Annual Report 2009

Year ended March 31, 2009

Building Growth on the Strengthened Foundation

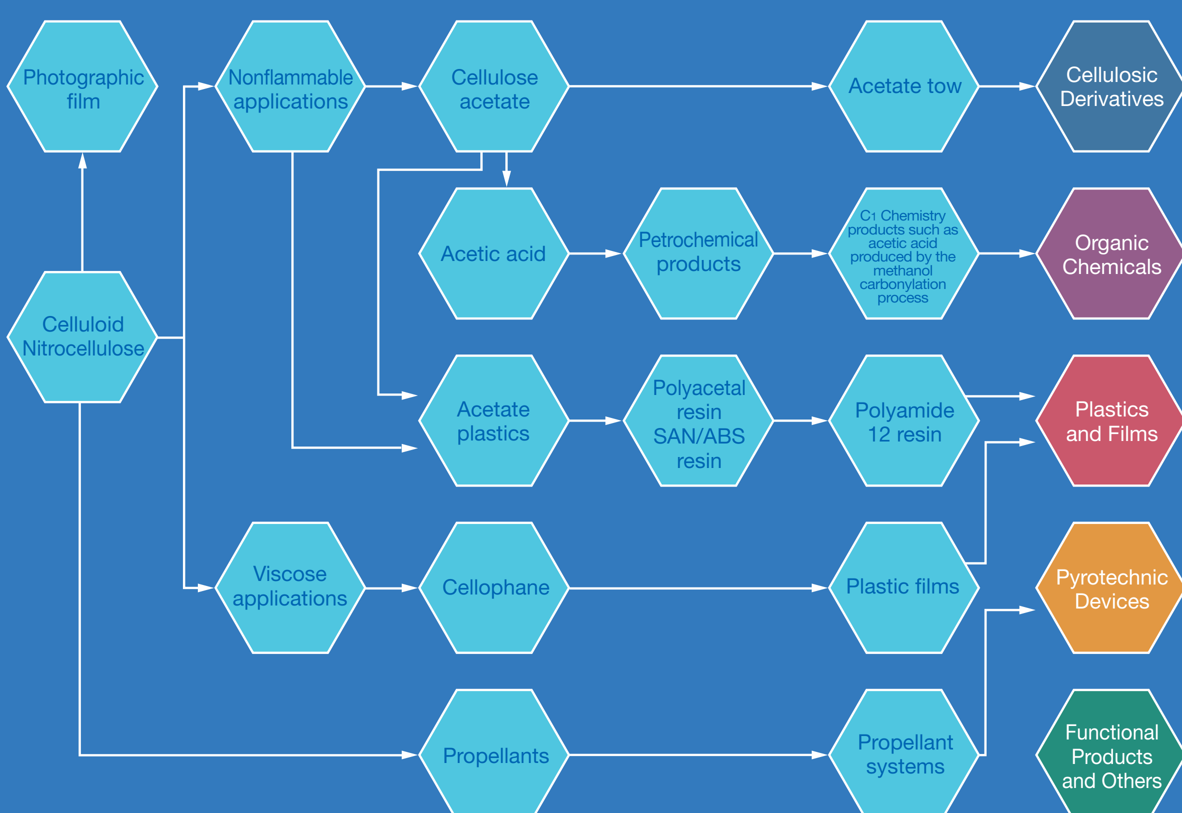
DAICEL CHEMICAL INDUSTRIES, LTD.

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

Fiscal 2008 was a year in which we further practiced selection and concentration in our business, including sales and acquisition of businesses, and strategic large-scale business investments which we had carried out for some years. I firmly believe that those measures will take place us in an excellent position to stage a strong comeback once demand recovers.

In this section we explain the foundations for our growth. Our Research and Development system is the key to profitable growth; we explain it and recent results. Responsible Care is our efforts in management for a safe environment. Corporate Governance is critical in meeting our social responsibilities as a listed company and in raising corporate value. Lastly, for Corporate Ethics, we work to maintain and improve corporate ethics through participation by all members of the Daicel Group in activities and through the PDCA cycle.

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.

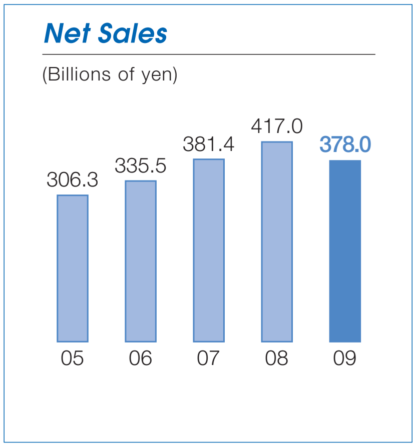
Consolidated Financial Highlights

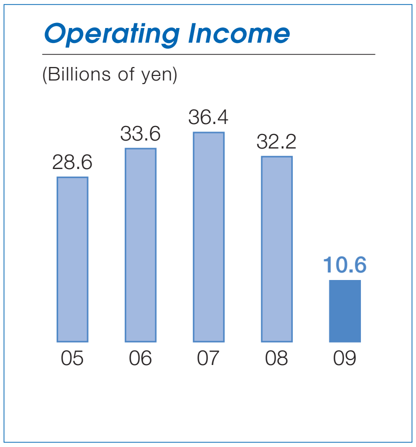
Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31

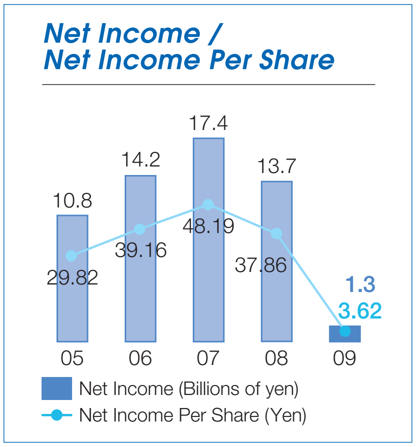
	Millions of yen					Thousands of U.S. dollars*3
	2005	2006	2007	2008	2009	2009
Results for the year						
Net sales	¥ 306,335	¥ 335,520	¥ 381,423	¥ 416,990	**¥ 377,980**	**$3,856,939**
Operating income	28,553	33,570	36,399	32,164	**10,590**	**108,061**
Income before income taxes and minority interests	22,380	29,386	33,185	27,145	**6,272**	**64,000**
Net income	10,844	14,221	17,438	13,676	**1,297**	**13,235**
Capital expenditures	25,377	59,018	55,316	46,930	**25,666**	**261,898**
Depreciation and amortization	22,490	22,484	23,774	29,576	**39,674**	**404,837**
Research and development expenses	11,219	11,221	11,717	12,004	**12,046**	**122,918**
At year-end						
Total assets	¥ 413,493	¥ 483,469	¥ 547,432	¥ 515,618	**¥ 445,912**	**$4,550,122**
Total equity*1	171,225	197,780	242,409	239,148	**211,488**	**2,158,041**

	Yen					U.S. dollars*3
Per share*2						
Net income	¥ 29.82	¥ 39.16	¥ 48.19	¥ 37.86	**¥ 3.62**	**$ 0.04**
Cash dividends applicable to the year	8.00	8.00	8.00	8.00	**8.00**	**0.08**

*1. From 2007, 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 ¥98=$1, the approximate exchange rate at March 31, 2009.







Message from the President

Daisuke Ogawa
President and CEO

Year in Review

Significant Earnings Decline Amid Worsening Global Economy and Yen's Appreciation

In fiscal 2008*, demand for chemical products began falling considerably from October due to deteriorating worldwide economic conditions caused by the financial crisis. This, coupled with a rapidly appreciating yen, presented extremely challenging operating conditions.

Under such circumstances, the Daicel Group took the following urgent measures. For example, we have established optimal production systems that addresses the decline in demand, we have ensured liquidity at hand and have strengthened credit management as well. At the same time, we continued working hard to reinforce our corporate base in order to stage a strong recovery when there is a resurgence in demand. We accomplished the abovementioned initiatives through taking such measures as production increase by implementing activities for production innovation and business process innovation, as well as through the fortification of the strategic functions for each department and nurturing human resources.

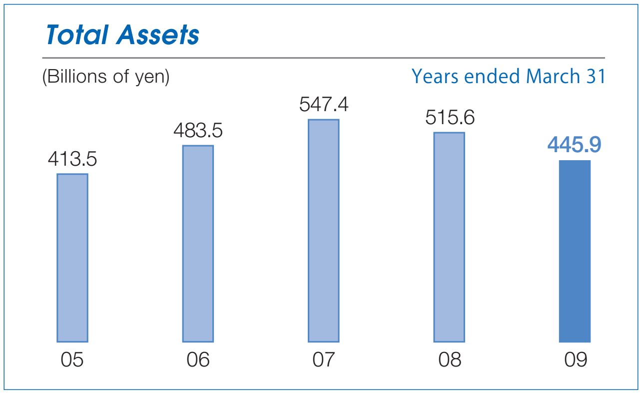
As a result, the Group reported a 9.4% year-on-year decline in consolidated net sales, to ¥378.0 billion, due mainly to lower sales in all segments in the second half of the year stemming from a decline in sales volumes and an appreciating yen. This was despite increased revenues and earnings in the first half of the year. Operating income fell 67.1%, to ¥10.6 billion, and recurring income declined 70.5%, to ¥8.2 billion. Net income slumped 90.5%, to ¥1.3 billion. Factors behind these results include an increase in fixed costs accompanying the deployment of new facilities, a drop in capacity utilization ratio stemming from reduced demand, and the impact of the yen's appreciation.

Daicel's basic policy on the distribution of profits takes account of the earnings scenario in a given fiscal year and future business development from a comprehensive and long-term perspective. We also seek to achieve an overall long-term balance between making appropriate dividends and retaining earnings needed to establish a robust profit base. In line with this policy, we declared annual dividends of ¥8.00 per share, unchanged from the previous fiscal year, despite the inevitable decline in earnings in the year under review. In a separate measure implemented to ensure returns to shareholders, between November and December 2008 we purchased 3,398,000 shares of treasury stock valued at around ¥1.4 billion.

At the end of the fiscal year under review, total assets stood at ¥445.9 billion, down ¥69.7 billion from a year earlier. Factors included a decline in trade notes receivable and trade accounts receivable, and property, plant and equipment, as well as a loss on the revaluation of investment securities. Total liabilities declined ¥42.0 billion, to ¥234.4 billion, due to a decline in trade notes payable and trade accounts payable.

* Starting from this fiscal year's annual report, fiscal 2008 will be used in place for the fiscal year ending March 31, 2009, and fiscal 2009 will be used in place for the fiscal year ending March 31, 2010.

Interest-bearing debt increased ¥7.4 billion year-on-year, to ¥142.7 billion, representing an interest-bearing debt ratio of 32%. This was of our deliberate action to increase short-term bank loans aimed at preserving on-hand liquidity.



Selection and Concentration—Sale of Business in Mikuni Plastics and Acquisition of ChromTech

In the year under review, Daicel sold all the businesses of Mikuni Plastics Co., Ltd. (hereinafter Mikuni Plastics), a consolidated subsidiary, to Aronkasei Co., Ltd. (hereinafter Aronkasei). This was because the core businesses of the Daicel Group derive minimal synergistic benefits from the activities of Mikuni Plastics. By contrast, we expect integration of Mikuni Plastics' sales, marketing, and production functions with those of Aronkasei to realize considerable synergies for the two companies. The Daicel Group also reinforced its chiral chromatography business through the acquisition of U.K. company ChromTech Ltd. (hereinafter ChromTech), which specializes in chiral columns using water-soluble molecules. The acquisition promises to add a complementary product range to Daicel's lineup of polysaccharide-based offerings.

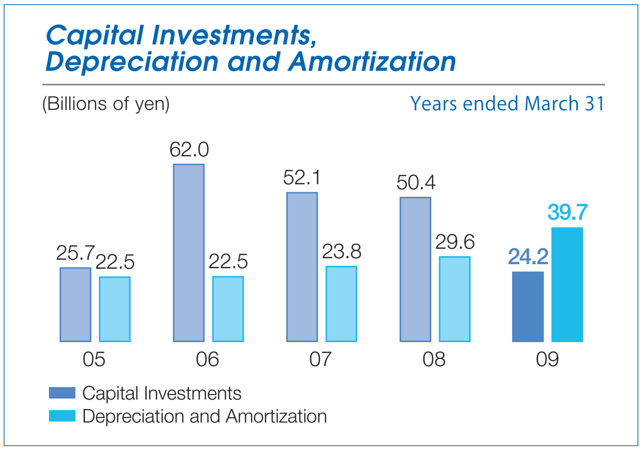
Capital Investments with an Eye on Future Growth

In the past several years, the Daicel Group has made a number of large-scale investments in fields with exciting potential for demand growth. In May 2008, for example, we completed a new cellulose acetate (triacetyl cellulose) manufacturing facility at the Ohtake Plant for films used in liquid crystal displays (LCD) in response to the expanding market. The facility's completion represents a 1.8-fold increase in Daicel's total production capacity for triacetyl cellulose.

In the year under review, we decided to establish a facility at the Aboshi Plant to produce acetate tow exclusively for super-slim cigarettes. The new facility, which is scheduled to come on stream in January 2010, will enable Daicel to meet worldwide growth in demand for super-slim cigarettes.

