective responsibilities and functions.

In-house companies are charged with developing their existing business domains and related R&D activities. Corporate R&D, meanwhile, focuses on the three following areas.

(1) Creation of new businesses: This includes R&D related to creating businesses in new domains outside the scope of current operations.

(2) Support for existing businesses: This includes research themes in the initial stage, themes in which in-house companies have no track record (thus making it more efficient to consign them to corporate R&D), and cases in which development by corporate R&D is deemed most appropriate, even if research is related to existing or peripheral businesses.

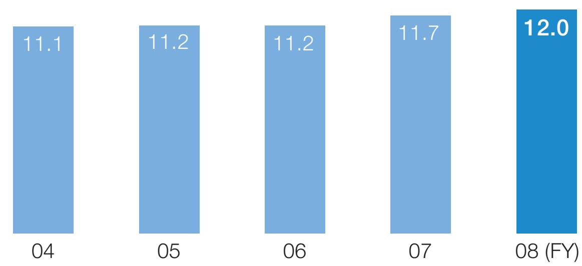
(3) Development and support of company-wide basic technologies.

R&D by Business Segment

In the fiscal year under review, consolidated R&D expenses amounted to ¥12,004 million, the equivalent of 2.9% of net sales. Details of the objectives, main themes, and expenses for R&D undertaken by each of the business segments during the year under review are shown below.

Research and Development Expenses

(Billions of yen)



R&D Initiatives by Business Segment

Business Segment	Main R&D Themes	R&D Expenses
Cellulosic Derivatives	Raising production capacity and quality of acetate cellulose; strengthening production technologies and raising quality related to acetate tow	¥935 million
Organic Chemicals	Research into improving acetic acid manufacturing technologies; development of new organic derivatives; development and commercialization of functional polymers; examination of industrialization of new pharmaceutical intermediates; development of columns for the separation of optical isomers and development of separation processes for such columns	¥2,737 million
Plastics & Films	Development of high-performance resins and polymer alloys; development of styrene products; quality enhancement of engineering plastics	¥3,742 million
Pyrotechnic Devices	Research into the development of new gas-generating agents and new inflators for car airbags; development of propellants	¥1,760 million
Functional Products & Others	Development of membrane separation systems	¥167 million
Company-wide R&D	Development of N-hydroxyphthalimide (NHPI) catalyst air-oxidation technology in partnership with Professor Yasutaka Ishii of the Department of Chemistry, Faculty of Engineering, Kansai University (see column)	¥2,660 million

New Method of Manufacturing Adipic Acid Using NHPI Catalyst

Daicel has been working on commercial applications for N-hydroxyphthalimede (NHPI) catalyst. This catalyst enables revolutionary oxygen oxidation reactions that have four important advantages: (1) enable oxidation reactions at significantly lower temperatures and pressures than existing manufacturing methods, (2) reduce by-products, (3) lower energy costs during the manufacturing process, and (4) cut down greenhouse gas emissions.

Daicel's active research in this area aims to establish a method for manufacturing adipic acid using this NHPI catalyst. Not only is this manufacturing method more efficient than the conventional method using nitric acid oxidation, but it is also a groundbreaking green process technology that produces zero nitrous oxide* emissions. Daicel has already established a pilot facility, bringing the method to the research stage, and is currently researching practical application processes, including purified systems.

* A reduction in emissions of this greenhouse gas is sought under the Kyoto Protocol. The warming effect of nitrous oxide is 310 times higher than carbon dioxide per unit.

Basic Approach

Since its inception, Daicel has endeavored to maintain environmentally safe operations and become a corporate group that can achieve sustainable growth. In accordance with our basic policy for Responsible Care established in 1995, we seek to ensure safety and health and protect the environment at all operating stages—from the development of products to their manufactures, distribution, use and disposal.

We view all aspects of responsible care—Environmental Preservation, Chemical and Product Safety, Occupational Health and Safety, Process Safety and Disaster Prevention, Distribution Safety, and Communication with the Community—as fundamental to the continuous growth of our business. Under the new medium-term business plan, as well, we give priority to responsible care and corporate ethics in all of our business activities. In this section, we introduce several initiatives in our environmental protection program.

Environmental Protection Activities

Daicel undertakes environmental protection activities in each stage of its operations: raw materials, manufacturing methods, production, and transportation.

Raw Materials and Manufacturing Methods: Promoting the Use of Bioethanol

Daicel is promoting a switch to the use of bioethanol as a raw material and the adoption of new manufacturing methods in order to become petroleum-free and reduce greenhouse gas emissions. As a first stage, in December 2007 we began operation of a new ethylamine manufacturing plant. In spring 2009, we plan to commence operations at the first plant in Japan to use bioethanol as a raw material for the manufacture of ethyl acetate in place of the common method that uses petroleum products (naphtha) as raw materials.

Production: Co-Generation System Employing Used Tires as Fuel

In July 2007, we introduced a co-generation system centered on a circulating fluidized bed boiler at the Ohtake Plant in order to lessen the environmental impacts from the electric power and steam generated for use at the plant. The boiler circulates high-temperature sand inside the fuel chamber, enabling highly efficient combustion results from a wide range of recycled materials, such as used tires. We plan to produce electricity at the Ohtake Plant using this highly efficient method, while disposing of 110,000 tons of tires annually. Burnt embers from the fuel are recycled outside the Company as a raw material for cement.


Circulating Fluidized Bed Boiler

Transportation: Shift to Marine Transportation

With the aim of conserving fuel and reducing CO_2 emissions, we commenced a modal shift from land transportation to marine transportation between Hanshin ports and our facilities in Himeji and Ohtake following the completion of the acetate tow production facility at the Ohtake Plant in October 2007. We aim to transport 180,000 tons annually using this alternate method of marine transportation for the supply of raw materials to the Ohtake Plant and the delivery of products. We calculate that we will make energy savings of 12% and reduce CO_2 emissions by 3,200 tons a year.

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 sound company management by improving the transparency and fairness of management.

Establishing an Internal Control System

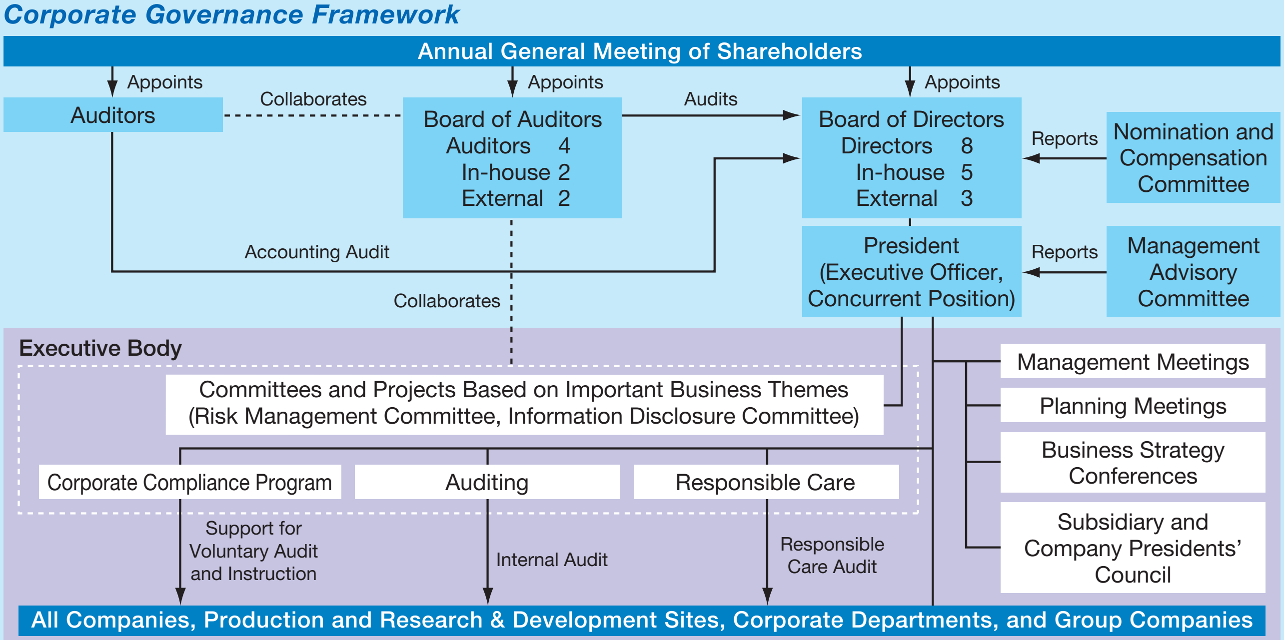
As per the Japanese Financial Instruments and Exchange Law, from the year ending March 2009 it will be mandatory for all listed companies to submit an annual "internal control report." In April 2007, Daicel began initiatives to ensure the reliability of financial reporting with the launch of the Project to Establish Internal Controls for Financial Reporting.

The Project address all aspects related to financial reporting reliability. The Project, however, goes beyond merely complying with the legal requirements and establishes the Internal Control System. The Internal Control System constitutes the business foundation that underpins secure new growth as well as the risk management system.

To establish the Internal Control System, we will continue building systems that support effective, sound, and continuous progress, without waste or excess, by building upon results of business process standardization made through existing internal control frameworks and business process innovation. As part of this Project, special teams* focused on specific internal control issues are implementing Company-wide and Group-wide initiatives.

* Internal Control Auditing (Evaluation) Establishment Team; Company-wide Internal Control Establishment and Evaluation Team; Financial Reporting Process Establishment and Evaluation Team; Sales, Purchasing, and Production Inventory Process Establishment Team

Corporate Governance Framework



Note: Executive Officers include heads of companies, heads of sites, heads of corporate departments who administer corporate affairs, and heads of group companies.

Main Corporate Governance Enhancement Initiatives

- Revision of Board of Directors regulations to reinforce the supervisory functions of the Board of Directors and the delegation of authority with the objective of further speeding up business decision-making.
- Creation of an environment to handle issues related to the Japanese version of the Sarbanes-Oxley Act ("J-SOX") scheduled for implementation in the year ending March 2009.
- Establishment of in-house regulations as part of reinforcing internal control, including the formulation of Regulations on the Manage-ment of Regulations, Document Management Regulations, and Regulations on the Division of Business Duties.
- Revision of the Policy on Information System Security, centering on strengthening the control of employee PCs in response to the growing risks associated with information networks.
- Partial revisions to policies to more directly reflect the wishes of shareholders regarding policies on counteracting large-scale acquisitions of company shares (takeover defense measures). That is, whether or not to continue these policies and whether or not to impose measures to counteract the large-scale acquisition of shares.

