DAICEL

ANNUAL REPORT 2014

Year ended March 31, 2014

Developing New Value

DAICEL CORPORATION

Group Symbol

The new symbol, which uses Daicel blue, is given a sense of action and speed by the oblique character design used for the word "DAICEL." The three red circles represent our unceasing passion for creation, our strong will to keep working on innovation, and our fighting spirit to continue taking on new fields outside our company's current scope.

Basic Philosophy

The Best Solution for You

Contributing to an improved quality of life by meeting the needs of society.

At the Daicel Group, we believe in **the unlimited potential of chemistry**.
By applying our unique technologies and expertise in the most effective manner, we are meeting **the diverse needs of society**.
Our industrial group contributes to a better society and an improved quality of life.

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.

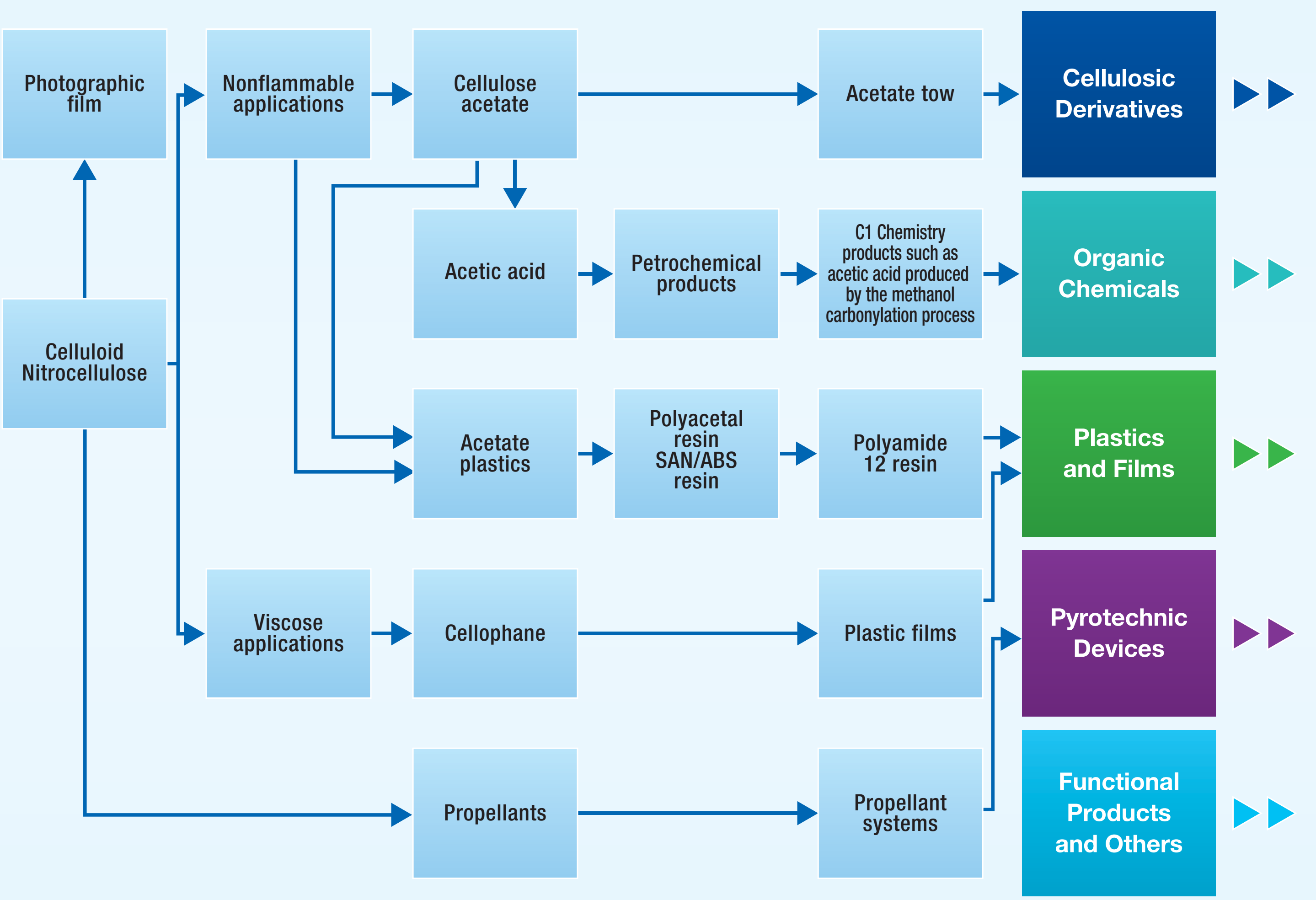
Contents

Profile

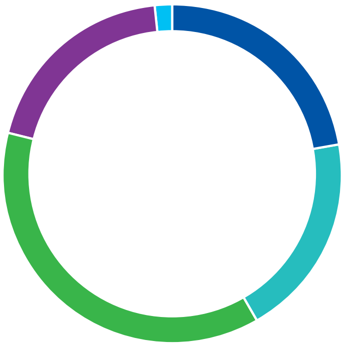
Daicel Corporation was founded in 1919 as Dainippon Celluloid Company Limited, created through the merger of eight celluloid producers. Deploying its original celluloid-related technological expertise, the Company has expanded into the fields of cellulose chemistry, organic synthesis chemistry, polymer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

Today, Daicel's extensive business lineup expands beyond the chemical industry segment and includes cellulose acetates made from pulp and other natural fibers, cigarette filter tow, water-soluble polymers and other cellulosic derivatives, organic chemical products (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

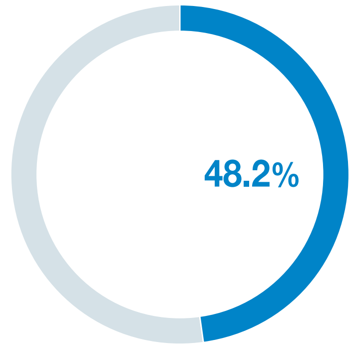


Sales by Segment



- 22.4% Cellulosic Derivatives
- 19.5% Organic Chemicals
- 37.2% Plastics and Films
- 19.4% Pyrotechnic Devices
- 1.5% Functional Products and Others

Overseas Sales



Major Applications of Daicel Group Products

Cellulosic Derivatives ▶ P19

World's **No. 1**
Sales share (Daicel estimate)
LCDs/TAC

Japan's **No. 1**