Daicel is currently the world's only manufacturer of alicyclic epoxy compounds. To meet the shortage in supply, we decided to increase production capacity at the Ohtake Plant. The new facility is scheduled to come on stream in December 2009.

In the year under review, capital investments amounted to ¥24.2 billion, down ¥26.2 billion decline from the previous fiscal year. The decline followed the completion of a series of large-scale capital investment projects. With the operating environment expected to remain challenging, we intend to restrict total capital investments to ¥18.0 billion in fiscal 2009. In fiscal 2008, we reported a ¥10.1 billion increase in



depreciation and amortization, to ¥39.7 billion, accompanying the commencement of production by the TAC facility at the Ohtake Plant. We expect the figure to remain high in fiscal 2009, with a forecast of ¥37.5 billion.

Environmental Initiatives

The Group has undertaken several initiatives to lower the impact of its activities on the environment. As part of a project to manufacture chemical products using bioethanol as the raw material, in December 2007 we began operating a new ethylamine facility. This was further boosted in July 2009 when a facility for producing ethyl acetate using the ester process came on stream. By shifting from petrified raw materials to natural biomass raw materials, Daicel endeavors to achieve sustainable growth and enhance competitiveness.

In another initiative, our research into the manufacture of adipic acid using a NHPI catalyst has led to development of industrial technology with the capacity to produce 150,000 tons of adipic acid annually, and the successful creation of a process design package (PDP). We are currently considering a range of approaches for further business development, such as forming alliances with manufacturers of adipic acid and its derivatives, engineering companies, and licensing proprietary technology.

With the commencement of the acetate tow production facility at the Ohtake Plant in October 2007, we began a modal shift from land to marine transportation for the shipment of raw materials and products between the Kobe and Osaka ports, and our facilities in Himeji and Ohtake. Under this shift, we transported an extra 120,000 tons of products and raw materials in fiscal 2008, achieving an annual reduction of carbon dioxide emissions of 3,800 tons.

Fiscal 2009 Outlook

Sweeping Cost Reduction Measures to Increase Earnings

The future of the Japanese economy is very uncertain despite some cause for optimism. The weakening of the global economy has raised fears of a further slump in consumption and prolongation of the yen's strength against the U.S. dollar.

Operating conditions in the chemical industry remain extremely difficult and present a large number of challenges. These include responding to declining demand due to economic recession and addressing the downturn in earnings caused by the yen's appreciation, as well as the need to preserve employment, step up selection and concentration strategies, secure cost competitiveness, strengthen R&D, reduce greenhouse gas emissions to prevent global warming, and address increasingly stringent environmental and safety regulations.

Fiscal 2009 Outlook by Segment

(Billions of yen)

	Net sales	Operating income
Cellulosic Derivatives	71.6	8.8
Organic Chemicals	74.4	5.2
Plastics and Films	102.9	1.0
Pyrotechnic Devices	50.1	3.0
Functional Products and Others	6.0	0.6
Corporate and Eliminations	—	-7.6
Total	305.0	11.0

Under these circumstances, the Group forecasts consolidated net sales of ¥305.0 billion in fiscal 2009 (down ¥73.0 billion, or 19.3%, from fiscal 2008). We also forecast operating income of ¥11.0 billion (up ¥0.4 billion, or 3.9%), recurring income of ¥9.0 billion (up ¥0.8 billion, or 9.6%), and net income of ¥4.5 billion (up ¥3.2 billion, or 247.2%).

In fiscal 2009, the Group again forecasts year-on-year sales declines in all business segments. Nevertheless, we will strive to increase earnings through a number of urgent actions. In addition to ongoing efforts to cut costs, these include optimizing inventories, reducing overall remuneration for executives and employees, cutting maintenance and repair costs and other fixed costs, and improving raw material usage rates. We expect these measures to realize cost savings of around ¥10.4 billion and enable us to boost overall earnings.

To Shareholders and Other Investors

Daicel's plan for fiscal 2009 provides for sweeping cost reduction measures to achieve a ¥0.4 billion increase in operating income, despite a predicted ¥73.0 billion decline in net sales. Although it will take some time for demand to recover, I firmly believe that the steady implementation of needed large-scale capital investments will take place us in an excellent position to stage a strong comeback once demand recovers.

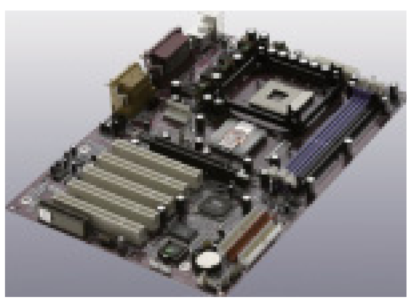
We will strive to differentiate ourselves from our competitors through a strategy of reinforcing our strengths, underpinned by the stable earnings capacity of our four core business segments. Through continuous improvements in corporate value, we will meet the expectations of shareholders and all other investors.

I look forward to your continued understanding and support.

President and CEO

Review of Operations

At a Glance

Business Segment		Sales	Operating Income
Cellulosic Derivatives		19.1%	12.1%
Organic Chemicals		24.1%	25.9%
Plastics and Films		39.2%	43.9%
Pyrotechnic Devices		15.9%	14.7%
Functional Products and Others		1.7%	3.4%

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 films for LCDs • Stable supplier of acetate tow for cigarette filters to a number of leading cigarette manufacturers
Acetate tow	Cigarette filters	
Carboxymethyl cellulose (CMC) and other water-soluble polymers (WSP)	Foods, pharmaceuticals, cosmetics, adhesives, textiles, mud stabilizers, thickeners	
Acetate plastics	Frames for glasses, other products	
Celluloid		
Acetic acid	Cellulose acetate, vinyl acetate Auxiliary dyeing agents, pharmaceuticals Agricultural chemicals, pure terephthalic acid (PTA)	• The leading manufacturer of acetic acid in Asia, its mainstay product • 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
Solvents		
Chiral columns	Separation of optical isomers	
Other organic and inorganic industrial-use chemicals		
Polyacetal resin (POM)	Electric and electronic appliance parts, automobile parts Communications appliance parts, household goods, sundry goods	• The top share in Asia for POM, PBT, and LCP, and ranks second for PPS
Polybutylene terephthalate resin (PBT)		
SAN/ABS resins and alloys		
Polystyrene sheets and plastics products		
Moisture-proof packaging films	Packaging for foods, drugs, textiles	
Inflators	Automobile airbag systems	• The top manufacturer of car airbag inflators in Japan and third globally
Aircrew emergency-escape systems	Fighters, trainers, helicopters	
Rocket motors	Missiles	
Propellants		
Separation membrane modules	Water treatment	

Solidifying Our Strong Position in Chiral Chromatography

Expanding Activities to Meet Increased Use of Optically Active Materials in Pharmaceuticals

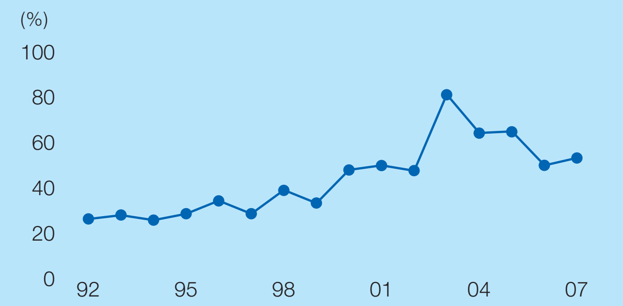
The use of optically active materials in new synthetic pharmaceuticals is increasing with each passing year. Whereas this accounted for less than 30% of pharmaceuticals until 1995, this had increased to around 60% during the five-year period of 2001 through 2005. Moreover, their use is expected to continue increasing.

A variety of methods have been used to obtain optically active materials, including the traditional chiral pool method, as well as the diastereomeric crystallization method, asymmetric synthesis method, and biological method. Recently, chromatography using chiral packing materials has steadily gained recognition as a method for obtaining optically active materials.

The Daicel Group is a world leader in chromatography using chiral packing materials, and has established a global business on the strength of the world-class technologies it possesses in this area. Our share of the market for optical isomer separation columns (chiral columns) exceeds 80%.

The molecular structure of an optical isomer consists of two mirror-image compounds, which are called optically active materials, or chiral compounds. When used for pharmaceuticals, it is often the case that one compound is beneficial while the other is harmful. Consequently, when developing new drugs it is essential to obtain only the beneficial optically active material.

The Ratio of Optically Active Materials in New Synthetic Pharmaceuticals



Dominance of Daicel's Products and Services

Preparative Isolation Using Chiral Columns Ideal for Drug Discovery

Speed is the most critical aspect of research and development for pharmaceutical manufacturers. They make a substantial investment in R&D, spending the equivalent of 10–20% of net sales. In drug discovery, it is important to advance to the clinical trial stage as soon as possible after selecting the best candidate from among a pool of compounds, which often number in the thousands. Our method of high-performance liquid chromatography (HPLC) is a simple and fast way of obtaining the desired substance. This method entails inserting packing material for separation into a column and separating substances according to the difference in the time it takes for a candidate material to pass through the column. HPLC shortens the development time by eliminating costly synthetic approaches early in the life of a drug candidate. The Group was the first in the world to develop the simulated moving bed (SMB) system of continuous HPLC for separation of optically active materials. This system has made it possible to utilize chromatography on a commercial production scale.

The machinery for SMB methodology

We are also expanding our lineup of columns and packing materials. Our range includes 26 types of column for commercial purposes and more than 100 types of packing material available for preparatory isolation. This allows customers to separate a large number of compounds. To meet the growing demand for small-scale separation at a several-gram level, we adopt a highly efficient method, called supercritical fluid chromatography (SFC). The use of carbon dioxide instead of petrochemical derived solvents lowers the risk of explosion and makes it possible to obtain high preparatory isolation productivity in a shorter period of time.

Chiral columns

Custom Separation Services

In recent years, an increasing number of pharmaceutical manufacturers are subcontracting the separation process because

they are opting not to install their own equipment in order to reduce production costs. Daicel offers custom separation services to meet this growing need. We provide a wide range of solutions, from small-scale separation required for the screening or clinical trial stages through to consigned production on an industrial scale.

Strategies Leverage Daicel's Strengths

Daicel has adopted a number of strategies in order to strengthen its chiral chromatography business.

Strategic Alliance with Novasep in 2007

Groupe Novasep SAS (hereinafter Novasep) is the leading manufacturer of SMB systems in the world, and is known as the pioneering developer of the system. Daicel formed a technical alliance with Novasep in 2007, thus combining that company's equipment and process development capabilities with our extensive knowledge of chiral separation method development utilizing the best chiral packing materials. As a result, we can provide customers with efficient chiral chromatography processes for manufacturing late-stage clinical and commercial chiral intermediates and active pharmaceutical ingredients. Today, several chiral drugs are commercially produced using chromatographic technologies on a scale of up to 100 tons, and the development of these drugs is gaining momentum on a global scale. In addition to offering enhanced services to customers, this alliance between Daicel and Novasep—two world leaders in the production of SMB equipment and chiral chromatographic products—is helping expand the SMB commercial separation businesses of both companies.

Chiral Technologies Europe Acquires U.K. Firm ChromTech (December 2008)

U.K. company ChromTech specializes in protein-based columns and undertakes chiral separation using water-soluble molecules. Its product range complements Daicel's line of polysaccharide-based products. The acquisition of ChromTech will enhance the Daicel Group's products and services, and thereby strengthen its position as the leading supplier of high-quality separation solutions of chiral compounds worldwide.

New Operations in China and India Establishing Global Network in 5 Countries

Daicel exports over 85% of its chiral columns. Recently, an increasing number of European and U.S. pharmaceutical companies are outsourcing research on chiral compounds to China and India. Also, these manufacturers are developing key substances in their own countries and then producing derivatives in countries such as China and India. Therefore, increasing our market share in Europe and the United States is critical for increasing our market shares in China and India. For this reason, we have developed a network with operations in five countries.

- In August 2007, we established Daicel Chiral Technologies (China) Co., Ltd. in response to rapid expansion in the development and production of chiral compounds in China. In an effort to strengthen our separation business, we installed two new lines of SFC separation equipment in addition to the more conventional HPLC equipment.

- In India, pharmaceutical manufacturers are stepping up their chiral compound research and development activities. In April 2008, we established Daicel Chiral Technologies (India) Pvt. Ltd. in Hyderabad in south-central India. In addition to providing technical services related to the separation of chiral columns, the new company has begun marketing chiral columns and has launched a chiral column separation business.

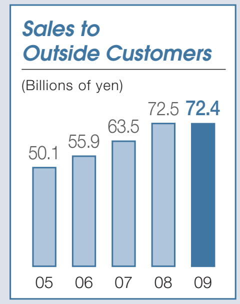
The establishment of new operations in China and India gives Daicel chiral chromatography operations in five regions around the world: Japan, the United States, Europe, China, and India. We will continue making a valuable contribution to drug discovery as the global leader in this field.