Internal Auditing

Internal Audits by Auditing

Daicel strives to ensure appropriate business activities based on the fundamental policies of its internal control system.

Auditing formulates basic audit programs and implements internal audits. It provides support for appropriate business activities through proposals to improve problem areas and other initiatives, and reports audit results to upper management.

Voluntary Audit and Company-Wide Review of Corporate Ethics

In order to ensure the practice of corporate ethics and ongoing improvements, Daicel is establishing a corporate ethics management system based on the PDCA (plan, do, check, act) cycle. Specifically, the Company verifies the appropriateness and effectiveness of corporate ethics activities through voluntary audits undertaken by each division, company-wide reviews by the Corporate Compliance Program, and reviews by top management based on these audits and reviews. The outcomes of these efforts are reflected in correction and prevention measures related to corporate ethics and revisions of Daicel Group Conduct Policy, and the Code of Conduct and corporate ethics management system.

Responsible Care Audits

Every year, Daicel audits the implementation of responsible care activities and compliance with related laws and regulations in accordance with the Responsible Care Internal Audit Guidelines of the Japan Responsible Care Council.

In fiscal 2008, the Corporate Compliance Program, Responsible care, Personnel Group, and Auditing held a joint internal audit as a trial aimed at ensuring the efficient and effective audit of Daicel's plants and research centers. This new approach alleviated the burden felt by those being audited, and the opportunities it provided for information-sharing among the different auditing functions contributed to a greater understanding of auditing.

Risk Management

Risk Management Initiatives

In April 2006, Daicel adopted a Risk Management Code that stipulates a company-wide risk management policy and formed a Risk Management Committee to control and promote company-wide risk management. In November 2006, under the instructions of the Risk Management Committee, we created our first inventory of risks. We assigned priority levels and studied countermeasures for major risks and are implementing measures to prevent the occurrence of these risks.

In November 2007, we verified the progress of these activities and held a fresh assessment of risks. The risk management activities of Group companies are centered on this risk inventory.

In January 2008, we established rules covering the initial response in the event of a major emergency, covering such aspects as communication networks and the setting up of an emergency response headquarters. We intend to raise our initial response capabilities for a major emergency by holding Group-wide emergency response exercises in accordance with these rules.

Corporate Ethics Management System

Daicel believes that a comprehensive understanding of corporate ethics by all employees is an important aspect of business, and is pursuing company-wide efforts to this end. To facilitate this process on an ongoing basis, we have built a Corporate Ethics Management System based on the PDCA cycle. We are working to maintain and improve this system though participation by all employees.

Corporate Ethics Management System

Daicel Chemical Industries Code of Conduct

The "Daicel Chemical Industries Code of Conduct" serves as a specific code for the implementation of the "Daicel Group Conduct Policy". Accordingly, we ensure that all employees are familiar with the code, which stipulates conduct for each of the economic, environmental, and social arenas. Individual divisions also formulate and implement their own specific conduct objectives based on the Code of Conduct.

We will work to raise employee awareness of corporate social responsibility (CSR) by rigorously implementing the Code of Conduct, which also reflects society's requirements pertaining to CSR.

Promotional Framework

We established a Corporate Compliance Program to promote activities related to corporate ethics, and we appointed a representative director as a Corporate Compliance Program. In addition to supporting the independent activities of each division based on the "Corporate Ethics Management System", the Program implements ongoing activities to ensure thorough compliance.

We are also working to ensure observance with laws and regulations through the establishment of committees and the formulation of in-house regulations, including safety assurance export management regulations and personal information protection regulations.

Education and Training Programs

The Company's corporate ethics training system provides job-level-specific training, which includes training for labor union members, managers and officials, and Group company presidents. Under the system, we also provide training at the time of promotion or other career events. We also have an ongoing program of in-house seminars on the various laws and regulations that affect the Company's business activities.

Corporate Ethics Help Line

Daicel strives to make it easy for employees to report and seek advice on matters in the workplace based on a system of safeguards for those who disclose information in the public interest. We have also established an in-house "Corporate Ethics Help Line" for cases where an issue cannot be dealt with swiftly through the normal channels. This system provides for periodic checks to ensure that an employee is not dismissed, disadvantaged, or ostracized as a result of his or her action. To provide additional encouragement for employees to report on such matters, we have an outside help line to an outside organization that employees can contact. Through these actions we are promoting the usage of the help line system. Also, in fiscal 2008, major Group companies in Japan launched outside help lines.

Board of Directors and Corporate Auditors/Executive Officers

(As of July 31, 2008)

President **Daisuke Ogawa**

Director **Tetsuji Yanami**

Board of Directors and Corporate Auditors

PRESIDENT

Daisuke Ogawa

DIRECTORS

Tetsuji Yanami

Kazuo Yamaguchi

Ichiro Katagiri

Kohji Shima

Shigetaka Komori
President of FUJIFILM Holdings Corporation

Akishige Okada
Advisor of Sumitomo Mitsui Banking Corporation

Yuichi Miura
Advisor of Tokuyama Corporation

CORPORATE AUDITORS

Mikio Kitagawa

Kazuo Sato

AUDITORS

Hirokuni Imai
President of SEIWA REAL ESTATE CO., LTD.

Yoshikatsu Moriguchi
Lawyer

Executive Officers

CHIEF EXECUTIVE OFFICER

Daisuke Ogawa

SENIOR MANAGING EXECUTIVE OFFICER

Tetsuji Yanami
General Manager of Corporate Support Center, Corporate Compliance Program, President of Daicel Finance Ltd.

MANAGING EXECUTIVE OFFICERS

Kazuo Yamaguchi
General Manager of Production Technology Management, Responsible Care, Engineering Center

Ichiro Katagiri
General Manager of Himeji Production Sector, General Manager of Aboshi Plant

Kohji Shima
General Manager of R&D Management, Intellectual Property Center, Analysis Service Center

Tetsuzo Miyazaki
President of Aerospace & Defense Systems / Safety Systems Company, General Manager of Safety Systems Division, Aerospace & Defense Systems / Safety Systems Company, General Manager of Nagoya Sales Office

Shuzaburo Kumano
President of Organic Chemical Products Company

Masumi Fukuda
President of Cellulose Company

Masayuki Mune
President of Daicel Polymer Ltd.

EXECUTIVE OFFICERS

Shinzo Uda
President of Ningbo Da-An Chemical Industries Co., Ltd.

Tetsuo Yoshioka
General Manager of Aerospace & Defense Systems Division, Aerospace & Defense Systems / Safety Systems Company

Mitsuharu Shimada
President of Daicel FineChem Ltd.

Hitoshi Oya
Deputy General Manager of Corporate Support Center, General Manager of Business Process Innovation

Yasunori Iwai
Executive Vice President of Aerospace & Defense Systems / Safty Systems Company

Yuji Iguchi
General Manager of Corporate Planning, General Representative in China, Chairman of the Board of Daicel Chemical (China) Investment Co.,Ltd.

Misao Fudaba
General Manager of Raw Material Purchasing Center

Yoshimi Ogawa
Executive Vice President of Aerospace & Defense Systems / Safety Systems Company, General Manager of Harima Plant, Aerospace & Defense Systems / Safety Systems Company, Deputy General Manager of Production Technology Management, Advisor to General Manager of Business Process Innovation

Financial Section

Eleven Year Summary

Year ended March, 31

	1998	1999	2000	2001
For the year:				
Net sales	¥257,177	¥249,111	¥238,240	¥261,520
Operating income	7,891	13,294	14,369	14,627
Income before income taxes and minority interests	5,968	6,469	8,396	10,066
Net income (loss)	(845)	1,401	3,125	3,381
Amounts per common share (yen):				
Net income (loss)	¥ (2.26)	¥ 3.77	¥ 8.48	¥ 9.03
Cash dividends applicable to the year	6.00	6.00	6.00	6.00
Capital expenditures	¥ 29,122	¥ 27,490	¥ 38,820	¥ 22,189
Depreciation and amortization	30,805	27,666	26,931	28,484
Research and development expenses	11,395	10,735	10,393	11,841
At year-end:				
Total current assets	¥180,026	¥169,695	¥191,248	¥168,079
Total assets	414,088	401,062	439,108	442,055
Total current liabilities	147,891	131,812	156,916	141,072
Total long-term liabilities	95,937	100,218	107,933	114,526
Total equity*1	139,735	138,257	142,777	155,314
Ratios:				
Current ratio (%)	121.7	128.7	121.9	119.1
Shareholders' equity ratio (%)*2	33.7	34.5	32.5	35.1
Return on assets (%)	(0.2)	0.3	0.7	0.8
Return on equity (%)	(0.6)	1.0	2.2	2.3
Ratio of net income to net sales (%)	(0.3)	0.6	1.3	1.3
Assets turnover (times)	0.6	0.6	0.6	0.6
Tangible fixed assets turnover (times)	1.4	1.3	1.3	1.4
Other information:				
Price range of common stock (yen):				
High	¥ 491	¥ 395	¥ 497	¥ 378
Low	150	212	260	273
Exchange rate at year-end (yen per US$1)	¥ 132.10	¥ 121.00	¥ 106.00	¥ 124.00
Number of employees (at year-end)			5,132	5,412

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

Millions of yen, except per share amounts and other information

2002	2003	2004	2005	2006	2007	**2008**
¥261,358	¥271,342	¥281,740	¥306,335	¥335,520	¥381,423	**¥416,990**
15,483	20,410	21,207	28,553	33,570	36,399	**32,164**
6,841	6,864	8,055	22,380	29,386	33,185	**27,145**
3,635	2,029	5,166	10,844	14,221	17,438	**13,676**
¥ 9.86	¥ 5.50	¥ 14.21	¥ 29.82	¥ 39.16	¥ 48.19	**¥ 37.86**
6.00	6.00	6.00	8.00	8.00	8.00	**8.00**
¥ 20,082	¥ 16,747	¥ 20,991	¥ 25,377	¥ 59,018	¥ 55,316	**¥ 46,930**
26,709	25,413	24,514	22,490	22,484	23,774	**29,576**
11,485	11,747	11,085	11,219	11,221	11,717	**12,004**
¥150,862	¥143,280	¥141,233	¥160,541	¥172,344	¥206,670	**¥207,834**
412,008	381,518	381,485	413,493	483,469	547,432	**515,618**
135,303	107,385	105,093	102,779	133,420	152,556	**158,230**
95,150	94,934	88,684	110,875	121,159	152,467	**118,240**
154,515	151,987	160,479	171,225	197,780	242,409	**239,148**
111.5	133.4	134.4	156.2	129.2	135.5	**131.3**
37.5	39.8	42.1	41.4	40.9	39.5	**41.4**
0.9	0.5	1.4	2.7	3.2	3.4	**2.6**
2.3	1.3	3.3	6.5	7.7	8.4	**6.4**
1.4	0.7	1.8	3.5	4.2	4.6	**3.3**
0.6	0.7	0.7	0.8	0.7	0.7	**0.8**
1.4	1.5	1.7	1.9	1.8	1.8	**1.9**
¥ 467	¥ 423	¥ 501	¥ 597	¥ 1,017	¥ 1,050	**¥ 921**
290	293	374	441	516	739	**488**
¥ 133.00	¥ 120.00	¥ 106.00	¥ 107.00	¥ 117.00	¥ 118.00	**¥ 100.00**
5,363	5,416	5,604	5,819	6,248	7,034	**7,685**

Operating Results

Net Sales

In fiscal 2008, ended March 31, 2008, consolidated net sales amounted to ¥417.0 billion, up ¥35.6 billion, or 9.3%, from fiscal 2007. This was mainly due to an increase in sales volume and price revisions made by the Company to reflect escalating raw materials and fuel prices. The movement of the yen against the U.S. dollar during the year had a ¥0.1 billion negative impact on net sales compared to results in fiscal 2007.