Production capacity share (Daicel estimate)
Cigarette filters/
Acetate tow,
Cellulose acetate

Civil engineering and oil drilling/
CMC

Organic Chemicals ▶ P20

Japan's **No. 1**
Production capacity share (Daicel estimate)
Polyester fibers/
Acetic acid

Automotive paints/
Caprolactone and special epoxy resins

World's **No. 1**
Sales share (Daicel estimate)
Pharmaceutical development/
Chiral columns

Plastics and Films ▶ P21

POM World's **No. 1**
Production capacity share (Daicel estimate)
Auto parts/
POM, PBT, PPS, SAN and ABS

POM World's **No. 1**/
LCP World's **No. 1**
Production capacity share (Daicel estimate)
Office equipment and electronic components/
POM, PBT, LCP and PPS

Packaging and films for snacks and pocket warmers/
Packaging films

Pyrotechnic Devices ▶ P22

Japan's **No. 1**
Sales share (Daicel estimate)
Airbag systems/
Inflators

Functional Products and Others ▶ P23

Water filtration and wastewater treatment/
Reverse osmosis membranes and ultrafiltration membranes

Eco-friendly System/
E-Mizu system

Main product application/
Product

Consolidated Financial Highlights

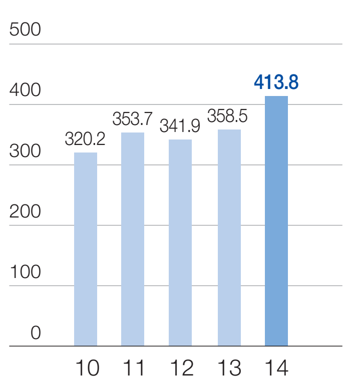
Daicel Corporation and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars*2
	2010	2011	2012	2013	**2014**	**2014**
Results for the year						
Net sales	¥ 320,243	¥ 353,685	¥ 341,943	¥ 358,514	**¥ 413,786**	**$ 4,017,340**
Operating income	20,856	32,711	20,426	26,197	**37,912**	**368,078**
Income before income taxes and minority interests	16,911	29,713	19,962	25,283	**40,824**	**396,350**
Net income	11,070	16,803	11,827	15,373	**22,844**	**221,787**
Capital expenditures	18,424	11,753	17,394	26,067	**28,026**	**272,097**
Depreciation and amortization	37,782	33,529	28,849	24,605	**24,257**	**235,505**
Research and development expenses	11,317	11,971	12,731	12,876	**13,360**	**129,709**
At year-end						
Total assets	¥ 428,377	¥ 411,071	¥ 398,197	¥ 461,513	**¥ 509,834**	**$ 4,949,845**
Total equity	229,005	235,337	234,712	262,900	**295,805**	**2,871,893**
Ratios						
Ratio of operating income to net sales	6.5	9.2	6.0	7.3	**9.2**	
Return on equity	5.6	8.0	5.5	6.7	**9.0**	