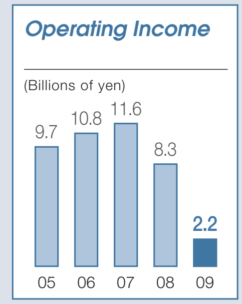
Cellulosic Derivatives

Operations

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	**2009**
Sales to outside customers	¥ 50,132	¥ 55,899	¥ 63,501	¥ 72,467	**¥ 72,369**
Intersegment sales	1,942	2,222	2,355	2,852	**2,901**
Total sales	52,074	58,121	65,856	75,319	**75,270**
Total cost and expenses	42,409	47,290	54,226	67,056	**73,067**
Operating income	¥ 9,665	¥ 10,831	¥ 11,630	¥ 8,263	**¥ 2,203**
Total assets	¥ 57,894	¥ 86,828	¥118,803	¥126,435	**¥107,953**
Depreciation	4,127	4,131	4,549	7,855	**16,554**
Capital investments	4,398	30,154	32,267	23,357	**7,169**





Overview

The Cellulosic Derivatives segment endeavors to further deepen its cellulosic chemical technologies based on the celluloid manufacturing technologies founded by Daicel, and produce and sell a wide range of cellulosic derivatives. Today, our lineup includes cellulose acetate, which is used for a variety of applications, including liquid crystal display (LCD) and photographic films, cigarette filters, and acetate fibers. This product and acetate tow used in cigarette filters account for the majority of sales in the segment.

Daicel's strengths lie in its commanding 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 carboxymethyl cellulose (CMC) and hydroxyethyl cellulose (HEC), both a water-soluble polymer.

Performance

In fiscal 2008, sales to outside customers amounted to ¥72,369 million, down slightly from the previous fiscal year.

Sales of cellulose acetate remained around the same level as the previous fiscal year due to two main factors. First, despite solid sales in the first half of the year owing to firm demand for LCD film applications, sales were affected by inventory adjustments to address the sudden worsening of the economy in the second half of the year. Second, the Company no longer sells cellulose acetate to Xi'an Huida Chemical Industries Co., Ltd., an equity-method affiliate in China. (That company is 30% owned by Daicel Chemical (China) Investment Co., Ltd., which makes acetate tow for cigarette filters.) We ceased sales because the cellulose acetate plant at Ningbo Da-An Chemical Industries Co., Ltd., also a 30%-owned equity-method affiliate, commenced operation in October 2007.

Despite healthy worldwide demand for acetate tow for cigarette filters, sales declined due to the impact of the yen's appreciation.

Sales of water-soluble polymers (WSPs) declined due to a fall in overseas sales. This was despite solid sales in Japan for use in medical and cosmetic applications.

Operating income for the segment declined 73.3% year-on-year, to ¥2,203 million. This stemmed from several factors, including a rise in depreciation expenses accompanying the deployment of new facilities, and the appreciation of the yen.

New cellulose acetate facility for LCD films at Ohtake Plant

Completion of New Cellulose Acetate Facility for LCD Films at Ohtake Plant

The expansion of the LCD market has boosted demand for cellulose acetate for use in LCD films, and this demand is expected to continue increasing steadily. In May 2008, we completed construction of a new facility at the Ohtake Plant to manufacture cellulose acetate for LCD film applications. This represents a 1.8-fold increase in Daicel's total production capacity for triacetyl cellulose.

Although demand for cellulose acetate for LCD films has fallen on the back of the worldwide recession, we are confident that this business will become one of Daicel's key growth drivers over the medium and long terms.

Increase in Cigarette Filter Tow Production Capacity to Meet Growing Market for Super-Slim Cigarettes

While the annual growth of worldwide cigarette consumption stands at around 1%, consumption of super-slim cigarettes is increasing at a rate of approximately 10% annually. Demand for super-slim cigarettes has risen in Russia and South Korea, and is expected to continue for some time yet. In response, we decided to establish a production unit at our Aboshi Plant that will exclusively produce cigarette filter acetate tow for super-slim cigarettes. This increase in production capacity comes on the heels of a recently completed cigarette filter acetate tow facility at the Ohtake Plant. The new unit is scheduled to come on stream in January 2010.

Super-Slim Cigarettes

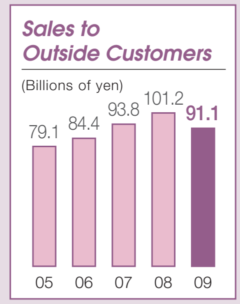
Review of Operations

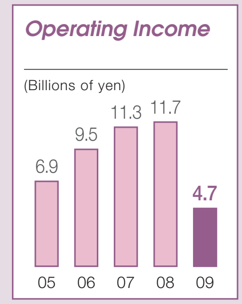
Organic Chemicals

Operations

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	**2009**
Sales to outside customers	¥ 79,087	¥ 84,435	¥ 93,839	¥101,246	**¥ 91,058**
Intersegment sales	11,083	10,989	14,126	16,948	**15,989**
Total sales	90,170	95,424	107,965	118,194	**107,047**
Total cost and expenses	83,310	85,947	96,641	106,533	**102,344**
Operating income	¥ 6,860	¥ 9,477	¥ 11,324	¥ 11,661	**¥ 4,703**
Total assets	¥ 82,321	¥ 82,909	¥ 93,690	¥ 91,035	**¥ 76,041**
Depreciation	7,062	6,426	5,881	7,590	**8,362**
Impairment loss on fixed assets	—	895	—	114	**—**
Capital investments	5,209	5,461	5,499	9,936	**6,246**



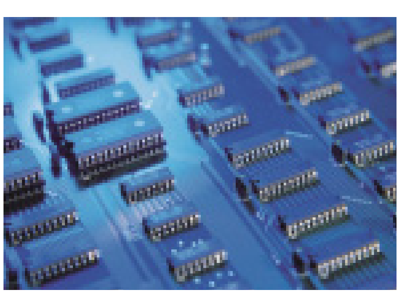


Overview

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. As the only manufacturer of peracetic acid in the world, Daicel has an excellent opportunity to expand its business.

We are also the world's largest manufacturer of chiral columns used for the separation of optical isomers. Centering on entrusted R&D from European and U.S. pharmaceutical companies in China and India, where a dramatic rise in the R&D of chiral compounds, we are operating across five networks in the world combining the existing networks of Japan, the U.S. and Europe with the above.



Epoxy resins and performance chemicals are used in electric and electronic materials.

Performance

In fiscal 2008, sales to outside customers in this segment totaled ¥91,058 million, down 10.1% from the previous fiscal year.

Sales of acetic acid, a core Daicel product, declined significantly due to a fall in demand and the impact of the yen's appreciation. We also posted lower sales of general-use products such as acetic acid derivatives and solvents. Despite sales price increases brought about by higher raw material prices in the early part of the year, this decline stemmed from the rapid deterioration in economic conditions in the second half of the period.

Sales of organic-designed products, including caprolactone derivatives, epoxy compounds, and semiconductor resist materials, also declined. This was due to the adverse economic conditions in the second half of the year, which outweighed healthy demand and sales price revisions in the first half of the year.

Our chiral chemical business, which produces chiral chromatographic columns and pharmaceutical intermediates, reported lower overall sales due to the yen's appreciation. This was despite an increase in demand for some products.

Operating income in this segment fell 59.7%, to ¥4,703 million, adversely affected by the sudden economic deterioration in the second half of the year.

Construction of Japan's First Facility to Make Ethyl Acetate from Bioethanol

Daicel endeavors to achieve sustainable growth by shifting from petrified raw materials to biomass raw materials as it strives to establish environmentally friendly chemical technologies.

One such initiative was the commencement of an ethylamine production facility that uses bioethanol at the Ohtake Plant in December 2007.

More recently, in July 2009, we began production at the first facility in Japan to make ethyl acetate using the ester process, which uses bioethanol and acetic acid as raw materials. Demand is growing for ethyl acetate as an alternative for toluene, which is used in a wide range of applications, including inks, paints, medicines, and agricultural chemicals. The production facility has an annual production capacity of 50,000 tons. The use of bioethanol, a natural substance, has the added advantage of decreasing carbon dioxide emissions.

Increased Production Capacity for Alicyclic Epoxy Compounds in Response to Worldwide Demand

Daicel has been the world's only manufacturer of alicyclic epoxy compounds since an overseas producer withdrew from the business in 2006. Despite having increased production capacity incrementally in two stages, we are still unable to keep up with demand for our acyclic epoxy compound. Faced with this situation, we decided to increase capacity once again, by building a new facility scheduled to become operational in December 2009. Once the facility starts production, we will have sufficient supplies to keep pace with worldwide demand.

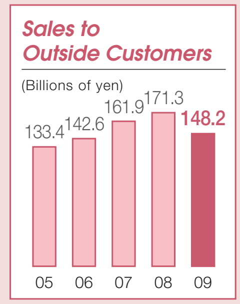
Alicyclic epoxy compound is used for a variety of applications, including cationic ultraviolet-curable coatings and electric and electronic materials. There is also new demand for its use in high-value-added products, such as carbon fiber and LEDs, and this demand is expected to continue increasing. Daicel's alicyclic epoxy compounds have a competitive advantage over alternative products, due especially to its low viscosity, high thermal-resistant, and excellent transparency.

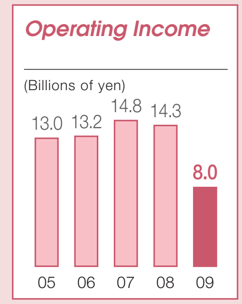
Plastics and Films

Operations

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	2009
Sales to outside customers	¥133,390	¥142,556	¥161,881	¥171,337	¥148,150
Intersegment sales	49	37	29	22	4
Total sales	133,439	142,593	161,910	171,359	148,154
Total cost and expenses	120,430	129,421	147,135	157,047	140,171
Operating income	¥ 13,009	¥ 13,172	¥ 14,775	¥ 14,312	¥ 7,983
Total assets	¥135,949	¥149,738	¥159,234	¥150,113	¥132,823
Depreciation	6,770	6,887	7,473	7,009	7,430
Impairment loss on fixed assets	—	15	66	100	—
Capital investments	10,583	6,960	4,677	6,777	6,431





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. (hereinafter Polyplastics), 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, ranging from 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 focuses on supplying high-performance products such as polymer alloys which combines the advantages of 2 types of resin, and reinforced-grade made using special fillers. It meets increasingly sophisticated user needs and the needs of users expanding their global production through its close-knit network of operations in Japan, Hong Kong, Shanghai, and Singapore.

Performance

In fiscal 2008, sales to outside customers amounted to ¥148,150 million, down 13.5% from the previous fiscal year.

Sales of engineering plastics, such as polyacetal and PBT, declined due to the impact of the rapid economic downturn from October 2008. This was despite healty demand from both domestic and overseas automobile device sectors up to September 2008.

Sales in the plastic compound business, centering on AS, ABS, and engineering plastic alloys, also declined, despite our efforts to expand the sales of high-value-added products such as long fiber reinforced thermoplastics and to revise sales prices. This was primarily due to the sudden economic slump in the second half of the year.

In the other plastic products business, which includes sheets, molded vessels, and films, we reported lower sales. Main factors were the slump in consumption, as well as

Polyacetal is used in drive gear in laser printer.

removal of Dainippon Plastics Co., Ltd. (hereinafter Dainippon Plastics) and its subsidiaries from the scope of consolidation in the previous fiscal year, and of Mikuni Plastics in the second half of the year under review.

Operating income fell 44.2%, to ¥7,983 million, due to the sudden slump in economic conditions since October 2008.

Sale of the Business in the Subsidiary Reflects our Selection and Concentration Strategy

In October 2008, we sold all the business of Mikuni Plastics, a consolidated subsidiary, to Aronkasei. Mikuni Plastics is primarily engaged in the manufacture and marketing of automobile components, products for water systems and industrial components, which are all derived from plastic. Adhering to our recent strategy of business selection and concentration, we decided to sell the business because it offered minimal synergistic benefits with the Daicel Group.

Polyplastics Boosts LCP Polymerization Capacity

The LCP market has continued to grow at a high rate owing to its use in a wide range of industrial sectors, centering on electronic components used in personal computers, mobile phones, and other IT equipment. Despite a temporary drop in demand since October 2008 due to the economic downturn, medium-term demand is expected to increase in Asia, particularly in the emerging economies of China and India, where there is considerable growth potential.

In order to meet the growing demand, Polyplastics has expanded the polymerization capacity for LCP of its Fuji Plant. In May 2008, it installed additional facilities with a production capacity of 3,000 tons per annum. Further streamlining of plant operations and efficiencies improved capacity by an additional 1,800 tons, increasing the subsidiary's total annual polymerization capacity to 10,000 tons.