Revenues were boosted by a number of factors. In the cellulosic derivatives segment, sales of cellulose acetate increased ¥2.9 billion year-on-year, due to greater sales volume for LCD film applications and price revisions. Similarly, sales of acetate tow for cigarette filters increased ¥6.0 billion owing to higher sales volume accompanying the deployment of a new facility at the Ohtake Plant and price revisions.

In the organic chemicals segment, sales of acetic acid rose ¥2.5 billion, brought about by upward revisions of sales prices amid supply and demand pressures. Sales of acetic acid derivatives and other general-use products and functional products rose ¥4.2 billion, benefiting from sales price revisions to reflect soaring raw materials prices, as well as an increase in the sales volume of epoxy compounds and other functional products.

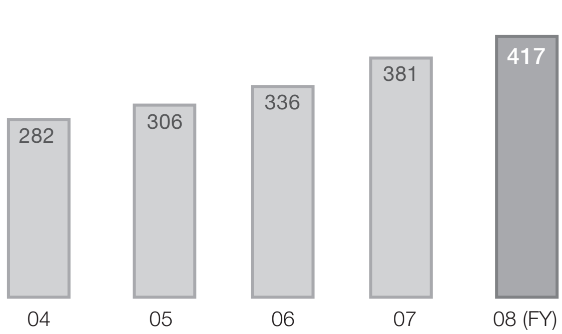
In the plastics and films segment, sales of engineering plastics, such as polyacetal (POM) and polybutylene terephthalate (PBT), jumped ¥10.9 billion year-on-year, buoyed by solid demand from the automobile and electronic device sectors, together with sales price revisions to address soaring raw materials prices. In the plastic compounds businesses, sales grew ¥2.2 billion due to increased sales of high-value-added products, price revisions, and other factors.

Sales in the pyrotechnic devices segment climbed ¥9.9 billion thanks to significant increases in sales volumes of automobile airbag inflators, both in Japan and overseas.

By contrast, several factors had a negative impact on revenue. In the plastics and films segment, Dainippon Plastics sold all of its shares in Sheedom, a subsidiary, to Kurabo Industries Ltd. on December 26, 2007. From the third quarter of the year under review, therefore, Sheedom was excluded from the scope of consolidation. In addition, the molded plastics business, which is classified in the other plastic products business, generally struggled to perform, with sales declining ¥3.7 billion year-on-year.

Net Sales

(Billions of yen)



Gross Profit

Gross profit decreased ¥1.9 billion, or 2.1%, to ¥90.0 billion. The ratio of gross profit to net sales declined 2.5 percentage points, to 21.6%. This was due to an increase in fixed costs stemming primarily from a change in the method of depreciation.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥57.8 billion, an increase of ¥2.3 billion, or 4.2%, from the previous year. This stemmed mainly from a rise in direct sales costs accompanying the increase in sales volume. The ratio of SG&A expenses to consolidated net sales improved 0.7 percentage point, to 13.9%.

Operating Income

Operating income declined ¥4.2 billion, or 11.6%, to ¥32.2 billion. Operating margin slipped 1.8 percentage points, to 7.7%. The movement of the yen against the U.S. dollar during the year had a ¥20 million negative impact on operating income compared to results in fiscal 2007.

The main factor boosting earnings was a ¥0.3 billion increase in operating income in the organic chemicals segment owing to sales price revisions to address soaring prices of raw materials.

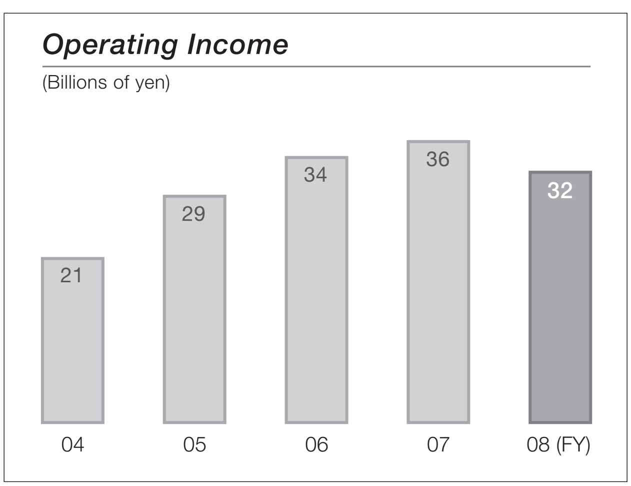
By contrast, several factors had a negative effect on earnings. The cellulosic derivatives segment posted a ¥3.4 billion decline in operating income due to an increase in depreciation expenses associated with the deployment of a new filter tow manufacturing facility and a change in the method of depreciation, as well as rising costs of raw materials. The plastics and films segment reported a ¥0.5 billion decline in operating income as efforts, mainly in the plastic processing business, to reduce costs and revise sales prices failed to fully compensate for soaring raw materials prices. The pyrotechnic devices segment posted a ¥0.4 billion decline in operating income, due to increased unit prices of components for inflators used in automobile airbags, and increased spending to reinforce that business foundation, which has manufacturing operations in Japan and overseas.

Other Income (Expenses)

Other expenses, net, amounted to ¥5.0 billion, up ¥1.8 billion from the previous year. This was mainly due to a ¥2.3 billion foreign exchange impact due to the yen's sharp appreciation in the fourth quarter.

Income before Income Taxes and Minority Interest

Income before income taxes and minority interest declined ¥6.0 billion, or 18.2%, to ¥27.1 billion.



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Income Taxes

The effective tax rate after application of tax-effect accounting increased 2.0 percentage points, to 38.2%.

Minority Interests in Net Income

Minority interests in net income decreased ¥0.6 billion, or 17.3%, to ¥3.1 billion.

Net Income

Net income for the year fell ¥3.8 billion, or 21.6%, to ¥13.7 billion.

Per Share Information

Net income per share totaled ¥37.86, down ¥10.33 from the previous year.

In the year under review, the Company declared an interim dividend of ¥4.00 and a year-end dividend of ¥4.00, for a total annual dividend of ¥8.00 per share.

Financial Position

Assets

As of March 31, 2008, total assets stood at ¥515.6 billion, down ¥31.8 billion, or 5.8%, from a year earlier. The decline stemmed mainly from a ¥23.1 billion fall in investment securities, reflecting declines in market prices.

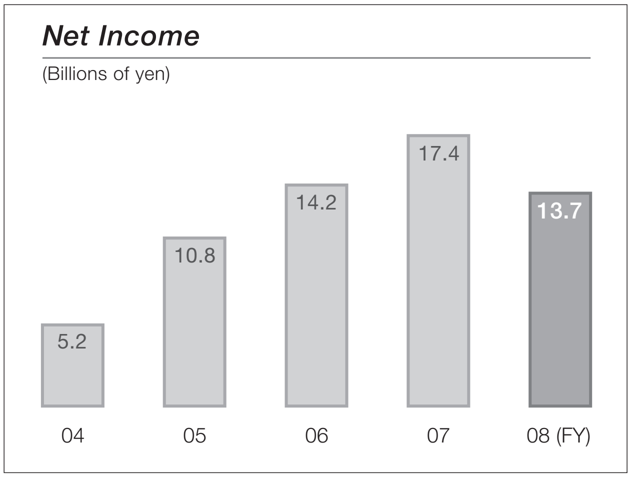
Liabilities

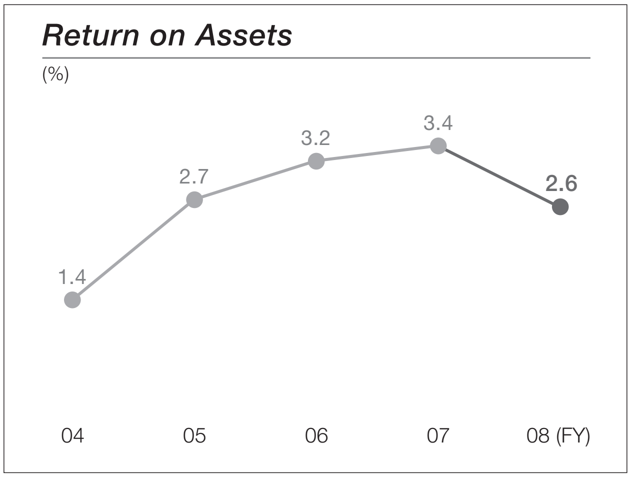
Total liabilities amounted to ¥276.5 billion, down ¥28.6 billion, or 9.4%, from a year earlier. This was mainly due to a ¥19.3 billion reversal of deferred gain from expropriation.

Equity

Total equity at fiscal year-end totaled ¥239.1 billion.

Total shareholders' equity (total equity minus minority interests) amounted to ¥213.3 billion. The shareholders' equity ratio was 41.4%.





Cash Flows

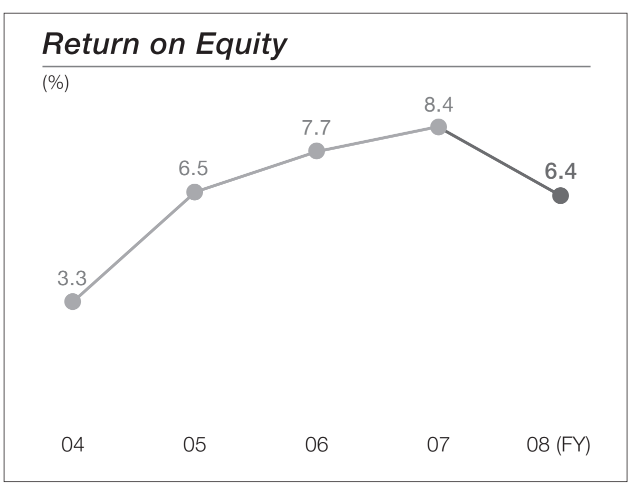
Cash and cash equivalents at fiscal year-end stood at ¥20.7 billion, up ¥6.8 billion, or 48.6%, from a year earlier.

Cash from Operating Activities

Net cash provided by operating activities amounted to ¥49.3 billion, up ¥23.7 billion, or 93.0%, from the previous fiscal year. Major factors included decreases in notes and accounts receivable and inventories, which led to a decline in working capital.

Cash from Investing Activities

Net cash used in investing activities totaled ¥43.1 billion, down ¥11.0 billion, or 20.4%, from the previous fiscal year. The primary factor was a decrease in capital expenditures.



Cash from Financing Activities

Net cash provided by financing activities was ¥0.2 billion, down ¥26.7 billion, or 99.1%, from the previous year. The primary factor was a net decrease in short-term bank loans.

Business Risks

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

Trends in Currency Exchange Rates

The Company's ratio of overseas sales to consolidated net sales is increasing year by year (37.9% in fiscal 2008), and the Company's results can be more easily influenced by trends in currency exchange rates than previously. We generally believe that depreciation of the yen has a positive effect on performance, while appreciation of the yen has a negative effect on our performance. Though the Company executes forward currency exchange contracts and other risk-hedging activities, this does not guarantee that such exchange risks can be completely avoided.

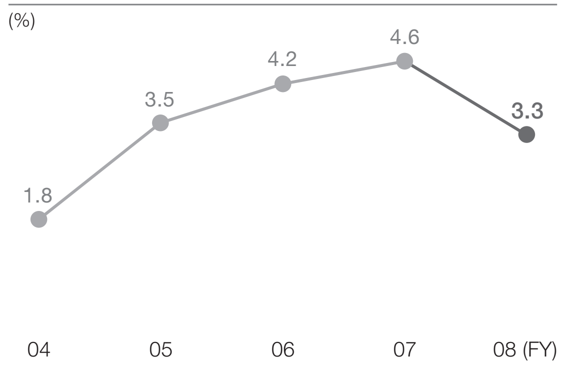
Risks in Expanding Overseas Business Development

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

Swings in Raw Material (Methanol) Prices

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

Ratio of Net Income to Net Sales



Swings in Other Raw Material Prices

Daicel goes to great lengths to absorb sustained raw material and fuel price increases by switching to raw materials and fuels that are less expensive and more stable in price, making cost savings from improved manufacturing, and revising product sales prices. However, there is a limit as to how much can be absorbed. In the event of escalating costs that exceed certain limits, there is the possibility that this would have a negative impact on Group performance.

Quality Guarantee and Product Liability

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

Industrial Accidents

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

Earthquakes and Natural Disasters

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

Risks from Product and Technological Obsolescence

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

Risk from Violent Market Fluctuations

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

Outlook for Fiscal 2009

The outlook for the Japanese economy is unpredictable due to a number of factors. In addition to prolonged escalation of raw materials prices, these include worldwide financial instability sparked by the sub-prime loan crisis in the United States, the yen's appreciation against the U.S. dollar, and recruiting difficulties stemming from Japan's aging, low population growth. Global warming and other forms of environmental deterioration are also causes for concern.

The business environment in the chemical industry remains wrought with difficulties. These include escalating costs of raw materials and fuel, the need to revise sales prices, further selection and concentration by companies in the industry, the need to secure cost competitiveness and strengthen R&D, the need to reduce greenhouse gas emissions to prevent global warming, and increasingly stringent environmental and safety regulations.

Under these circumstances, the Daicel Group will make efforts toward continued growth in demand for TAC for use in LCD films, a significant rise in sales volume for automobile airbag inflators, upward sales price revisions to address rising costs of raw materials and fuel, and cost reductions. For fiscal 2009, Daicel forecasts net sales of ¥438.0 billion, operating income of ¥34.5 billion, recurring income of ¥32.5 billion, and net income of ¥16.5 billion.

Consolidated Balance Sheets

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 20,740**	¥ 13,958	**$ 207,400**
Marketable securities (Note 3)	**25**	25	**250**
Receivables:			
Trade notes	**5,953**	7,899	**59,530**
Trade accounts	**83,831**	89,511	**838,310**
Unconsolidated subsidiaries and associated companies	**6,056**	6,469	**60,560**
Allowance for doubtful receivables	**(215)**	(229)	**(2,150)**
Inventories (Note 4)	**73,298**	75,622	**732,980**
Deferred tax assets (Note 8)	**3,839**	4,438	**38,390**
Account receivable for expropriation (Note 15)	**5,880**	919	**58,800**
Other current assets	**8,427**	8,058	**84,270**
Total current assets	**207,834**	206,670	**2,078,340**
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 14)**:**			
Land	**26,873**	27,609	**268,730**
Buildings and structures	**130,896**	133,804	**1,308,960**
Machinery and equipment	**473,186**	466,618	**4,731,860**
Construction in progress	**44,910**	56,181	**449,100**
Total	**675,865**	684,212	**6,758,650**
Accumulated depreciation	**(452,963)**	(458,699)	**(4,529,630)**
Net property, plant and equipment	**222,902**	225,513	**2,229,020**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**59,717**	82,784	**597,170**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 3)	**8,140**	7,992	**81,400**
Deferred tax assets (Note 8)	**1,190**	812	**11,900**
Account receivable for expropriation (Note 15)		5,364	
Other assets	**15,835**	18,297	**158,350**
Total investments and other assets	**84,882**	115,249	**848,820**
TOTAL	**¥ 515,618**	¥ 547,432	**$ 5,156,180**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	**¥ 32,286**	¥ 41,089	**$ 322,860**
Current portion of long-term debt (Note 5)	**35,804**	18,715	**358,040**
Payables:			
Trade notes	**630**	1,565	**6,300**
Trade accounts	**55,467**	54,257	**554,670**
Construction	**8,376**	5,474	**83,760**
Unconsolidated subsidiaries and associated companies	**2,965**	3,224	**29,650**
Income taxes payable (Note 8)	**4,537**	6,908	**45,370**
Other current liabilities	**18,165**	21,324	**181,650**
Total current liabilities	**158,230**	152,556	**1,582,300**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**97,169**	103,981	**971,690**
Liability for retirement benefits (Note 6)	**8,223**	8,691	**82,230**
Deferred tax liabilities (Note 8)	**11,371**	18,865	**113,710**
Deferred gain from expropriation (Note 15)		19,309	
Other long-term liabilities	**1,477**	1,621	**14,770**
Total long-term liabilities	**118,240**	152,467	**1,182,400**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 16)			
EQUITY (Notes 7 and 17)**:**			
Common stock, — authorized 1,450,000,000 shares issued 364,942,682 shares in 2008 and 2007	**36,275**	36,275	**362,750**
Capital surplus	**31,577**	31,575	**315,770**
Retained earnings	**123,759**	112,970	**1,237,590**
Unrealized gain on available-for-sale securities	**20,808**	34,234	**208,080**
Deferred gain (loss) on derivatives under hedge accounting	**(103)**	37	**(1,030)**
Foreign currency translation adjustments	**3,700**	2,074	**37,000**
Treasury stock — at cost 5,501,956 shares in 2008 and 3,107,676 shares in 2007	**(2,675)**	(1,193)	**(26,750)**
Total	**213,341**	215,972	**2,133,410**
Minority interests	**25,807**	26,437	**258,070**
Total equity	**239,148**	242,409	**2,391,480**
TOTAL	**¥515,618**	¥547,432	**$5,156,180**

Consolidated Statements of Income

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
NET SALES	**¥416,990**	¥381,423	¥335,520	**$4,169,900**
COST OF SALES (Note 9)**:**	**327,019**	289,563	248,791	**3,270,190**
Gross profit	**89,971**	91,860	86,729	**899,710**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	**57,807**	55,461	53,159	**578,070**
Operating income	**32,164**	36,399	33,570	**321,640**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**1,389**	1,371	873	**13,890**
Gain on sales of securities	**181**	3	594	**1,810**
Gain on sales of subsidiaries' stocks	**1,457**			**14,570**
Equity in earnings of unconsolidated subsidiaries and associated companies	**584**	701	450	**5,840**
Interest expense	**(3,477)**	(3,051)	(2,029)	**(34,770)**
Foreign exchange gain (loss)	**(1,627)**	713	793	**(16,270)**
Reversal of deferred gain from expropriation (Note 15)	**16,833**	3,271	3,807	**168,330**
Subsidies from municipal governments (Note 14)	**1,000**	1,350	2,218	**10,000**
Reduction of cost of property, plant and equipment (Notes 14 and 15)	**(17,833)**	(4,621)	(6,025)	**(178,330)**
Loss on dispositions of property, plant and equipment	**(2,164)**	(1,290)	(1,367)	**(21,640)**
Past period service cost of employees' retirement benefit			(1,190)	
Impairment loss on fixed assets	**(214)**	(139)	(1,150)	**(2,140)**
Compensation received for the transfer of facilities (Note 15)			197	
Other-net	**(1,148)**	(1,522)	(1,355)	**(11,480)**
Other income (expenses)-net	**(5,019)**	(3,214)	(4,184)	**(50,190)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**27,145**	33,185	29,386	**271,450**
INCOME TAXES (Note 8)**:**				
Current	**8,447**	12,312	10,417	**84,470**
Deferred	**1,922**	(312)	1,115	**19,220**
Total income taxes	**10,369**	12,000	11,532	**103,690**
MINORITY INTERESTS IN NET INCOME	**3,100**	3,747	3,633	**31,000**
NET INCOME	**¥ 13,676**	¥ 17,438	¥ 14,221	**$ 136,760**

	Yen			U.S. dollars
PER SHARE INFORMATION (Notes 2 and 10)**:**				
Net income	**¥ 37.86**	¥ 48.19	¥ 39.16	**$ 0.38**
Cash dividends applicable to the year	**8.00**	8.00	8.00	**0.08**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2008, 2007 and 2006