Fuji Plant owned by Polyplastics, where facility for LCP is

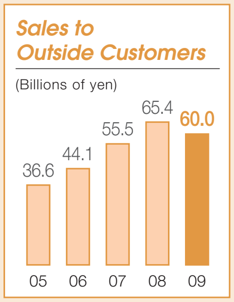
Review of Operations

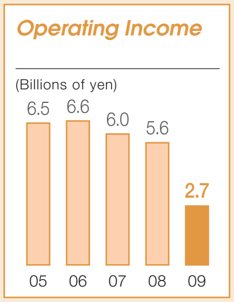
Pyrotechnic Devices

Operations

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	2009
Sales to outside customers	¥ 36,605	¥ 44,090	¥ 55,496	¥ 65,375	¥ 59,984
Total sales	36,605	44,090	55,496	65,375	59,984
Total cost and expenses	30,063	37,473	49,449	59,748	57,321
Operating income	¥ 6,542	¥ 6,617	¥ 6,047	¥ 5,627	¥ 2,663
Total assets	¥ 39,730	¥ 52,786	¥ 59,965	¥ 67,789	¥ 50,594
Depreciation	3,069	3,434	4,393	5,087	5,159
Capital investments	4,449	12,678	4,227	9,331	3,751





Overview

This segment consists of two main businesses: the motor vehicle safety device business, which handles inflators (gas-generating devices) for automobile airbags and seat-belt pretensioner gas-generating (PGG) devices; and the aerospace & defense business, made up mainly of air-crew 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. 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.

Performance

In fiscal 2008, sales to outside customers declined 8.2%, to ¥59,984 million.

Sales of automobile airbag inflators declined due to the sudden fall in automobile sales worldwide and the appreciation of the yen in the second half of the year. This was despite healthy demand in the first half amid increasing adoption of side impact airbags as a standard feature in new vehicles. Sales of seatbelt PGG devices were about the same as fiscal 2007 due to sluggish growth in sales volumes stemming from the downturn in automobile sales.

In the aerospace & defense business, which handles gun propellants, missile components, and aircrew emergency-escape systems, sales increased thanks to the market launch of new products, and others.

Operating income declined 52.7%, to ¥2,663 million, due to the sharp drop in sales of airbag inflators and the impact of the yen's appreciation in the second half of the year.

Automobile Airbag Inflators

Daicel's Aerospace & Defense Systems/Safety Systems Company Holds Global Kaizen Contest

Our Aerospace & Defense Systems/Safety Systems Company constantly makes improvements to its operations with the objective of establishing a "production system to secure customer's confidence in us and secure safety and quality." In October 2008, that company held a Global Kaizen Contest at the Harima Plant to present the results of these efforts under the themes of "gathering, competing, and learning." Preliminary contests were held at Daicel's global production sites from April 2008, with the winning team from each site advancing to the Global Kaizen Contest. The preliminary contests covered the topics of Safety, the 3S's*, and the Toyota Production System.

With teams from Daicel's global sites gathered under one roof, participants gave presentations using a team panel format, and engaged in lively discussions. The contest was a great experience for all and helped foster a sense of unity among members of the Daicel Group.

* The 3S's derive from Japanese terms: Seiri (sorting), Seiton (setting in order), and Seiso (systematic cleaning).

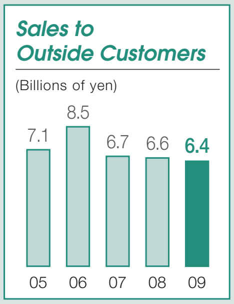
Global Kaizen Contest

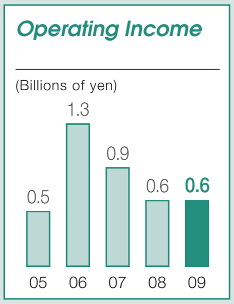
Functional Products and Others

Operations

Years ended March 31

	Millions of yen				
	2005	2006	2007	2008	**2009**
Sales to outside customers	¥ 7,121	¥ 8,540	¥ 6,706	¥ 6,565	**¥ 6,419**
Intersegment sales	10,082	10,267	11,876	12,348	**10,980**
Total sales	17,203	18,807	18,582	18,913	**17,399**
Total cost and expenses	16,723	17,490	17,657	18,354	**16,787**
Operating income	¥ 480	¥ 1,317	¥ 925	¥ 559	**¥ 612**
Total assets	¥ 10,323	¥ 10,908	¥ 9,704	¥ 7,981	**¥ 7,338**
Depreciation	348	290	327	361	**367**
Capital investments	190	340	224	279	**258**





Performance

In fiscal 2008, sales to outside customers amounted to ¥6,419 million, a year-on-year decrease of 2.2%.

In the membrane systems business, which includes separation membrane modules and other products for water treatment, sales remained mostly unchanged from the previous fiscal year. This was attributable to solid sales of products for the medical sector and water treatment sector, although the business was affected by the economic turndown.

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

Operating income in this segment declined 9.5%, to ¥612 million.

Daicel's Growth Foundation

Research and Development

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.

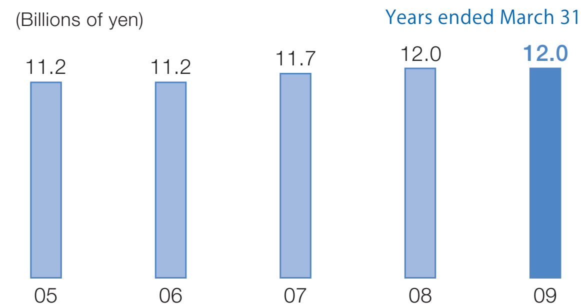
Daicel aims to create new levels of value for customers through its R&D activities. Our work is based on the core technologies we have amassed over the years in organic synthesis chemistry, cellulose chemistry, polymer chemistry, and pyrotechnic engineering.

R&D Activities for this Fiscal Year

The Daicel Group engages in the development of high-performance, high-value-added products that goes beyond the conventions of ordinary chemistry while reinforcing its basic technologies. At the same time, our R&D activities in existing businesses focus on such aspects as quality improvement and reducing costs, with the objective of establishing a high earnings base.


Himeji Research Center

Research and Development Expenses



In October 2008, we established the New Business Creating Team in the Corporate Planning and R&D Management to boost the development of new businesses earmarked to become pillars of future growth. The R&D Management was established by integrated the functions of the existing R&D Department and the Analysis Service Center.

In the fiscal year under review, consolidated R&D expenses amounted to ¥12,046 million, the equivalent of 3.2% of net sales. The Group has 829 employees, or 10.6% of the Group's total employees, engaged in R&D activities.

R&D Initiatives by Business Segment

Details of the main research themes and expenses for R&D undertaken by each of the business segments during the year under review are shown on the right. Due to the significant decline in estimated net sales for fiscal 2009, we plan to spend ¥11,500 million on R&D, more or less the same amount of expenses as the year under review.

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	¥917 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	¥2,873 million
Plastics & Films	Development of high-performance resins and polymer alloys; development of styrene products; quality enhancement and environmental responsiveness of engineering plastics	¥3,633 million
Pyrotechnic Devices	Research into the development of new gas-generating agents and new inflators for car airbags; development of propellants	¥1,740 million
Functional Products & Others	Development of membrane separation systems	¥86 million
Company-wide R&D	Basic research which cannot be allocated to each business segment as well as research for the creation of new business	¥2,794 million

New Method of Manufacturing Adipic Acid Using NHPI Catalyst

Daicel has been working on commercial applications for N-hydroxyphthalimide (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 has focused on the research and the development of NHPI catalyst air-oxidation technology in partnership with Professor Yasutaka Ishii of the Department of Chemistry, Faculty of Engineering, Kansai University (currently research associate at the Organization for Research and Development of Innovative Science and Technology, Kansai University). We took part in Research Association for Ishii Oxidation Technology sponsored by the Ministry of Economy, Trade and Industry. The association, which was launched in April 2005 with the aim of developing environmentally friendly chemical processing technologies, ended in May 2009.

This research has enabled Daicel to establish industrial technology with an annual production capacity of 150,000 tons of adipic acid and create a process design package (PDP). We are currently considering a range of approaches for further business development, such as forming alliances with manufacturers of adipic acid and its derivatives, engineering companies, and licensing proprietary technology.

Environmental Preservation and Safety Activities

Basic Approach

Since its inception, Daicel has consistently engaged in business activities with priority on the environment and safety. Seeking to help realize a sustainable society, in 1995 we formulated our basic policy for Responsible Care. In accordance with this policy, we seek to ensure safety and health and protect the environment at all operating stages—from the development of products to their manufacture, distribution, use, and disposal.

In June 2008, the president of Daicel signed a declaration of support for the Responsible Care Global Charter, formulated by the International Council of Chemical Associations (ICCA).

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 dialogue with society—as fundamental to continuous growth of our business. In this section, we introduce several initiatives in our environmental preservation program.

Environmental Preservation Activities

Daicel works to minimize the environmental impact of its activities, placing high priority on becoming petroleum-free, reducing greenhouse gas emissions, controlling chemical substances, and dealing with waste. Among these, we are striving to reduce greenhouse gas emissions across the product lifecycle which includes R&D, raw materials, manufacturing methods, production and distribution.

R&D: NHPI Catalyst (Since 1996)

Daicel has been promoting R&D aimed at the broad practical application of N-hydroxyphthalimide (NHPI) catalyst, a revolutionary technology that permits significant reductions in emissions of greenhouse gases and harmful substances created during the course of manufacturing chemicals. In the field of functional materials, we have already started practical manufacture of adamantane oxide using NHPI catalyst technology, and we are making good progress with adamantane oxide in the fabrication of semiconductor resist materials.

Raw Materials and Manufacturing Methods: Promoting the Use of Bioethanol (Since 2007)

Daicel is promoting the use of bioethanol as a substitute raw material for crude oil 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 July 2009, we commissioned 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 (Since 2007)

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 impact caused by the generation of power and steam 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. Our initial target for the facility, when fully operational, is to process 67,000 tons of used tires with a co-combustion ratio of 30%. Burnt embers from the tires are recycled outside the Company as a raw material for cement.

Distribution: Shift to Marine Transportation (Since 2007)

With the aim of conserving fuel and reducing CO_2 emissions, since September 2007 we have been implementing a modal shift from land transportation to marine transportation between the Kobe and Osaka ports, and our facilities in Himeji and Ohtake in line with the completion of the acetate tow production facility at the Ohtake Plant in October 2007. In fiscal 2008, a total of 120,000 tons (product out-shipments and raw material in-shipments) were transported via marine vessels as a result of the modal shift. We calculate that this led to a reduction of CO_2 emissions of 3,800 tons per year.

Corporate Governance

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.

Current Situation of Establishing an Internal Control System

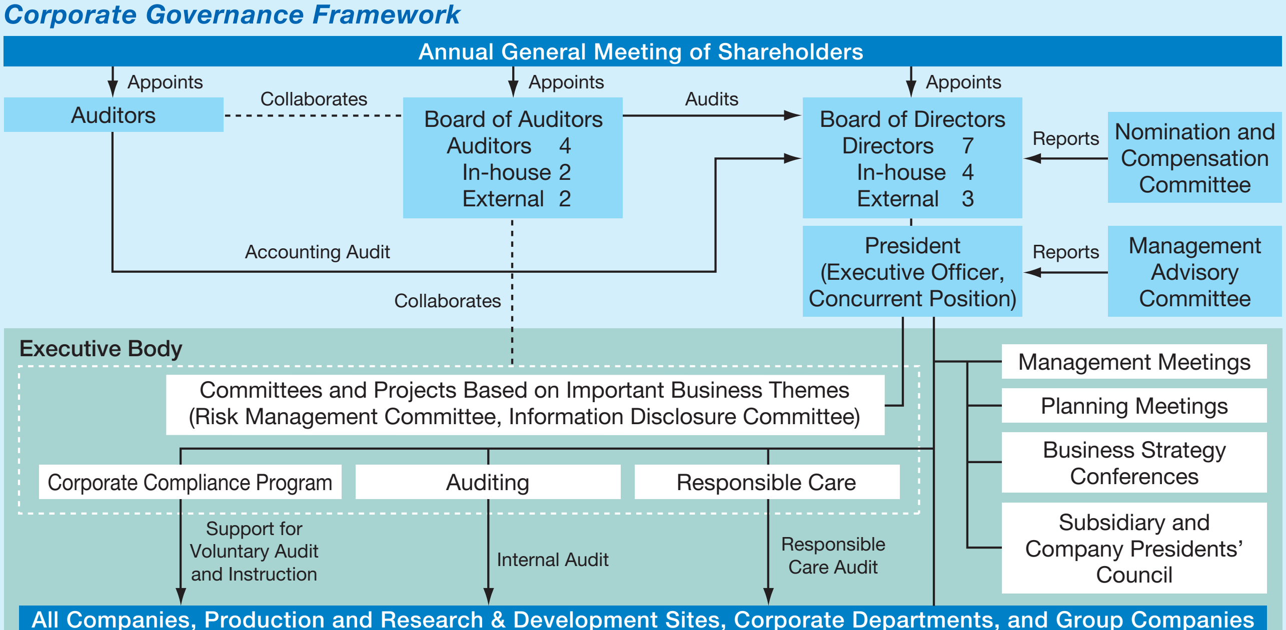
According to Japan's Financial Instruments and Exchange Act, from the year ending March 2009 it is mandatory for all listed companies to submit an annual "internal control report." In April 2007, Daicel began initiatives to ensure the reliability of financial reporting with the launch of the Project to Establish Internal Controls for Financial Reporting.

Under the Project, Daicel has not only addressed legal requirements pertaining to the reliability of financial reporting, but also tackled risk management and other issues associated with the Group's business expansion. Targeting higher levels of growth, moreover, we have sought to build a framework for further raising the reliability of financial reporting, based on our view of what should be achieved over the medium and long terms.