		Millions of yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	361,499,606	¥ 36,275	¥ 31,379	¥ 87,669	¥ 20,156		¥ (3,196)	¥ (1,058)	¥ 171,225		¥ 171,225
Effect of initial inclusion of certain subsidiaries in consolidation				(97)					(97)		(97)
Net income				14,221					14,221		14,221
Cash dividends, ¥9.00 per share				(3,255)					(3,255)		(3,255)
Bonuses to directors and corporate auditors				(55)					(55)		(55)
Repurchase of treasury stock	(118,531)							(86)	(86)		(86)
Disposal of treasury stock	560,366		194					45	239		239
Net increase in unrealized gain on available-for-sale securities					12,548				12,548		12,548
Net change in foreign currency translation adjustments							3,040		3,040		3,040
BALANCE, MARCH 31, 2006	361,941,441	36,275	31,573	98,483	32,704		(156)	(1,099)	197,780		197,780
Reclassified balance as of March 31, 2006 (Note 2)										¥ 31,110	31,110
Effect of initial inclusion of certain subsidiaries in consolidation				(1)					(1)		(1)
Net income				17,438					17,438		17,438
Cash dividends, ¥8.00 per share				(2,895)					(2,895)		(2,895)
Bonuses to directors and corporate auditors				(55)					(55)		(55)
Repurchase of treasury stock	(110,954)							(96)	(96)		(96)
Disposal of treasury stock	4,519		2					2	4		4
Net change in the year					1,530	¥ 37	2,230		3,797	(4,673)	(876)
BALANCE, MARCH 31, 2007	361,835,006	¥ 36,275	¥ 31,575	¥ 112,970	¥ 34,234	¥ 37	¥ 2,074	¥ (1,193)	¥ 215,972	¥ 26,437	¥ 242,409

Consolidated Statements of Changes in Equity (continued)

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries Years ended March 31, 2008, 2007 and 2006

	Millions of yen										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	361,835,006	¥ 36,275	¥ 31,575	¥112,970	¥ 34,234	¥ 37	¥ 2,074	¥ (1,193)	¥ 215,972	¥ 26,437	¥ 242,409
Effect of initial inclusion of certain subsidiaries in consolidation				7					7		7
Net income				13,676					13,676		13,676
Cash dividends, ¥8.00 per share				(2,894)					(2,894)		(2,894)
Repurchase of treasury stock	(2,402,817)							(1,486)	(1,486)		(1,486)
Disposal of treasury stock	8,537		2					4	6		6
Net change in the year					(13,426)	(140)	1,626		(11,940)	(630)	(12,570)
BALANCE, MARCH 31, 2008	359,440,726	¥ 36,275	¥ 31,577	¥123,759	¥ 20,808	¥ (103)	¥ 3,700	¥ (2,675)	¥ 213,341	¥ 25,807	¥ 239,148

	Thousands of U.S. dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2007	$362,750	$315,750	$1,129,700	$ 342,340	$ 370	$ 20,740	$(11,930)	$ 2,159,720	$264,370	$ 2,424,090
Effect of initial inclusion of certain subsidiaries in consolidation			70					70		70
Net income			136,760					136,760		136,760
Cash dividends, $0.08 per share			(28,940)					(28,940)		(28,940)
Repurchase of treasury stock							(14,860)	(14,860)		(14,860)
Disposal of treasury stock		20					40	60		60
Net change in the year				(134,260)	(1,400)	16,260		(119,400)	(6,300)	(125,700)
BALANCE, MARCH 31, 2008	$362,750	$315,770	$1,237,590	$ 208,080	$ (1,030)	$37,000	$(26,750)	$ 2,133,410	$258,070	$ 2,391,480

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 27,145**	¥ 33,185	¥ 29,386	**$ 271,450**
Adjustment for:				
Income taxes-paid	**(10,935)**	(12,957)	(8,650)	**(109,350)**
Depreciation and amortization	**29,576**	23,774	22,484	**295,760**
Impairment loss on fixed assets	**214**	139	1,150	**2,140**
Loss on dispositions of property, plant and equipment	**2,164**	1,290	1,367	**21,640**
Reduction of cost of property	**17,833**	4,621	6,025	**178,330**
Reversal of deferred gain from expropriation	**(16,833)**	(3,271)	(3,807)	**(168,330)**
Subsidies from municipal governments	**(1,000)**	(1,350)	(2,218)	**(10,000)**
Gain on sales of securities	**(181)**	(3)	(594)	**(1,810)**
Gain on sales of subsidiaries' stocks	**(1,457)**			**(14,570)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(584)**	(701)	(450)	**(5,840)**
Changes in assets and liabilities:				
Notes and accounts receivable	**4,055**	(13,371)	(4,474)	**40,550**
Inventories	**699**	(15,127)	(6,472)	**6,990**
Notes and accounts payable	**2,077**	6,637	(604)	**20,770**
Other-net	**(3,497)**	2,668	(363)	**(34,970)**
Net cash provided by operating activities	**49,276**	25,534	32,780	**492,760**
INVESTING ACTIVITIES:				
Capital expenditures	**(46,930)**	(55,316)	(59,018)	**(469,300)**
Payment for purchases of investment securities	**(954)**	(2,846)	(2,225)	**(9,540)**
Proceeds from sales and redemption of investment securities	**1,093**	63	3,057	**10,930**
Proceeds from sales of property, plant and equipment	**487**	2,081	180	**4,870**
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and associated companies	**(344)**	(686)	(1,190)	**(3,440)**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	**1,750**			**17,500**
Proceeds from sales of plant for expropriation	**919**	2,363	3,150	**9,190**
Proceeds from suspense receipts for expropriation	**80**	207	275	**800**
Payment for suspense payments for expropriation	**(586)**	(39)	(219)	**(5,860)**
Subsidies from municipal governments	**1,115**	1,864	1,629	**11,150**
Payment for long-term prepaid expense			(4,300)	
Other	**229**	(1,875)	(1,369)	**2,290**
Net cash used in investing activities	**(43,141)**	(54,184)	(60,030)	**(431,410)**
FINANCING ACTIVITIES:				
Net change in short-term bank loans	**(8,717)**	17,633	4,925	**(87,170)**
Proceeds from issuance of long-term debt	**35,227**	51,881	33,574	**352,270**
Repayments of long-term debt	**(18,961)**	(30,919)	(13,101)	**(189,610)**
Dividends paid	**(2,894)**	(2,895)	(3,255)	**(28,940)**
Dividends paid to minority interests	**(2,930)**	(8,661)	(2,841)	**(29,300)**
Payment for purchases of treasury stock	**(1,486)**	(95)	(86)	**(14,860)**
Other	**5**	4	372	**50**
Net cash provided by (used in) financing activities	**244**	26,948	19,588	**2,440**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**254**	891	1,797	**2,540**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**6,633**	(811)	(5,865)	**66,330**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**149**	420	3,575	**1,490**
CASH AND CASH EQUIVALENTS OF SUBSIDIARIES, EXCLUDED FROM CONSOLIDATION	**(1)**			**(10)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**13,959**	14,350	16,640	**139,590**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 20,740**	¥ 13,959	¥ 14,350	**$ 207,400**
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Assets increased by consolidation of previously unconsolidated subsidiaries	**¥ 0**	¥ 2,767	¥ 330	**$ 0**
Liabilities increased by consolidation of previously unconsolidated subsidiaries		2,775		

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daicel Chemical Industries, Ltd. (the "Company") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to 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 2007 financial statements to conform to the classifications used in 2008.

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 ¥100 to $1, the approximate rate of exchange at March 31, 2008. 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, 2008 include the accounts of the Company and its 48 significant (53 in 2007, 51 in 2006) subsidiaries (together, the "Companies").

During the year ended March 31, 2006, two newly established subsidiaries were included in consolidation. Three existing subsidiaries were included as a result of an increase of its operations.

During the year ended March 31, 2007, two existing subsidiaries were included as a result of an increase of its operations.

During the year ended March 31, 2008, one existing subsidiary was included as a result of an increase of its operations. One subsidiary was excluded from consolidation as a result of its liquidation, and five subsidiaries were excluded as a result of sales of their shares.

Under the control or influence concept, 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.

Investments in 4 (10 in 2007, 11 in 2006) unconsolidated subsidiaries and 8 (6 in 2007, 6 in 2006) associated companies are accounted for by the equity method. Six subsidiaries were excluded from the equity method as a result of sales of their shares. 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.

Cost in excess of the net assets of a subsidiary acquired is amortized on a straight-line basis over three years.

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. Cash Equivalents—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificates of deposits and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) 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, ii) held-to-maturity debt securities, in which the Companies have the positive intent and ability to hold to maturity are reported at amortized cost and iii) 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. Non-marketable 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.

d. **Inventories**—Inventories are substantially stated at cost, determined by the moving average cost method.

e. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. Consolidated foreign subsidiaries primarily apply the straight-line method to property, plant and equipment. Property, plant and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,025 million ($10,250 thousand).

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of residual value carried until previous fiscal years. However, such 5% portion of property, plant and equipment is systematically amortized over 5 years starting in the following year in which the carrying value of property, plant and equipment reaches 5% of the acquisition cost in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007. The effect of this treatment was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥1,857 million ($18,570 thousand). 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.

Property, plant and equipment are carried at cost, less gains deferred on the sale and replacement of certain assets.

f. **Long-lived Assets**—The Companies review its 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 would be 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.

g. **Retirement and Pension Plans**—Some 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.

Prior to April 1, 2006, no provisions were recorded for retirement allowances for directors and corporate auditors. Effective April 1, 2006, one subsidiary changed its method of accounting for such retirement benefits to the accrual basis. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2007 by ¥137 million, which included a cumulative effect of ¥174 million at March 31, 2006. This cumulative effect was included in other expenses in the 2007 consolidated statement of income.

Effective April 1, 2007, other consolidated domestic subsidiaries changed its method of accounting for such retirement benefits to the accrual basis. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2008 by ¥170 million ($1,700 thousand), which included a cumulative effect of ¥198 million ($1,980 thousand) at March 31, 2007. This cumulative effect was included in other expenses in the 2008 consolidated statement of income.

h. 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 income statement to the extent that they are not hedged by forward exchange contracts.

i. 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 historical rates.

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

Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of equity.

j. Presentation of Equity—On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) issued a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities or assets are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard was effective for fiscal years ending on or after May 1, 2006. The balances of such items as of March 31, 2006 were reclassified as separate components of equity as of April 1, 2006 in the consolidated statement of changes in equity.

k. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, "*Accounting Treatment for Bonuses to Directors and Corporate Auditors*", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors from the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes and minority interests for the year ended March31, 2007 by ¥73 million.

l. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

m. Research and Development—Research and development costs are included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" as incurred.

n. 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.

o. Derivatives and Hedging Activities—The Companies use derivative financial instruments, including foreign exchange forward contracts, interest rate swaps and foreign currency swaps as a means of hedging exposure to foreign exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

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 income statement. 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.