Fiscal 2008 was the first year of the internal control system's introduction. During the year, we conducted evaluations of the preparation and operational status of the internal control system with respect to the Group's overall financial reporting, in the lead-up to submitting an Internal Control Report.

Going forward, we will implement resolutions of the Board of Directors related to basic policies for building an internal control system under Japan's Companies Act. In conjunction with this, we will step up efforts to build and operate an internal control system that is truly effective and conducive to realizing sound and continuous business advancement.

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.

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. It also reports the results of its audits 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 based on the result of such voluntary audits, and reviews by top management based on these audits and reviews. The outcomes of these efforts are reflected in the correction and prevention measures related to corporate ethics, and revisions of Daicel Group Conduct Policy, 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.

The results of these audits are reported to top management. They are also incorporated into activity plans compiled by each division for the subsequent year, and thus contribute to ongoing improvements and higher levels of responsible care activities.

Since fiscal 2006, the entities responsible for auditing (Auditing, Responsible Care, Corporate Compliance Program, and Personnel Group) have conducted joint audits aimed at ensuring the efficient and effective audit of Daicel's plants and research centers. This new approach helped avoid duplication and alleviated the burden felt by those being audited. The opportunities it provided for information-sharing among the different auditing functions also contributed to a greater understanding of auditing.

Risk Management

Risk Management Initiatives

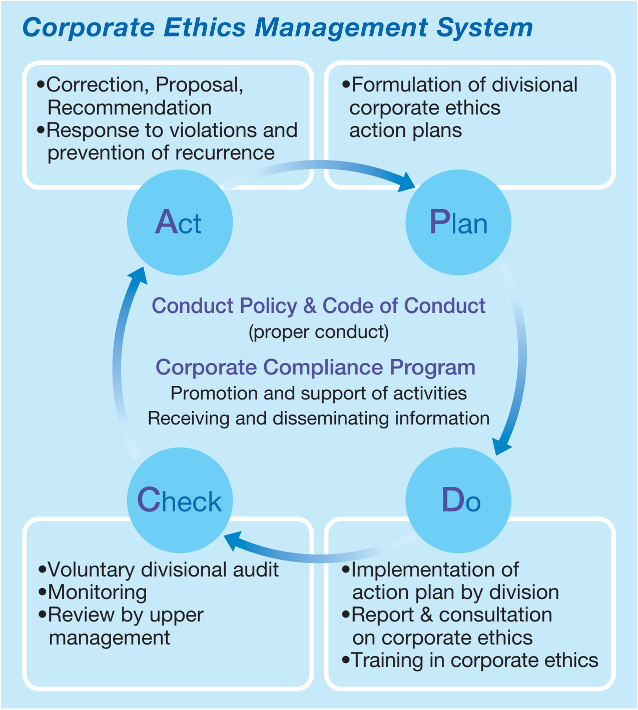
In April 2006, Daicel adopted a Risk Management Code that stipulates a company-wide risk management policy and formed a Risk Management Committee to control and promote company-wide risk management. Since November 2006, under the instructions of the Risk Management Committee, we have conducted comprehensive risk identification activities on an annual basis. For major risks, we assign priority levels and consider countermeasures, then take steps to prevent the occurrence of such risks. We expanded these activities to cover domestic Group companies in November 2007 and overseas Group companies in April 2008.

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. At the end of 2008, we held emergency response exercises in preparation for a major event. We will continue working to raise our initial response capabilities in the future.

Corporate Ethics

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.



Promotional Framework

We established a Corporate Compliance Program to promote activities related to corporate ethics, and we appointed a representative director to the 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.

Various types of cargo and technologies are restricted under export control laws designed to preserve international peace and safety. To ensure that such cargo and technologies are not improperly exported, we have formulated a set of safety assurance export management regulations, and the Export Management Committee undertakes investigations and audits to monitor compliance with such regulations. At the same time, we have formulated various in-house regulations, including personal information protection regulations covering proper management and use of personal information and information disclosure regulations covering proper disclosure and provision of corporate information. Various committees such as the Personal Information Protection Committee and the Information Disclosure Committee make efforts to comply to the governing laws.

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 directors, and Group company presidents. Under the system, we also provide training at the time of promotion or other career events. In fiscal 2008, we conducted a research forum covering CSR and corporate ethics, with participation by 98% of the Company's managers. In addition, we have an ongoing program of in-house seminars on the various laws and regulations that affect the Company's business activities.

In fiscal 2008, the Daicel Group reassessed its information security policies. In addition to rebuilding our systems, we are undertaking more rigorous management of information system-related equipment, business information, and personal information. We are also implementing ongoing education aimed at preserving our social credibility.

Fair Trading

In the year under review, two core Daicel purchasing entities—the Raw Material Purchasing Center, responsible for purchasing raw materials, and the Engineering Center Procurement Group, which purchases machinery and equipment—revised their basic purchasing policies covering purchasing activities with business partners, pursuant to the Daicel Group Conduct Policy. The aim of the revision is to better clarify the Company's purchasing policies with business partners, from whom we purchase raw materials, machinery and equipment, and services under our business activity supply chain.

Board of Directors and Corporate Auditors/Executive Officers

(As of July 31, 2009)

President **Daisuke Ogawa**

Director **Tetsuji Yanami**

Board of Directors and Corporate Auditors

PRESIDENT

Daisuke Ogawa

DIRECTORS

Tetsuji Yanami

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

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

Kohji Shima
General Manager of R&D Management, Intellectual Property 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
General Representative in China, Chairman of the Board of Daicel Chemical (China) Investment Co., Ltd.

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

Misao Fudaba
General Manager of Raw Material Purchasing Center

Yoshimi Ogawa
General Manager of Production Technology Management, Responsible Care, Engineering Center

Financial Section

Eleven Year Summary

Year ended March, 31

	1999	2000	2001	2002
For the year:				
Net sales	¥249,111	¥238,240	¥261,520	¥261,358
Operating income	13,294	14,369	14,627	15,483
Income before income taxes and minority interests	6,469	8,396	10,066	6,841
Net income	1,401	3,125	3,381	3,635
Amounts per common share (yen):				
Net income	¥ 3.77	¥ 8.48	¥ 9.03	¥ 9.86
Cash dividends applicable to the year	6.00	6.00	6.00	6.00
Capital expenditures	¥ 27,490	¥ 38,820	¥ 22,189	¥ 20,082
Depreciation and amortization	27,666	26,931	28,484	26,709
Research and development expenses	10,735	10,393	11,841	11,485
At year-end:				
Total current assets	¥169,695	¥191,248	¥168,079	¥150,862
Total assets	401,062	439,108	442,055	412,008
Total current liabilities	131,812	156,916	141,072	135,303
Total long-term liabilities	100,218	107,933	114,526	95,150
Total equity*1	138,257	142,777	155,314	154,515
Ratios:				
Current ratio (%)	128.7	121.9	119.1	111.5
Shareholders' equity ratio (%)*2	34.5	32.5	35.1	37.5
Return on assets (%)	0.3	0.7	0.8	0.9
Return on equity (%)	1.0	2.2	2.3	2.3
Ratio of net income to net sales (%)	0.6	1.3	1.3	1.4
Assets turnover (times)	0.6	0.6	0.6	0.6
Tangible fixed assets turnover (times)	1.3	1.3	1.4	1.4
Other information:				
Price range of common stock (yen):				
High	¥ 395	¥ 497	¥ 378	¥ 467
Low	212	260	273	290
Exchange rate at year-end (yen per US$1)	¥ 121.00	¥ 106.00	¥ 124.00	¥ 133.00
Number of employees (at year-end)		5,132	5,412	5,363

*1: From 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

2003	2004	2005	2006	2007	2008	**2009**
¥271,342	¥281,740	¥306,335	¥335,520	¥381,423	¥416,990	**¥377,980**
20,410	21,207	28,553	33,570	36,399	32,164	**10,590**
6,864	8,055	22,380	29,386	33,185	27,145	**6,272**
2,029	5,166	10,844	14,221	17,438	13,676	**1,297**
¥ 5.50	¥ 14.21	¥ 29.82	¥ 39.16	¥ 48.19	¥ 37.86	**¥ 3.62**
6.00	6.00	8.00	8.00	8.00	8.00	**8.00**
¥ 16,747	¥ 20,991	¥ 25,377	¥ 59,018	¥ 55,316	¥ 46,930	**¥ 25,666**
25,413	24,514	22,490	22,484	23,774	29,576	**39,674**
11,747	11,085	11,219	11,221	11,717	12,004	**12,046**
¥143,280	¥141,233	¥160,541	¥172,344	¥206,670	¥207,834	**¥185,547**
381,518	381,485	413,493	483,469	547,432	515,618	**445,912**
107,385	105,093	102,779	133,420	152,556	158,230	**151,158**
94,934	88,684	110,875	121,159	152,467	118,240	**83,266**
151,987	160,479	171,225	197,780	242,409	239,148	**211,488**
133.4	134.4	156.2	129.2	135.5	131.3	**122.8**
39.8	42.1	41.4	40.9	39.5	41.4	**42.3**
0.5	1.4	2.7	3.2	3.4	2.6	**0.3**
1.3	3.3	6.5	7.7	8.4	6.4	**0.6**
0.7	1.8	3.5	4.2	4.6	3.3	**0.3**
0.7	0.7	0.8	0.7	0.7	0.8	**0.8**
1.5	1.7	1.9	1.8	1.8	1.9	**1.8**
¥ 423	¥ 501	¥ 597	¥ 1,017	¥ 1,050	¥ 921	**¥ 677**
293	374	441	516	739	488	**298**
¥ 120.00	¥ 106.00	¥ 107.00	¥ 117.00	¥ 118.00	¥ 100.00	**¥ 98.00**
5,416	5,604	5,819	6,248	7,034	7,685	**7,803**

Management's Discussion and Analysis

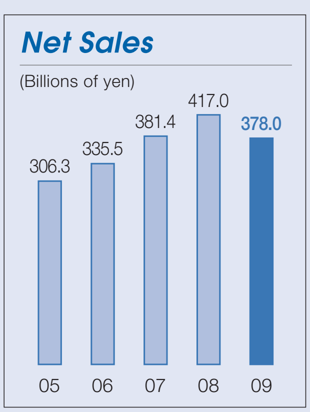
Operating Results

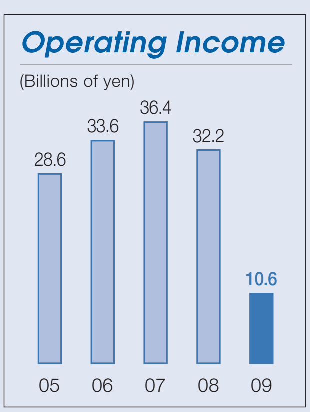
Net Sales

In fiscal 2008, consolidated net sales amounted to ¥378.0 billion, down ¥39.0 billion, or 9.4%, from fiscal 2007. This was mainly due to a drop in sales volume in the second half of the year stemming from the sudden economic downturn, together with the progressive appreciation of the yen against the U.S. dollar. Other factors included the removal of Dainippon Plastics and its subsidiaries from the scope of consolidation in the previous fiscal year, as well as the removal of Mikuni Plastics in the second half of fiscal 2008.

The Company estimates that the movement of the yen against the U.S. dollar during the year had a ¥21.3 billion negative impact on net sales.

Revenues were affected by a number of factors. In the organic chemicals segment, overall sales declined ¥10.2 billion due to declining demand in the second half of the period and the yen's appreciation. In the plastics and films segment, sales fell ¥23.2 billion, due mainly to the aforementioned removal of Dainippon Plastics from the scope of consolidation, as well as sharp decreases in demand after October, 2008 for engineering plastics and plastic compounds and the yen's appreciation. Sales in the pyrotechnic devices segment declined ¥5.4 billion from the previous fiscal year due to a drop in the sales volume of automobile airbag inflators caused by falling automobile sales, as well as the yen's appreciation.





Gross Profit

Gross profit decreased ¥25.1billion, or 27.9%, to ¥64.9 billion. The ratio of gross profit to net sales declined 4.4 percentage points, to 17.2%. This was due to an increase in fixed costs associated with the start of operations of new facilities.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥54.3 billion, a decline of ¥3.5 billion, or 6.1%, from the previous fiscal year. This stemmed mainly from the removal of Dainippon Plastics and others from the scope of consolidation, as well as a decrease in direct sales costs accompanying the fall in sales volume. The ratio of SG&A expenses to consolidated net sales rose 0.5 percentage point, to 14.4%.

Operating Income

Operating income fell ¥21.6 billion, or 67.1% from the previous fiscal year, to ¥10.6 billion. The operating margin dropped 4.9 percentage points, to 2.8%.

Several factors had a negative effect on earnings. The cellulosic derivatives segment posted a ¥6.1 billion decline in operating income due to an increase in depreciation expenses associated with a new facility at the Ohtake Plant and the yen's appreciation. In the organic chemicals segment, operating income declined ¥7.0 billion due to a sharp drop in demand in the second half of the year. Operating income in the plastics and films segment fell ¥6.3 billion due to the sharp economic downturn from October 2008. The pyrotechnic devices segment posted a ¥3.0 billion decline in operating income, stemming mainly from a fall in sales of automobile airbag inflators in the second half of the period.