Long-term debt and trade accounts denominated in foreign currencies, for which foreign exchange forward contracts or foreign currency swaps are used to hedge the foreign currency fluctuation, are translated at the contracted rate if the forward contracts or the swap contracts qualify for specific hedge accounting. 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.

p. Per Share Information—Basic net income per share is computed by dividing net income available 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, retroactively adjusted for stock splits.

q. New Accounting Pronouncement

Measurement of Inventories—Under generally accepted accounting principles in Japan ("Japanese GAAP"), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, "*Accounting Standard for Measurement of Inventories*", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, "*Accounting Standard for Lease Transactions*", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Lessee

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Lessor

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessor's financial statements.

The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee shall be recognized as lease receivables, and all finance leases that deem not transfer ownership of the leased property to the lessee shall be recognized as investments in lease.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ PITF No.18, "*Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*". The PITF prescribes: 1) 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, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The PITF is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and Investment securities as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current:			
Government and corporate bonds	**¥ 25**	¥ 25	**$ 250**
Non-current:			
Equity securities	**¥57,335**	¥79,825	**$573,350**
Government and corporate bonds	**1,334**	1,369	**13,340**
Trust fund investments and other	**1,048**	1,590	**10,480**
Total	**¥59,742**	¥82,809	**$597,420**

The carrying amounts and aggregate fair values of investment securities at March 31, 2008 and 2007 were as follows:

	Millions of yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	**¥20,327**	**¥35,233**	**¥173**	**¥55,387**
Debt securities	**1,000**		**11**	**989**
Trust fund investments and other	**893**	**207**	**55**	**1,045**

	Millions of yen			
	2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥19,734	¥57,508	¥ 73	¥77,169
Debt securities	1,000		1	999
Trust fund investments and other	977	605	0	1,582

	Thousands of U.S. dollars			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	**$ 203,270**	**$ 352,330**	**$1,730**	**$ 553,870**
Debt securities	**10,000**		**110**	**9,890**
Trust fund investments and other	**8,930**	**2,070**	**550**	**10,450**

Securities whose fair values are not readily determinable as of March 31, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Available-for-sale:			
Equity securities	**¥1,948**	¥2,656	**$ 19,480**
Debt securities	**370**	395	**3,700**
Trust fund investments and other	**3**	8	**30**
Total	**¥2,321**	¥3,059	**$ 23,210**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2008, 2007 and 2006 were ¥1,093 million ($10,930 thousand), ¥98 million and ¥3,057 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥181 million ($1,810 thousand) and ¥0 million ($0 thousand), respectively for the year ended March 31, 2008 and ¥3 million and ¥0 million, respectively for the year ended March 31, 2007 and ¥622 million and ¥28 million, respectively for the year ended March 31, 2006.

The carrying values of debt and other securities by contractual maturities classified as available-for-sale at March 31, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	**¥ 32**	**$ 320**
Due after one year through five years	**183**	**1,830**
Due after five years through ten years	**142**	**1,420**
Due after ten years	**96**	**960**
Total	**¥453**	**$4,530**

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Investments	**¥6,746**	¥6,559	**$67,460**
Advances	**1,394**	1,433	**13,940**
Total	**¥8,140**	¥7,992	**$81,400**

4. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished products	**¥35,977**	¥35,038	**$ 359,770**
Semi-finished products and work in process	**14,086**	13,964	**140,860**
Raw materials	**19,497**	23,130	**194,970**
Supplies	**3,738**	3,490	**37,380**
Total	**¥73,298**	¥75,622	**$ 732,980**

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

Short-term bank loans were principally represented by bank overdrafts. Weighted average per annual interest rates of short-term bank loans at March 31, 2008 and 2007 were 3.18% and 2.22%, respectively.

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
0.84% bonds due 2009	**¥ 10,000**	¥ 10,000	**$ 100,000**
2.20% bonds due 2010	**10,000**	10,000	**100,000**
1.60% bonds due 2013	**10,000**	10,000	**100,000**
Unsecured loans from banks and other financial institutions, due through 2017, with interest rates ranging from 0.55% to 6.80% for 2008 (from 0.64% to 6.36% for 2007)	**72,473**	64,616	**724,730**
Unsecured loan from FUJIFILM Corporation, due through 2011, with 0% interest rate	**30,000**		**300,000**
Collateralized loans from banks and other financial institutions, due through 2010, with interest rates ranging 1.80% for 2008 (from 0.55% to 5.67% for 2007)	**500**	28,080	**5,000**
Total	**132,973**	122,696	**1,329,730**
Less current portion	**(35,804)**	(18,715)	**(358,040)**
Long-term debt, less current portion	**¥ 97,169**	¥103,981	**$ 971,690**

At March 31, 2008, annual maturities of long-term debt were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 35,804	$ 358,040
2010	37,170	371,700
2011	21,664	216,640
2012	9,262	92,620
2013	17,562	175,620
2014 and thereafter	11,511	115,110
Total	¥132,973	$1,329,730

At March 31, 2008, property, plant and equipment with a total net book value of ¥1,670 million ($16,700 thousand) was pledged as collateral for long-term debt issued in Japan.

The unsecured long-term bank debt of ¥18,071 million ($180,710 thousand) contain the following financial restriction agreement during its payment period. The agreement provides that the amount of shareholder's equity ¥137,300 million ($1,373,000 thousand) at every end of fiscal year and semi-annual interim period.

6. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have lump-sum severance payment plans and non-contributory trusted pension 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 liability for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ 32,125	¥ 33,029	$ 321,250
Fair value of plan assets	(22,792)	(27,768)	(227,920)
Unrecognized actuarial loss	(2,276)	2,550	(22,760)
Net liability	7,057	7,811	70,570
Prepaid benefit costs	945	743	9,450
Liability for retirement benefit	¥ 8,002	¥ 8,554	$ 80,020

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 1,851	¥ 1,891	$ 18,510
Interest cost	596	585	5,960
Expected return on plan assets	(362)	(312)	(3,620)
Recognized actuarial loss	(122)	192	(1,220)
Amortization of prior service cost	11		110
Net periodic benefit costs	¥ 1,974	¥ 2,356	$ 19,740

For the year ended March 31, 2008, in addition to the net periodic benefit costs, a certain subsidiary paid special retirement incentives in amount of ¥129 million ($1,290 thousand). The special retirement incentives were recorded as other expenses.

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**1.0%**	1.0%
Amortization period of prior service cost	**5years**	
Recognition period of actuarial gain/loss	**10years**	10years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Corporate Law. The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2008 and 2007 were ¥221 million ($2,210 thousand) and ¥137 million, respectively.

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Corporate Law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan. The significant provisions in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in kind (non-cash 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. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law 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 total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law 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 specific formula.

Under the Corporate law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ issued a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years endings on or after May 1, 2006.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% for the years ended March 31, 2008, 2007 and 2006. Foreign subsidiaries are subject to income tax of the countries in which they operate.

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2008, 2007 and 2006 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2008	2007	2006
Normal effective statutory tax rate	**41%**	41%	41%
Expenses not deductible for income tax purposes	**1**		1
Current operating losses of subsidiaries			3
Equity in earnings of associated companies			(1)
Tax credit primarily for research and development expenses	**(3)**	(3)	(3)
Return tax		(2)	
Other-net	**(1)**		(2)
Actual effective tax rate	**38%**	36%	39%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 479**	¥ 616	**$ 4,790**
Accrued bonuses	**1,595**	1,728	**15,950**
Liabilities for retirement benefits	**7,876**	8,034	**78,760**
Investment securities	**807**	2,416	**8,070**
Tax loss carryforwards	**1,218**	1,023	**12,180**
Intercompany profits	**4,607**	5,209	**46,070**
Other	**3,200**	3,270	**32,000**
Less valuation allowance	**(1,401)**	(865)	**(14,010)**
Deferred tax assets	**¥18,381**	¥21,431	**$183,810**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥12,819**	¥23,552	**$128,190**
Tax purpose reserves regulated by Japanese tax law	**918**	988	**9,180**
Undistributed earnings of foreign subsidiaries	**4,652**	3,583	**46,520**
Securities contributed to employees' retirement benefit trust	**4,727**	4,603	**47,270**
Other	**1,607**	2,320	**16,070**
Deferred tax liabilities	**¥24,723**	¥35,046	**$247,230**
Net deferred tax liabilities	**¥ 6,342**	¥13,615	**$ 63,420**

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥12,004 million ($120,040 thousand), ¥11,717 million and ¥11,221 million for the years ended March 31, 2008, 2007 and 2006, respectively.

10. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted average number of shares outstanding. The average number of common shares in the computation was 361,213,634, 361,892,421 and 361,760,918 for the years ended March 31, 2008, 2007 and 2006, respectively.

11. LEASES

(Lessee)

Finance Leases:

Total lease payments under finance leases that do not deem to transfer ownership of the leased property to the lessee were ¥247 million ($2,470 thousand), ¥339 million and ¥289 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		
As of March 31, 2008	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	**¥289**	**¥601**	**¥890**
Accumulated depreciation	**214**	**372**	**586**
Net leased property	**¥ 75**	**¥229**	**¥304**

	Thousands of U.S. dollars		
As of March 31, 2008	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	**$2,890**	**$6,010**	**$8,900**
Accumulated depreciation	**2,140**	**3,720**	**5,860**
Net leased property	**$ 750**	**$2,290**	**$3,040**

	Millions of yen		
As of March 31, 2007	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥272	¥2,099	¥2,371
Accumulated depreciation	184	1,112	1,296
Net leased property	¥ 88	¥ 987	¥1,075

The amount of acquisition cost under finance leases includes the imputed interest expense.

Obligations under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥118**	¥ 289	**$1,180**
Due after one year	**186**	786	**1,860**
Total	**¥304**	¥1,075	**$3,040**

The amount of obligations under finance leases includes the imputed interest expense.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥247 million ($2,470 thousand), ¥339 million and ¥289 million for the years ended March 31, 2008, 2007 and 2006, respectively.

Operating Leases:

Obligations under non-cancelable operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥ 644**	¥340	**$ 6,440**
Due after one year	**453**	369	**4,530**
Total	**¥1,097**	¥709	**$10,970**

The amount of obligations under operating leases includes imputed interest expense.

There is no impairment loss allocated to leased assets.

(Lessor)

Finance Leases:

The finance leases that do not transfer ownership of leased property to the lessee are subleases.

Future rental income under such finance leases as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥2**	¥2	**$20**
Due after one year	**4**	5	**40**
Total	**¥6**	¥7	**$60**

The amount of future rental income under subleases includes the imputed interest income.