Other Income (Expenses)

Other expenses, net, amounted to ¥4.3 billion, down ¥0.7 billion from the previous fiscal year. This was mostly attributable to improvement in interest income/expenses stemming from declines in overseas interest rates.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests declined ¥20.9 billion, or 76.9%, to ¥6.3 billion.

Income Taxes
The effective tax rate after application of tax-effect accounting increased 6.3 percentage points, to 44.5%.

Minority Interests in Net Income
Minority interests in net income decreased ¥0.9 billion, or 29.5%, to ¥2.2 billion.

Net Income
Net income for the year dropped ¥12.4 billion, or 90.5%, to ¥1.3 billion.

Per Share Information
Net income per share totaled ¥3.62, down ¥34.24 from the previous fiscal year.

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

Financial Position

Assets
As of March 31, 2009, total assets stood at ¥445.9 billion, down ¥69.7 billion, or 13.5%, from a year earlier. The decline stemmed mainly from a ¥30.6 billion fall in trade notes receivable and trade accounts receivable, a ¥26.6 billion decline in property, plant and equipment, and a ¥21.0 billion fall in investment securities due to market value declines and others.

Liabilities
Total liabilities amounted to ¥234.4 billion, down ¥42.0 billion, or 15.2%, from a year earlier. This was mainly due to a ¥24.2 billion decline in trade notes payable and trade accounts payable.

Equity
Total equity at fiscal year-end totaled ¥211.5 billion.

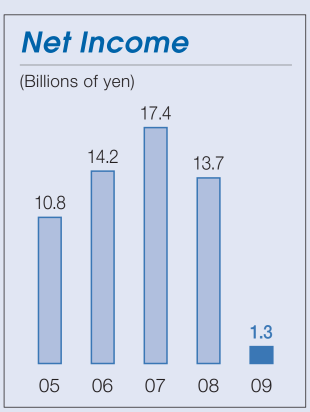
Total shareholders' equity (total equity minus minority interests) amounted to ¥188.8 billion. The shareholders' equity ratio was 42.3%.

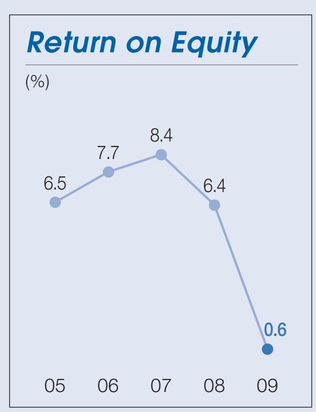
Cash Flows

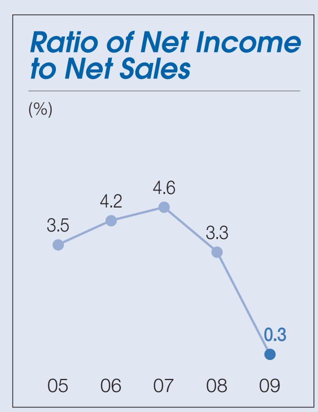
Cash and cash equivalents at fiscal year-end stood at ¥30.5 billion, up ¥9.8 billion, or 47.1%, from a year earlier.

Cash from Operating Activities
Net cash provided by operating activities amounted to ¥40.2 billion, down ¥9.1 billion, or 18.5%, from the previous fiscal year. Factors boosting cash flows included an increase in depreciation and amortization, and a decrease in notes and accounts receivable. Factors holding down cash flows included a decrease in notes and accounts payable.

Cash from Investing Activities
Net cash used in investing activities totaled ¥24.4 billion, down ¥18.7 billion, or 43.4%, from the previous fiscal year.







The primary reason was the decline due to the decrease in capital expenditures.

Cash from Financing Activities

Net cash used in financing activities was ¥2.4 billion, (net cash provided by financing activities was ¥0.2 billion for the previous fiscal year). Factors boosting cash flows included an increase in short-term bank loans. Factors holding down cash flows included an increase in repayments of long-term debt.

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 (38.8% 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.

Swings in Other Raw Material Prices

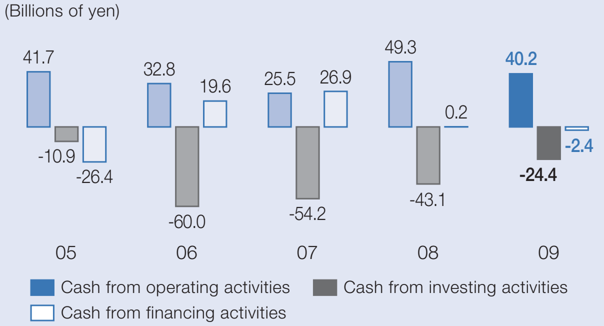
Concerning raw material and fuel price increases, Daicel has been switching to raw materials and fuels that are less expensive and more stable in price, making cost savings from improved manufacturing, and revising product sales prices. However, there is a limit as to how much can be absorbed. In the 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

Cash Flows

(Billions of yen)



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

Despite some bright signs on the horizon, the outlook for the Japanese economy is unpredictable due to a number of factors. These include concerns about shrinking consumption associated with worldwide economic recession, as well as prolonged appreciation of the yen against the U.S. dollar.

The business environment in the chemical industry remains wrought with challenges. These include responding to declining demand due to economic recession and addressing the downturn in earnings caused by the yen's appreciation, as well as the need to preserve employment, step up selection and concentration strategies, secure cost competitiveness, strengthen R&D, reduce greenhouse gas emissions to prevent global warming, and address increasingly stringent environmental and safety regulations.

Under such circumstances, for fiscal 2009, the Daicel Group forecasts net sales of ¥305.0 billion, operating income of ¥11.0 billion, recurring profit of ¥9.0 billion, and net income of ¥4.5 billion.

Compared with its fiscal 2008 performance, the Group forecasts year-on-year sales declines in all business segments. Nevertheless, we will strive to increase earnings through a number of urgent actions. In addition to ongoing efforts to cut costs, these include optimizing inventories, reducing overall remuneration for executives and employees, cutting maintenance and repair costs and other fixed costs, and improving raw material usage rates.

Consolidated Balance Sheets

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 30,508**	¥ 20,740	**$ 311,306**
Marketable securities (Note 3)	**26**	25	**265**
Receivables:			
Trade notes	**3,238**	5,953	**33,041**
Trade accounts	**55,981**	83,831	**571,235**
Unconsolidated subsidiaries and associated companies	**4,958**	6,056	**50,592**
Allowance for doubtful receivables	**(141)**	(215)	**(1,439)**
Inventories (Note 4)	**75,984**	73,298	**775,347**
Deferred tax assets (Note 8)	**6,020**	3,839	**61,429**
Account receivable for expropriation (Note 15)		5,880	
Other current assets	**8,973**	8,427	**91,561**
Total current assets	**185,547**	207,834	**1,893,337**
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 14):			
Land	**26,486**	26,873	**270,265**
Buildings and structures	**134,199**	130,896	**1,369,378**
Machinery and equipment	**487,148**	473,186	**4,970,898**
Construction in progress	**11,707**	44,910	**119,459**
Total	**659,540**	675,865	**6,730,000**
Accumulated depreciation	**(463,200)**	(452,963)	**(4,726,531)**
Net property, plant and equipment	**196,340**	222,902	**2,003,469**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**38,709**	59,717	**394,990**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 3)	**8,693**	8,140	**88,704**
Deferred tax assets (Note 8)	**1,759**	1,190	**17,949**
Other assets	**14,864**	15,835	**151,673**
Total investments and other assets	**64,025**	84,882	**653,316**
TOTAL	**¥ 445,912**	¥ 515,618	**$ 4,550,122**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	**2009**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	**¥ 56,683**	¥ 32,286	**$ 578,398**
Current portion of long-term debt (Notes 5 and 11)	**36,480**	35,804	**372,245**
Payables:			
Trade notes	**145**	630	**1,480**
Trade accounts	**31,723**	55,467	**323,704**
Construction	**6,757**	8,376	**68,949**
Unconsolidated subsidiaries and associated companies	**1,932**	2,965	**19,714**
Income taxes payable (Note 8)	**1,199**	4,537	**12,234**
Other current liabilities	**16,239**	18,165	**165,704**
Total current liabilities	**151,158**	158,230	**1,542,428**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 and 11)	**69,540**	97,169	**709,592**
Liability for retirement benefits (Note 6)	**8,823**	8,223	**90,031**
Deferred tax liabilities (Note 8)	**4,382**	11,371	**44,714**
Other long-term liabilities	**521**	1,477	**5,316**
Total long-term liabilities	**83,266**	118,240	**849,653**
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 2009 and 2008	**36,275**	36,275	**370,153**
Capital surplus	**31,576**	31,577	**322,204**
Retained earnings	**122,348**	123,759	**1,248,449**
Unrealized gain on available-for-sale securities	**9,150**	20,808	**93,367**
Deferred gain (loss) on derivatives under hedge accounting	**(193)**	(103)	**(1,969)**
Foreign currency translation adjustments	**(6,271)**	3,700	**(63,990)**
Treasury stock — at cost 8,987,467 shares in 2009 and 5,501,956 shares in 2008	**(4,077)**	(2,675)	**(41,602)**
Total	**188,808**	213,341	**1,926,612**
Minority interests	**22,680**	25,807	**231,429**
Total equity	**211,488**	239,148	**2,158,041**
TOTAL	**¥ 445,912**	¥ 515,618	**$ 4,550,122**

Consolidated Statements of Income

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	**2009**
NET SALES	**¥ 377,980**	¥ 416,990	¥ 381,423	**$ 3,856,939**
COST OF SALES (Note 9):	**313,116**	327,019	289,563	**3,195,061**
Gross profit	**64,864**	89,971	91,860	**661,878**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	**54,274**	57,807	55,461	**553,817**
Operating income	**10,590**	32,164	36,399	**108,061**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**1,604**	1,389	1,371	**16,367**
Gain on sales of securities	**32**	181	3	**326**
Gain on sales of subsidiaries' stocks		1,457		
Equity in earnings of unconsolidated subsidiaries and associated companies	**711**	584	701	**7,255**
Interest expense	**(2,865)**	(3,477)	(3,051)	**(29,235)**
Foreign exchange gain (loss)	**(1,232)**	(1,627)	713	**(12,571)**
Reversal of deferred gain from expropriation (Note 15)		16,833	3,271	
Subsidies from municipal governments (Note 14)	**1,233**	1,000	1,350	**12,582**
Reduction of cost of property, plant and equipment (Notes 14 and 15)	**(813)**	(17,833)	(4,621)	**(8,296)**
Loss on dispositions of property, plant and equipment	**(1,971)**	(2,164)	(1,290)	**(20,112)**
Impairment loss on fixed assets	**(79)**	(214)	(139)	**(806)**
Other-net	**(938)**	(1,148)	(1,522)	**(9,571)**
Other income (expenses)-net	**(4,318)**	(5,019)	(3,214)	**(44,061)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**6,272**	27,145	33,185	**64,000**
INCOME TAXES (Note 8):				
Current	**3,149**	8,447	12,312	**32,132**
Deferred	**(359)**	1,922	(312)	**(3,663)**
Total income taxes	**2,790**	10,369	12,000	**28,469**
MINORITY INTERESTS IN NET INCOME	**2,185**	3,100	3,747	**22,296**
NET INCOME	**¥ 1,297**	¥ 13,676	¥ 17,438	**$ 13,235**

	Yen			U.S. dollars
PER SHARE INFORMATION (Notes 2.o and 10):				
Net income	**¥ 3.62**	¥ 37.86	¥ 48.19	**$ 0.04**
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, 2009, 2008 and 2007

	Outstanding Number of Shares of Common Stock	Millions of yen									
		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, 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										¥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
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
Adjustment of retained earnings due to an adoption of PITF No. 18 (Note 2.b)				**(118)**					**(118)**		**(118)**
Net income				**1,297**					**1,297**		**1,297**
Cash dividends, ¥8.00 per share				**(2,875)**					**(2,875)**		**(2,875)**
Repurchase of treasury stock	**(3,514,132)**							**(1,415)**	**(1,415)**		**(1,415)**
Disposal of treasury stock	**28,621**		**(1)**					**13**	**12**		**12**
Decrease due to exclusion of consolidated subsidiaries				**285**					**285**		**285**
Change of scope of equity method				**0**					**0**		**0**
Net change in the year					**(11,658)**	**(90)**	**(9,971)**		**(21,719)**	**(3,127)**	**(24,846)**
BALANCE, MARCH 31, 2009	**355,955,215**	**¥ 36,275**	**¥ 31,576**	**¥122,348**	**¥ 9,150**	**¥ (193)**	**¥ (6,271)**	**¥ (4,077)**	**¥188,808**	**¥ 22,680**	**¥211,488**

	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, 2008	$370,153	$322,214	$1,262,847	$212,326	$ (1,051)	$ 37,755	$ (27,296)	$2,176,948	$263,337	$2,440,285
Adjustment of retained earnings due to an adoption of PITF No. 18 (Note 2.b)			**(1,204)**					**(1,204)**		**(1,204)**
Net income			**13,235**					**13,235**		**13,235**
Cash dividends, $0.08 per share			**(29,337)**					**(29,337)**		**(29,337)**
Repurchase of treasury stock							**(14,439)**	**(14,439)**		**(14,439)**
Disposal of treasury stock		**(10)**					**133**	**123**		**123**
Decrease due to exclusion of consolidated subsidiaries			**2,908**					**2,908**		**2,908**
Change of scope of equity method			**0**					**0**		**0**
Net change in the year				**(118,959)**	**(918)**	**(101,745)**		**(221,622)**	**(31,908)**	**(253,530)**
BALANCE, MARCH 31, 2009	**$ 370,153**	**$ 322,204**	**$1,248,449**	**$ 93,367**	**$ (1,969)**	**$ (63,990)**	**$ (41,602)**	**$1,926,612**	**$ 231,429**	**$2,158,041**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	**2009**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 6,272**	¥ 27,145	¥ 33,185	**$ 64,000**
Adjustments for:				
Income taxes-paid	**(7,629)**	(10,935)	(12,957)	**(77,847)**
Depreciation and amortization	**39,674**	29,576	23,774	**404,837**
Impairment loss on fixed assets	**79**	214	139	**806**
Loss on dispositions of property, plant and equipment	**1,971**	2,164	1,290	**20,112**
Reduction of cost of property	**813**	17,833	4,621	**8,296**
Reversal of deferred gain from expropriation		(16,833)	(3,271)	
Subsidies from municipal governments	**(1,233)**	(1,000)	(1,350)	**(12,582)**
Gain on sales of securities	**(32)**	(181)	(3)	**(326)**
Gain on sales of subsidiaries' stocks		(1,457)		
Equity in earnings of unconsolidated subsidiaries and associated companies	**(711)**	(584)	(701)	**(7,255)**
Changes in assets and liabilities:				
Notes and accounts receivable	**24,701**	4,055	(13,371)	**252,051**
Inventories	**(8,011)**	699	(15,127)	**(81,745)**
Notes and accounts payable	**(20,649)**	2,077	6,637	**(210,704)**
Other-net	**4,920**	(3,497)	2,668	**50,204**
Net cash provided by operating activities	**40,165**	49,276	25,534	**409,847**
INVESTING ACTIVITIES:				
Capital expenditures	**(25,666)**	(46,930)	(55,316)	**(261,898)**
Payment for purchases of investment securities	**(999)**	(954)	(2,846)	**(10,194)**
Proceeds from sales and redemption of investment securities	**78**	1,093	63	**796**
Proceeds from sales of property, plant and equipment	**36**	487	2,081	**367**
Increase in investments in and advances to unconsolidated subsidiaries and associated companies	**(657)**	(344)	(686)	**(6,704)**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation		1,750		
Proceeds from sales of plant for expropriation	**5,880**	919	2,363	**60,000**
Proceeds from suspense receipts for expropriation		80	207	
Payment for moving expense for expropriation	**(2,845)**			**(29,031)**
Payment for suspense payments for expropriation		(586)	(39)	
Subsidies from municipal governments	**1,233**	1,115	1,864	**12,582**
Other	**(1,462)**	229	(1,875)	**(14,918)**
Net cash used in investing activities	**(24,402)**	(43,141)	(54,184)	**(249,000)**
FINANCING ACTIVITIES:				
Net change in short-term bank loans	**27,485**	(8,717)	17,633	**280,459**
Proceeds from issuance of long-term debt	**10,810**	35,227	51,881	**110,306**
Repayments of long-term debt	**(35,510)**	(18,961)	(30,919)	**(362,347)**
Dividends paid	**(2,875)**	(2,894)	(2,895)	**(29,337)**
Dividends paid to minority interests	**(930)**	(2,930)	(8,661)	**(9,490)**
Payment for purchases of treasury stock	**(1,415)**	(1,486)	(96)	**(14,439)**
Other	**12**	5	5	**124**
Net cash provided by (used in) financing activities	**(2,423)**	244	26,948	**(24,724)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(3,539)**	254	891	**(36,112)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**9,801**	6,633	(811)	**100,011**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		149	420	
CASH AND CASH EQUIVALENTS OF SUBSIDIARIES, EXCLUDED FROM CONSOLIDATION	**(33)**	(1)		**(337)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**20,740**	13,959	14,350	**211,632**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 30,508**	¥ 20,740	¥ 13,959	**$ 311,306**
NONCASH INVESTING AND FINANCING ACTIVITIES:				
Assets increased by consolidation of previously unconsolidated subsidiaries		¥ 0	¥ 2,767	
Liabilities increased by consolidation of previously unconsolidated subsidiaries			2,775	

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries

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 Act 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 2008 consolidated financial statements to conform to the classifications used in 2009.

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 ¥98 to $1, the approximate rate of exchange at March 31, 2009. 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, 2009 include the accounts of the Company and its 46 significant (48 in 2008, 53 in 2007) subsidiaries (together, the "Companies").

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 Group has the ability to exercise significant influence are accounted for by the equity method.

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.

During the year ended March 31, 2009, one subsidiary was excluded from consolidation as a result of its liquidation, and one subsidiary was excluded from consolidation as a result of a decrease of its operations.

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 2 (4 in 2008, 10 in 2007) unconsolidated subsidiaries and 8 (8 in 2008, 6 in 2007) associated companies are accounted for by the equity method. One subsidiary was excluded from the equity method as a result of its liquidation, and one subsidiary was excluded from the equity method as a result of sales of its 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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No. 18 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 statement prepared by foreign subsidiaries in accordance with either International

Financial Reporting Standards or the generally accepted accounting principles in the United States of America 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) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development cost of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective April 1, 2008. The effect of this change was to increase operating income by ¥86 million ($878 thousand) and income before income taxes and minority interests by ¥84 million ($857 thousand). In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

c. **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.

d. **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.

e. **Inventories**—Prior to April 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories". 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 purpose be measured at the market price. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Companies applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥2,144 million ($20,816 thousand).

f. **Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998 and leased assets of the Company. Consolidated foreign subsidiaries primarily apply the straight-line method to property, plant and equipment. 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 of 2007, 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.

Property, plant and equipment had been depreciated up to 95% of acquisition cost with 5% of the 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 of 2007, 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.

The range of useful lives is principally from 3 to 75 years for buildings and structures and from 4 to 12 years for machinery and equipment. The useful lives for leased assets are the terms of respective leases. Property, plant and equipment are carried at cost, less gains deferred on the sale and replacement of certain assets.

In accordance with the revised corporate tax law of 2008, the Company and its certain domestic subsidiaries changed the estimated useful lives. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2009 by ¥1,021 million ($10,418 thousand).

g. **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.

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

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

The Company accounts for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

During the year ended March 31, 2009, the Company and its certain domestic subsidiaries are amended their pension plan from non-contributory trusted pension plans to defined benefit plans. This transaction was accounted for in accordance with the guidance issued by the ASBJ. The effect of this treatment was to increase projected benefit obligation during the year ended March 31, 2009 by ¥1,182 million ($12,061 thousand). The increase in projected benefit obligation, unrecognized prior service cost is amortized over five years.

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.

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

j. **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.

k. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standards for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. 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.

Under the previous accounting standard, finance lease that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's finance statements. The revised accounting standard requires that all finance lease transaction should be capitalized to recognize lease assets and lease obligations in the balance sheet.

The revised accounting standard effective April 1, 2008 permits leases which existed at the transition date and do not ownership of the leased property to the lessee to be accounted for as operating lease transactions. The Companies adopted the revised accounting standard including the transitional treatment. There is no effect of this change on statement of income.

All other leases are account for as operating leases.

l. Research and Development—Research and development costs charged to income as incurred and included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES".

m. 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.

n. 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 consolidated income statements. 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.

o. 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.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and Investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Current:			
Government and corporate bonds	¥ 26	¥ 25	$ 265
Non-current:			
Equity securities	¥ 36,711	¥ 57,335	$ 374,602
Government and corporate bonds	1,280	1,334	13,061
Trust fund investments and other	718	1,048	7,327
Total	¥ 38,735	¥ 59,742	$ 395,255

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

	Millions of yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 20,019	¥ 16,212	¥ 1,461	¥ 34,770
Debt securities	1,000		38	962
Trust fund investments and other	912	2	200	714

	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

	Thousands of U.S. dollars			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 204,276	$ 165,428	$ 14,908	$ 354,796
Debt securities	10,204		388	9,816
Trust fund investments and other	9,306	20	2,041	7,285

Securities whose fair values are not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Available-for-sale:			
Equity securities	¥ 1,941	¥ 1,948	$ 19,806
Debt securities	344	370	3,510
Trust fund investments and other	4	3	41
Total	¥ 2,289	¥ 2,321	$ 23,357

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009, 2008 and 2007 were ¥78 million ($796 thousand), ¥1,093 million and ¥98 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥32 million ($326 thousand) and ¥0 million ($0 thousand), respectively for the year ended March 31, 2009 and ¥181 million and ¥0 million, respectively for the year ended March 31, 2008 and ¥3 million and ¥0 million, respectively for the year ended March 31, 2007.

The carrying values of debt and other securities by contractual maturities classified as available-for-sale at March 31, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	¥ 26	$ 265
Due after one year through five years	107	1,092
Due after five years through ten years	174	1,776
Due after ten years	112	1,143
Total	¥ 419	$ 4,276

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Investments	¥ 7,489	¥ 6,746	$ 76,418
Advances	1,204	1,394	12,286
Total	¥ 8,693	¥ 8,140	$ 88,704

4. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished products	¥ 37,725	¥ 35,977	$ 384,949
Semi-finished products and work in process	13,560	14,086	138,367
Raw materials and supplies	24,699	23,235	252,031
Total	¥ 75,984	¥ 73,298	$ 775,347

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, 2009 and 2008 were 1.53% and 3.18%, respectively.

Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
0.84% bonds due 2009		¥ 10,000	
2.20% bonds due 2010	¥ 10,000	10,000	$ 102,040
1.60% bonds due 2013	10,000	10,000	102,040
Unsecured loans from banks and other financial institutions, due through 2020, with interest rates ranging from 0.55% to 6.80% for 2009 (from 0.55% to 6.80% for 2008)	65,669	72,473	670,092
Unsecured loan from FUJIFILM Corporation, due through 2011, with 0% interest rate	20,000	30,000	204,082
Collateralized loans from banks and other financial institutions, due through 2010, with interest rates ranging 1.80% for 2009 (1.80% for 2008)	250	500	2,551
Lease obligations	101		1,032
Total	106,020	132,973	1,081,837
Less current portion	(36,480)	(35,804)	(372,245)
Long-term debt, less current portion	¥ 69,540	¥ 97,169	$ 709,592

At March 31, 2009, annual maturities of long-term debt, excluding finance leases (see Note 11) were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 36,451	$ 371,948
2011	22,283	227,377
2012	10,527	107,418
2013	19,045	194,337
2014	9,250	94,388
2015 and thereafter	8,363	85,337
Total	¥ 105,919	$ 1,080,805

At March 31, 2009, property, plant and equipment with a total net book value of ¥1,169 million ($11,929 thousand) was pledged as collateral for long-term debt issued in Japan.

The unsecured long-term bank debt of ¥15,000 million ($153,061 thousand) contain the following financial restriction agreement during its payment period. The agreement provides that the amount of shareholder's equity ¥137,300 million ($1,401,020 thousand) at every end of fiscal year and semi-annual interim period.

6. RETIREMENT AND PENSION PLANS

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Projected benefit obligation	**¥ 33,865**	¥ 32,125	**$ 345,561**
Fair value of plan assets	**(16,592)**	(22,792)	**(169,306)**
Unrecognized actuarial loss	**(8,522)**	(2,276)	**(86,959)**
Unrecognized prior service cost	**(1,064)**		**(10,857)**
Net liability	**7,687**	7,057	**78,439**
Prepaid benefit costs	**1,136**	945	**11,592**
Liability for retirement benefit	**¥ 8,823**	¥ 8,002	**$ 90,031**

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Service cost	**¥ 1,768**	¥ 1,851	**$ 18,041**
Interest cost	**574**	596	**5,857**
Expected return on plan assets	**(273)**	(362)	**(2,785)**
Recognized actuarial loss	**335**	(122)	**3,418**
Amortization of prior service cost	**118**	11	**1,204**
Net periodic benefit costs	**¥ 2,522**	¥ 1,974	**$ 25,735**

Assumptions used for the years ended March 31, 2009 and 2008 were set forth as follows:

	2009	2008
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**1.0%**	1.0%
Amortization period of prior service cost	**5years**	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 Companies Act of Japan. 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, 2009 and 2008 were ¥117 million ($1,194 thousand) and ¥221 million, respectively.

7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria 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 Companies Act 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. The Companies Act also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

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

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

(c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights, are presented as a separate component of shareholders' equity.