12. DERIVATIVES

The Companies enter into foreign exchange forward contracts and foreign currency swaps, in the normal course of business, to reduce the exposure to fluctuations in foreign exchange rates. The Companies also enter into interest rate swap agreements as a means of managing interest rate exposure. The Companies do not hold or issue derivatives for trading or speculative purposes.

Foreign exchange forward contracts, interest rate swaps and foreign currency swaps are subject to market risk, which is the exposure created by potential fluctuations in market conditions. Because the counterparties to the Companies' 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 which regulate the authorization of such transactions.

The Companies had the following derivatives contracts outstanding at March 31, 2008 and 2007:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			**2008**		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:									
Selling U.S.$	**¥2,514**	**¥2,611**	**¥ (97)**	¥ 3,273	¥3,313	¥ (40)	**$25,140**	**$26,110**	**$ (970)**
Buying U.S.$				466	471	5			
Foreign currency swaps:									
Receiving Japanese yen, paying U.S.$	**2,338**	**87**	**87**	2,500	(166)	(166)	**23,380**	**870**	**870**

Foreign exchange forward contracts or interest rate swaps or foreign currency swaps that qualify for hedge accounting and such amounts which are assigned to the associated assets and liabilities and are recorded on the balance sheet are excluded from disclosure of market value information.

The contract or notional amounts above do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

13. RELATED PARTY TRANSACTIONS

The Company sells Cellulose acetate and polymer to FUJIFILM Corporation, whose president has served as one of the Company's directors since June, 2005. On October 2, 2006, FUJIFILM Corporation was founded and succeeded the business operation of Fuji Photo Film Co., Ltd.

The sales to FUJIFILM Corporation (Fuji Photo Film Co., Ltd.) for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Sales	**¥18,489**	¥16,611	**$184,890**

These balances due to FUJIFILM Corporation (Fuji Photo Film Co., Ltd.) at March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Notes and accounts receivable	**¥ 3,846**	¥3,422	**$ 38,460**
Current portion of long-term debt	**10,000**		**100,000**
Long-term debt	**20,000**		**200,000**

14. 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. The same amount is charged to income and deducted from the cost of property, plant and equipment when the property, plant and equipment subject to the subsidies are acquired.

15. EXPROPRIATION

During the year ended March 31, 2005, in connection with expropriations for public expressway construction, the Companies signed an agreement with Hanshin Expressway Public Corporation to sell certain land and certain facilities related to its Sakai Plant which produced a gain for the Companies of ¥26,388 million. Under Japanese tax regulations, the Companies are allowed to defer this gain by recording it as a deferred gain under long-term liabilities. Because replacement property and plant facilities were acquired, the deferred gain was reversed and the same amount was credited against the cost of such property, plant and equipment.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2008 for loans guaranteed amounted to ¥4,651 million ($46,510 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

17. SUBSEQUENT EVENT

The following plan for appropriations of retained earnings for the year ended March 31, 2008 was approved at the Shareholders' General Meeting of the Company held on June 26, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4 ($0.04) per share	**¥1,438**	**$14,380**

18. SEGMENT INFORMATION

Information about operations in industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2008, 2007 and 2006 is as follows:

I. Operations in Industry Segments

	Millions of yen							
Year ended March 31, 2008	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥ 72,467	¥101,246	¥171,337	¥ 65,375	¥ 6,565	¥416,990		¥416,990
Intersegment sales	2,852	16,948	22		12,348	32,170	¥ (32,170)	
Total sales	75,319	118,194	171,359	65,375	18,913	449,160	(32,170)	416,990
Total cost and expenses	67,056	106,533	157,047	59,748	18,354	408,738	(23,912)	384,826
Operating income	¥ 8,263	¥ 11,661	¥ 14,312	¥ 5,627	¥ 559	¥ 40,422	¥ (8,258)	¥ 32,164
Total asset	¥126,435	¥ 91,035	¥150,113	¥ 67,789	¥ 7,981	¥443,353	¥ 72,265	¥515,618
Depreciation	7,855	7,590	7,009	5,087	361	27,902	752	28,654
Impairment loss on fixed assets		114	100			214		214
Capital investments	23,357	9,936	6,777	9,331	279	49,680	672	50,352

	Thousands of U.S. dollars							
Year ended March 31, 2008	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$ 724,670	$1,012,460	$1,713,370	$653,750	$ 65,650	$4,169,900		$4,169,900
Intersegment sales	28,520	169,480	220		123,480	321,700	$(321,700)	
Total sales	753,190	1,181,940	1,713,590	653,750	189,130	4,491,600	(321,700)	4,169,900
Total cost and expenses	670,560	1,065,330	1,570,470	597,480	183,540	4,087,380	(239,120)	3,848,260
Operating income	$ 82,630	$ 116,610	$ 143,120	$ 56,270	$ 5,590	$ 404,220	$ (82,580)	$ 321,640
Total asset	$1,264,350	$ 910,350	$1,501,130	$677,890	$ 79,810	$4,433,530	$ 722,650	$5,156,180
Depreciation	78,550	75,900	70,090	50,870	3,610	279,020	7,520	286,540
Impairment loss on fixed assets		1,140	1,000			2,140		2,140
Capital investments	233,570	99,360	67,770	93,310	2,790	496,800	6,720	503,520

	Millions of yen							
Year ended March 31, 2007	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥ 63,501	¥ 93,839	¥161,881	¥55,496	¥ 6,706	¥381,423		¥381,423
Intersegment sales	2,355	14,126	29		11,876	28,386	¥ (28,386)	
Total sales	65,856	107,965	161,910	55,496	18,582	409,809	(28,386)	381,423
Total cost and expenses	54,226	96,641	147,135	49,449	17,657	365,108	(20,084)	345,024
Operating income	¥ 11,630	¥ 11,324	¥ 14,775	¥ 6,047	¥ 925	¥ 44,701	¥ (8,302)	¥ 36,399
Total asset	¥118,803	¥ 93,690	¥159,234	¥59,965	¥ 9,704	¥441,396	¥106,036	¥547,432
Depreciation	4,549	5,881	7,473	4,393	327	22,623	646	23,269
Impairment loss on fixed assets			66			66	73	139
Capital investments	32,267	5,499	4,677	4,227	224	46,894	5,164	52,058

Year ended March 31, 2006	Millions of yen							
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥55,899	¥84,435	¥142,556	¥44,090	¥ 8,540	¥335,520		¥335,520
Intersegment sales	2,222	10,989	37		10,267	23,515	¥ (23,515)	
Total sales	58,121	95,424	142,593	44,090	18,807	359,035	(23,515)	335,520
Total cost and expenses	47,290	85,947	129,421	37,473	17,490	317,621	(15,671)	301,950
Operating income	¥10,831	¥ 9,477	¥ 13,172	¥ 6,617	¥ 1,317	¥ 41,414	¥ (7,844)	¥ 33,570
Total asset	¥86,828	¥82,909	¥149,738	¥52,786	¥10,908	¥383,169	¥100,300	¥483,469
Depreciation	4,131	6,426	6,887	3,434	290	21,168	780	21,948
Impairment loss on fixed assets		895	15			910	240	1,150
Capital investments	30,154	5,461	6,960	12,678	340	55,593	6,358	61,951

Cellulosic derivatives include cellulose acetate, acetate tow for cigarette filters and water-soluble polymers. Organic chemicals include acetic acid and its derivatives, fine chemical products and optical resolution columns. Plastics and films include SAN and ABS resins and alloys, and packaging and performance films. Pyrotechnic devices include ammunition, solid propellants and rocket propulsion, aircrew emergency-escape systems and inflators for automobile airbag safety equipment. Functional products include membranes.

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2008, 2007 and 2006 included unallocated corporate costs of ¥8,258 million ($82,580 thousand), ¥8,302 million and ¥7,844 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2008, 2007 and 2006 included ¥75,962 million ($759,620 thousand), ¥109,500 million and ¥103,234 million of corporate assets, respectively, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

II. Geographical Segments

Year ended March 31, 2008	Millions of yen					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥309,609	¥76,116	¥31,265	¥416,990		¥416,990
Intersegment sales	50,206	13,324	3,297	66,827	¥ (66,827)	
Total sales	359,815	89,440	34,562	483,817	(66,827)	416,990
Operating expenses	328,961	80,804	33,630	443,395	(58,569)	384,826
Operating income	¥ 30,854	¥ 8,636	¥ 932	¥ 40,422	¥ (8,258)	¥ 32,164
Total assets	¥348,518	¥84,997	¥29,449	¥462,964	¥ 52,654	¥515,618

Year ended March 31, 2008	Thousands of U.S. dollars					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$3,096,090	$761,160	$312,650	$4,169,900		$4,169,900
Intersegment sales	502,060	133,240	32,970	668,270	$ (668,270)	
Total sales	3,598,150	894,400	345,620	4,838,170	(668,270)	4,169,900
Operating expenses	3,289,610	808,040	336,300	4,433,950	(585,690)	3,848,260
Operating income	$ 308,540	$ 86,360	$ 9,320	$ 404,220	$ (82,580)	$ 321,640
Total assets	$3,485,180	$849,970	$294,490	$4,629,640	$ 526,540	$5,156,180

Year ended March 31, 2007	Millions of yen					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥290,832	¥66,187	¥24,404	¥381,423		¥381,423
Intersegment sales	46,302	9,423	1,741	57,466	¥(57,466)	
Total sales	337,134	75,610	26,145	438,889	(57,466)	381,423
Operating expenses	301,514	67,462	25,212	394,188	(49,164)	345,024
Operating income	¥ 35,620	¥ 8,148	¥ 933	¥ 44,701	¥ (8,302)	¥ 36,399
Total assets	¥354,702	¥77,617	¥27,264	¥459,583	¥ 87,849	¥547,432

Year ended March 31, 2006	Millions of yen					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥264,621	¥54,480	¥16,419	¥335,520		¥335,520
Intersegment sales	42,455	7,964	460	50,879	¥(50,879)	
Total sales	307,076	62,444	16,879	386,399	(50,879)	335,520
Operating expenses	273,778	55,125	16,082	344,985	(43,035)	301,950
Operating income	¥ 33,298	¥ 7,319	¥ 797	¥ 41,414	¥ (7,844)	¥ 33,570
Total assets	¥308,288	¥69,577	¥19,885	¥397,750	¥ 85,719	¥483,469

Major countries or areas in the categories Asia and Other are as follows:

Asia: China, Singapore, Hong Kong, Thailand, Taiwan, Malaysia

Other: North America, Europe

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2008, 2007 and 2006 included unallocated corporate costs of ¥8,258 million ($82,580 thousand), ¥8,302 million and ¥7,844 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2008, 2007 and 2006 included ¥75,962 million ($759,620 thousand), ¥109,500 million and ¥103,234 million of corporate assets, respectively, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

III. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2008, 2007 and 2006 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Asia	**¥105,359**	¥ 92,185	¥ 76,705	**$1,053,590**
Other	**52,810**	43,032	31,336	**528,100**
Total	**¥158,169**	¥135,217	¥108,041	**$1,581,690**

Major countries or areas in the categories Asia and Other are as follows:

Asia: China, Hong Kong, Thailand, Korea, Singapore, Taiwan

Other: Europe, North America, Africa, Oceania, the Middle East, Latin America

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Daicel Chemical Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Daicel Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2008, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu

June 26, 2008

Member of
Deloitte Touche Tohmatsu

Domestic Operations

	Paid-in capital (Millions of yen)	The Company's equity ownership (%)	Principal business
Kyodo Sakusan Co., Ltd.	3,000	54	Manufacture and sale of acetic acid Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; Denki Kagaku Kogyo K.K.; Chisso Corporation; and Kyowa Hakko Chemical Co., Ltd.
Dainichi Chemical Corp.	270	100	Manufacture and sale of industrial-use coating resins, non-tin anti-stain compounds, and fine chemicals
Polyplastics Co., Ltd.	3,000	55	Manufacture and sale of polyacetal resin, polybutylene terephthalate (PBT) resin, liquid crystal polymer, and polyphenylene sulfide resin Joint-venture company with Ticona Limited Liability Company of the United States
WinTech Polymer Ltd.*1	2,000	33	Manufacture and sale of polybutylene terephthalate (PBT) resin and glass fiber-reinforced PET (FR-PET) resin Joint-venture company with Teijin Limited
Daicel Polymer Ltd.	100	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel-Evonik Ltd.	340	50	Manufacture and sale of polyamide 12 resin Joint-venture company with Evonik Degussa Japan Co., Ltd.
Daicel Pack Systems, Ltd.	50	100	Manufacture and sale of paper and plastic buffers, vacuum- and pressure-molded plastics, and industrial and food packaging
Daicel Value Coating Ltd.	40	100	Manufacture and sale of barrier films Custom coating business
Daicel Novafoam Ltd.	98	100	Manufacture and sale of foamed plastics
Daicel Safety Systems Inc.	80	100	Manufacture of inflators for automobile airbags
Japan Shotshell Ltd.	150	100	Manufacture and sale of shotgun shells for sport shooting and hunting
Daicel Finance Ltd.	1,000	100	Supervision and implementation of finance and asset management operations for Daicel Group companies
Daicel Logistics Service Co., Ltd.	267	100	Warehousing and transportation
Daicen Membrane-Systems Ltd.	30	55	Manufacture and sale of separation membranes, including ultrafiltration membrane modules, and design, manufacture, and sale of equipment and systems related to ultrafiltration membrane modules
Daicel FineChem Ltd.	70	100	Sale of water-soluble polymers, synthetic resins, and other industrial products, and manufacture, processing, and sale of resin-based construction materials as well as floor coverings and exterior furnishings Manufacture and sale of celluloid, acetate plastics products, and household products

*1 60% owned by Polyplastics Co., Ltd.

International Operations

	Paid-in capital	The Company's equity ownership (%)	Principal business
Ningbo Da-An Chemical Industries Co., Ltd.*2	RMB272mil	30	Manufacture and sale of cellulose acetate and acetic anhydride
Xi'an Huida Chemical Industries Co., Ltd.*2	RMB248mil	30	Manufacture and sale of acetate tow for cigarette filters
Chiral Technologies, Inc.	US$8.8mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Chiral Technologies Europe S.A.S.	€2.1mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Nanning Food Ingredients Co., Ltd.*3	US$33.61mil	100	Manufacture and sale of sorbic acid and potassium sorbate
Polyplastics Taiwan Co., Ltd.*4	NT$1,590mil	41	Manufacture and sale of engineering plastics
Polyplastics Asia Pacific Sdn. Bhd.*5	RM159mil	55	Manufacture and sale of engineering plastics
PTM Engineering Plastics (Nantong) Co., Ltd.*6	RMB386mil	39	Manufacture and sale of engineering plastics Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; Korea Engineering Plastics Co., Ltd.; and Ticona Limited Liability Company
Shanghai Daicel Polymers, Ltd.*7	RMB76.52mil	100	Sale and compounding of plastics
Daicel Polymer (Hong Kong) Ltd.*8	HK$1.0mil	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel Trading (Shanghai) Ltd.*9	US$0.2mil	100	Sale of compound resin, polystyrene sheet and other chemical products
Topas Advanced Polymers GmbH*10	€0.1mil	80	Manufacture, sale and research of cyclic olefin copolymer
Topas Advanced Polymers, Inc.*11	US$0.01mil	80	Sale of cyclic olefin copolymer
Daicel Safety Systems America, LLC*12	US$15mil	66	Manufacture and sale of inflators for automobile airbags Joint-venture company with TG North America Corporation
Daicel Safety Systems Europe Sp. z o. o.	PLN5mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Jiangsu) Co.,Ltd.*3	US$15mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Thailand) Co., Ltd.	THB270mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Technologies America,Inc	US$8.5mil	100	Manufacture of inflator components for automobile airbags
Daicel Safety Technologies (Thailand) Co., Ltd.	THB800mil	100	Manufacture of inflator components for automobile airbags
Daicel Chemical (China) Investment Co., Ltd.	US$47.11mil	100	Management of Manufacturing and marketing operations in China
Daicel Chemical (Asia) Pte. Ltd.	S$9.59mil	100	Management of marketing operations in Southeast Asia
Daicel (U.S.A.), Inc.	US$51.9mil	100	Management of marketing operations in North America
Daicel (Europa) GmbH	€0.15mil	100	Management of marketing operations in Europe

*2 30% owned by Daicel Chemical (China) Investment Co., Ltd.
*3 100% owned by Daicel Chemical (China) Investment Co., Ltd.
*4 75% owned by Polyplastics Co., Ltd.
*5 100% owned by Polyplastics Co., Ltd.
*6 70% owned by Polyplastics Co., Ltd.
*7 90% owned by Daicel Chemical Industries, Ltd and 10% owned by Daicel Chemical (China) Investment Co., Ltd.
*8 100% owned by Daicel Polymer Ltd.
*9 90% owned by Daicel Chemical (China) Investment Co.,Ltd. and 10% owned by Shanghai Daicel Polymers,Ltd.
*10 55% owned by Daicel Chemical Industries, Ltd and 45% owned by Polyplastics Co., Ltd.
*11 100% owned by Topas Advanced Polymers GmbH
*12 66% owned by Daicel (U.S.A.), Inc.

Corporate Data

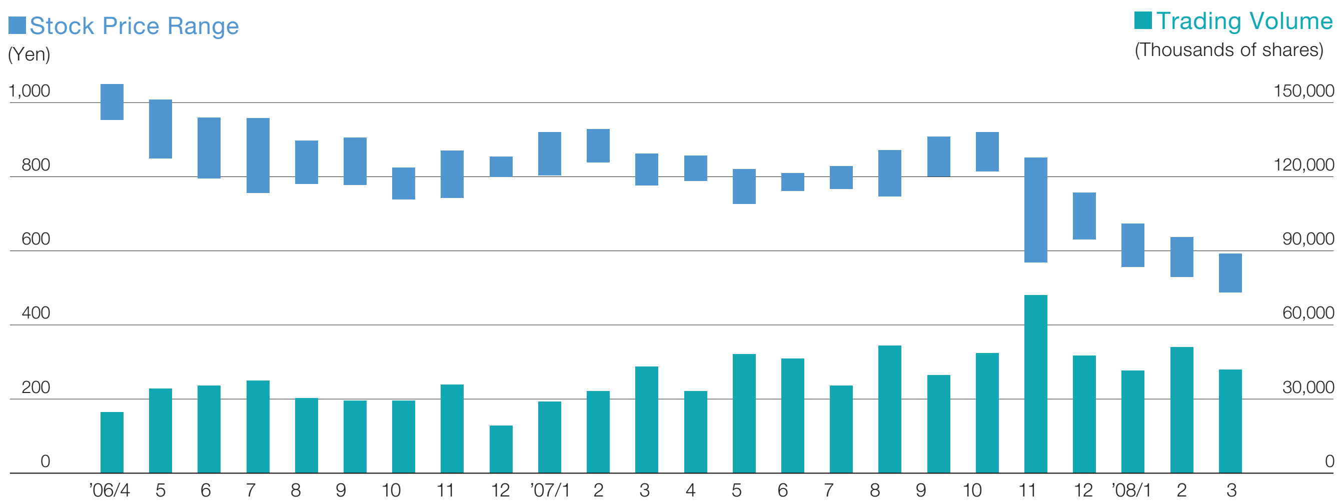
(As of March 31, 2008)

Incorporated	September 8, 1919
Common Stock	
Authorized:	1,450,000,000 shares
Issued:	364,942,682 shares
Capital:	¥36,275 million
Listings:	Tokyo Stock Exchange and Osaka Securities Exchange
Transfer Agent:	The Chuo Mitsui Trust & Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
Number of Shareholders:	22,442
Independent Auditor	Deloitte Touche Tohmatsu
Osaka Head Office	Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku, Osaka 530-0001, Japan Tel: +81-6-6342-6111 Fax: +81-6-6342-6118
Tokyo Head Office	2-18-1, Konan Minato-ku, Tokyo 108-8230, Japan Tel: +81-3-6711-8111 Fax: +81-3-6711-8100

Stock Information

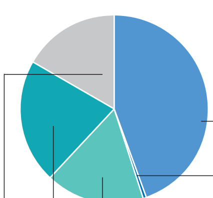
(As of March 31, 2008)

Stock Price Range & Trading Volume



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

Composition of Stockholders



	Thousands of shares	%
Financial institutions	162,627	44.6
Securities companies	1,751	0.5
Other domestic corporations	62,423	17.1
Foreign investors	77,387	21.2
Individual & other investors	60,753	16.6

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

Major Shareholders *(Top10)*

	Number of shares (unit: 1,000 shares)	% of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	36,754	10.07
Japan Trustee Services Bank, Ltd. (Trust Account)	30,756	8.43
Nippon Life Insurance Company	16,813	4.61
Toyota Motor Corporation	15,000	4.11
FUJIFILM Corporation	10,915	2.99
Mitsui Sumitomo Insurance Co., Ltd.	9,003	2.47
Mitsui & Co., Ltd.	7,560	2.07
Sumitomo Mitsui Banking Corporation	7,096	1.94
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,503	1.78
Daicel Chemical Industries, Ltd.	5,501	1.51

DAICEL CHEMICAL INDUSTRIES, LTD.

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