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

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, 2009, 2008 and 2007. 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, 2009, 2008 and 2007 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2009	2008	2007
Normal effective statutory tax rate	41%	41%	41%
Expenses not deductible for income tax purposes		1	
Tax effect on retained earnings for foreign subsidiaries	(10)		
Increase or decrease of valuation allowance	28		
Tax difference of foreign countries	(12)		
Equity in earnings of associated companies	(5)		
Tax credit primarily for research and development expenses	(3)	(3)	(3)
Return tax			(2)
Other-net	5	(1)	
Actual effective tax rate	44%	38%	36%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued enterprise taxes	¥ 70	¥ 479	$ 714
Accrued bonuses	1,360	1,595	13,877
Liabilities for retirement benefits	8,006	7,876	81,694
Investment securities	175	807	1,786
Tax loss carryforwards	4,592	1,218	46,857
Intercompany profits	4,190	4,607	42,755
Other	5,792	3,200	59,102
Less valuation allowance	(4,608)	(1,401)	(47,020)
Deferred tax assets	¥ 19,577	¥ 18,381	$ 199,765
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 5,199	¥ 12,819	$ 53,051
Tax purpose reserves regulated by Japanese tax law	847	918	8,643
Undistributed earnings of foreign subsidiaries	4,102	4,652	41,857
Securities contributed to employees' retirement benefit trust	4,675	4,727	47,704
Other	1,357	1,607	13,846
Deferred tax liabilities	¥ 16,180	¥ 24,723	$ 165,101
Net deferred tax assets (liabilities)	¥ 3,397	¥ (6,342)	$ 34,664

At March 31, 2009, the Companies have tax loss carryforwards aggregating approximately ¥4,592 million ($46,857 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2010	¥ 199	$ 2,031
2011	40	408
2012	37	378
2013	157	1,602
2014	184	1,878
2015 and thereafter	3,975	40,560
Total	¥ 4,592	$ 46,857

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥12,046 million ($122,918 thousand), ¥12,004 million and ¥11,717 million for the years ended March 31, 2009, 2008 and 2007, 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 358,260,876, 361,213,634 and 361,892,421 for the years ended March 31, 2009, 2008 and 2007, respectively.

11. LEASES

(Lessee)

Finance Leases:

As discussed in Note 2, the Company account for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transaction.

Total lease payments under finance leases that do not deem to transfer ownership of the leased property to the lessee were ¥120 million ($1,224 thousand), 247 million and ¥339 million for the years ended March 31, 2009, 2008 and 2007, respectively. Pro forma information of such leases existing at the transaction date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, on a "as if capitalized" basis was as follows:

	Millions of yen		
As of March 31, 2009	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 222	¥ 427	¥ 649
Accumulated depreciation	180	280	460
Net leased property	¥ 42	¥ 147	¥ 189

	Thousands of U.S. dollars		
As of March 31, 2009	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$ 2,265	$ 4,357	$ 6,622
Accumulated depreciation	1,837	2,857	4,694
Net leased property	$ 428	$ 1,500	$ 1,928

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

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

Obligations under finance leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 88	¥ 118	$ 898
Due after one year	100	186	1,020
Total	¥ 188	¥ 304	$ 1,918

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 ¥120 million ($1,224 thousand), ¥247 million and ¥339 million for the years ended March 31, 2009, 2008 and 2007, respectively.

Operating Leases:

Obligations under non-cancelable operating leases as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 507	¥ 644	$ 5,173
Due after one year	539	453	5,500
Total	¥ 1,046	¥ 1,097	$ 10,673

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, 2009 and 2008 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 2	¥ 2	$ 20
Due after one year	2	4	20
Total	¥ 4	¥ 6	$ 40

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, 2009 and 2008:

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	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.$	¥ 2,596	¥ 2,612	¥ (16)	¥ 2,514	¥ 2,611	¥ (97)	$ 26,490	$ 26,653	$ (163)
Buying U.S.$	281	281	0				2,867	2,867	0
Buying Japanese yen	29	29	0				296	296	0
Foreign currency swaps:									
Receiving Japanese yen, paying U.S.$	1,363	88	88	1,557	83	83	13,908	898	898
Receiving Japanese yen, paying Euro	624	113	113	780	3	3	6,367	1,153	1,153
Receiving U.S.$, paying THB	1,222	134	134				12,469	1,367	1,367

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 DISCLOSURES

The Company sells Cellulose acetate and polymer to FUJIFILM Corporation, whose president has served as one of the Company's directors since June, 2005.

The sales to FUJIFILM Corporation for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Sales	¥ 22,182	¥ 18,489	$ 226,347

These balances due from and to FUJIFILM Corporation at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Notes and accounts receivable	¥ 1,774	¥ 3,846	$ 18,102
Current portion of long-term debt	10,000	10,000	102,041
Long-term debt	10,000	20,000	102,041

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. Certain portion of the amount is charged to income and credited against the cost of property, plant and equipment when the property, plant and equipment subject to the subsidies are acquired.

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 by March 31, 2008.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2009 for loans guaranteed amounted to ¥3,777 million ($38,541 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, 2009 was approved at the Shareholders' General Meeting of the Company held on June 26, 2009:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥4 ($0.04) per share	¥ 1,424	$ 14,531

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, 2009, 2008 and 2007 is as follows:

I. Operations in Industry Segments

	Millions of yen							
Year ended March 31, 2009	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥ 72,369	¥ 91,058	¥ 148,150	¥ 59,984	¥ 6,419	¥ 377,980		¥ 377,980
Intersegment sales	2,901	15,989	4		10,980	29,874	¥ (29,874)	
Total sales	75,270	107,047	148,154	59,984	17,399	407,854	(29,874)	377,980
Total cost and expenses	73,067	102,344	140,171	57,321	16,787	389,690	(22,300)	367,390
Operating income	¥ 2,203	¥ 4,703	¥ 7,983	¥ 2,663	¥ 612	¥ 18,164	¥ (7,574)	¥ 10,590
Total assets	¥ 107,953	¥ 76,041	¥ 132,823	¥ 50,594	¥ 7,338	¥ 374,749	¥ 71,163	¥ 445,912
Depreciation	16,554	8,362	7,430	5,159	367	37,872	708	38,580
Impairment loss on fixed assets							79	79
Capital investments	7,169	6,246	6,431	3,751	258	23,855	328	24,183

Year ended March 31, 2009	Thousands of U.S. dollars							
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$ 738,459	$ 929,163	$1,511,735	$ 612,082	$ 65,500	$3,856,939		$3,856,939
Intersegment sales	29,602	163,153	41		112,041	304,837	$(304,837)	
Total sales	768,061	1,092,316	1,511,776	612,082	177,541	4,161,776	(304,837)	3,856,939
Total cost and expenses	745,582	1,044,327	1,430,316	584,908	171,296	3,976,429	(227,551)	3,748,878
Operating income	$ 22,479	$ 47,989	$ 81,460	$ 27,174	$ 6,245	$ 185,347	$ (77,286)	$ 108,061
Total assets	$1,101,561	$ 775,929	$1,355,337	$ 516,265	$ 74,878	$3,823,970	$ 726,153	$4,550,123
Depreciation	168,918	85,327	75,816	52,643	3,745	386,449	7,224	393,673
Impairment loss on fixed assets							806	806
Capital investments	73,153	63,735	65,622	38,276	2,633	243,419	3,347	246,766

Year ended March 31, 2008	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	¥ 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 assets	¥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

Year ended March 31, 2007	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	¥ 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 assets	¥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

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 air bag safety equipment. Functional products include membranes.

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2009, 2008 and 2007 included unallocated corporate costs of ¥7,574 million ($77,286 thousand), ¥8,258 million and ¥8,302 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, 2009, 2008 and 2007 included ¥72,672 million ($741,551 thousand), ¥75,962 million and ¥109,500 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.

As discussed in Note 2.e, effective April 1, 2008, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories". The effect of this change was to decrease operating income of Industry Cellulosic Derivatives by ¥664 million ($6,776 thousand), operating income of Industry Organic Chemicals by ¥644 million ($6,571 thousand), operating income of Industry Plastics and Films by ¥408 million ($4,163 thousand), operating income of Industry Pyrotechnic Devices by ¥426 million ($4,347 thousand) and operating income of Industry Functional Products and Others by ¥2 million ($20 thousand) for the year ended March 31, 2009.

II. Geographical Segments

	Millions of yen					
Year ended March 31, 2009	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥277,758	¥ 68,892	¥ 31,330	¥377,980		¥377,980
Intersegment sales	40,190	15,072	2,470	57,732	¥ (57,732)	
Total sales	317,948	83,964	33,800	435,712	(57,732)	377,980
Operating expenses	308,372	75,228	33,948	417,548	(50,158)	367,390
Operating income (loss)	¥ 9,576	¥ 8,736	¥ (148)	¥ 18,164	¥ (7,574)	¥ 10,590
Total assets	¥303,434	¥ 66,160	¥ 21,379	¥390,973	¥ 54,939	¥445,912

	Thousands of U.S. dollars					
Year ended March 31, 2009	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$2,834,265	$702,980	$319,694	$3,856,939		$3,856,939
Intersegment sales	410,102	153,796	25,204	589,102	$ (589,102)	
Total sales	3,244,367	856,776	344,898	4,446,041	(589,102)	3,856,939
Operating expenses	3,146,653	767,633	346,408	4,260,694	(511,816)	3,748,878
Operating income (loss)	$ 97,714	$ 89,143	$ (1,510)	$ 185,347	$ (77,286)	$ 108,061
Total assets	$3,096,265	$675,102	$218,153	$3,989,520	$ 560,602	$4,550,122

	Millions of yen					
Year ended March 31, 2008	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, 2007	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
	Millions of yen					
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

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

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

Other: North America, Europe

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2009, 2008 and 2007 included unallocated corporate costs of ¥7,574 million ($77,286 thousand), ¥8,258 million and ¥8,302 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, 2009, 2008 and 2007 included ¥72,672 million ($741,551 thousand), ¥75,962 million and ¥109,500 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.

As discussed in Note 2.e, effective April 1, 2008, the Company applied ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories". The effect of this change was to decrease operating income of Japan by ¥2,144 million ($21,878 thousand) for the year ended March 31, 2009.

III. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2009, 2008 and 2007 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	**2009**
Asia	**¥ 95,214**	¥105,359	¥ 92,185	**$ 971,571**
Other	**51,374**	52,810	43,032	**524,224**
Total	**¥ 146,588**	¥158,169	¥135,217	**$ 1,495,795**

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

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

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, 2009 and 2008, 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, 2009, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, 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, 2009

Member of
Deloitte Touche Tohmatsu

Principal Subsidiaries and Affiliates

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.	2,000	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	RMB271mil	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	RM158mil	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$16.86mil	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 Date

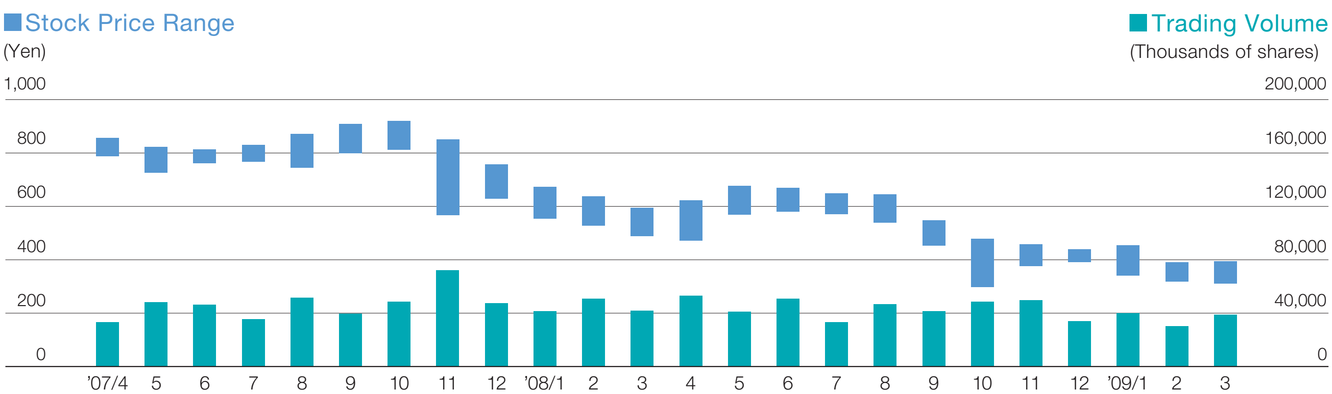
(As of March 31, 2009)

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:	22,048
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

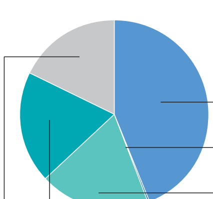
(As of March 31, 2009)

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	160,861	44.1
Securities companies	878	0.2
Other domestic corporations	68,950	18.9
Foreign investors	69,630	19.1
Individual & other investors	64,621	17.7

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

Major Shareholders *(Top10)*

	Number of shares unit: (1,000 shares)	% of total shares issued
Japan Trustee Services Bank, Ltd. (Trust Account 4G)	29,565	8.10
Japan Trustee Services Bank, Ltd. (Trust Account)	27,000	7.40
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,211	6.09
Nippon Life Insurance Company	18,813	5.16
FUJIFILM Corporation	16,915	4.64
Toyota Motor Corporation	15,000	4.11
Mitsui Sumitomo Insurance Co., Ltd.	9,003	2.47
Daicel Chemical Industries, Ltd.	8,987	2.46
Mitsui & Co., Ltd.	7,560	2.07
Sumitomo Mitsui Banking Corporation	7,096	1.94

DAICEL CHEMICAL INDUSTRIES, LTD.

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