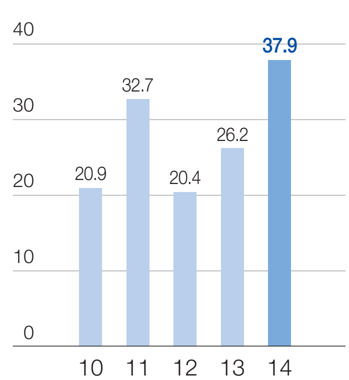
	Yen					U.S. dollars*2
Per share*1						
Net income	¥ 31.10	¥ 47.22	¥ 33.46	¥ 43.71	**¥ 64.98**	**$ 0.63**
Cash dividends applicable to the year	10.00	10.00	10.00	12.00	**15.00**	**0.15**

*1: The computations of net income per common share are based on the weighted average number of shares outstanding.
*2: The U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥103 = $1, the approximate exchange rate at March 31, 2014.

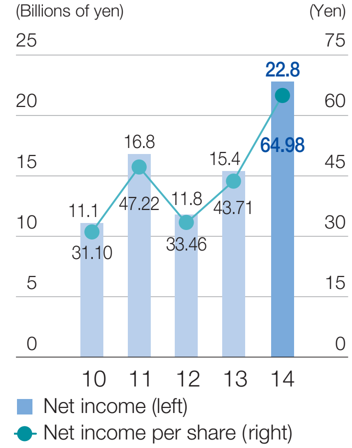
Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



Net Income/ Net Income Per Share
(Billions of yen) (Yen)



Message from the President

Year in review

The fiscal year ended March 2014 was the final year of our "3D-Ⅰ" medium-term plan. Unfortunately, we were unable to achieve our numerical targets for the year, due to slow progress in the first year of the plan. Nevertheless, we benefited from various positive factors, such as an improved export environment due to easing of the yen's appreciation, as well as a moderate recovery of the domestic economy. Accordingly, we posted a steady recovery in our performance and achieved new record-high figures for all profit items.

Forecasts for the fiscal year ending March 2015

In the year ahead, we expect foreign exchange levels to stabilize and the domestic economy to continue its moderate recovery. Overseas, however, the outlook is unclear due to concerns about negative factors. These include tapering of monetary easing in the United States and economic slowdown in China and elsewhere in Asia.

Despite these uncertainties, the Daicel Group will target continued increases in revenue and earnings by pursuing various challenges outlined in its newly formulated medium-term plan, "3D-Ⅱ," which include expanding global sales of mainstay products, accelerating the creation of new businesses, and ongoing cost-reduction efforts.

Misao Fudaba
President and CEO

M. Fudaba

Interview with the President

In the first year of 3D-Ⅱ, our new medium-term plan, we will expedite efforts to create new businesses while achieving steady increases in revenue and earnings.

Q Please give an overview of the Group's performance in the fiscal year ended March 2014.

A During the year, we adjusted selling prices to address surging costs of raw materials and fuels, while continuing efforts to reduce costs. As a result, we achieved new record-high figures across all profit categories.

In Japan, we saw signs of an economic turnaround as the export environment improved amid an easing of the yen's appreciation. Without a sense of robust recovery in real demand, however, the situation remained unpredictable due to various factors, such as downside economic risk and soaring prices of raw materials and fuels.

Despite the challenges, the Daicel Group worked hard to improve its business performance by adjusting selling prices in response to high raw materials and fuels prices and continuously reducing costs.

As a result, we posted an increase in sales volume, which, together with selling price adjustments and foreign exchange factors, led to a 15.4% year-on-year increase in consolidated net sales, to ¥413,786 million.

Thanks to the rise in sales volume and cost-reduction benefits, we reported significant increases in earnings. Specifically, operating income climbed 44.7%, to ¥37,912 million, and ordinary income grew 45.0%, to ¥41,433 million. Net income for the year rose 48.6%, to ¥22,844 million.

These figures represent new record-high levels for all profit categories, with the previous record posted in the fiscal year ended March 2007.

Results for the Fiscal Years Ended March 2013 and 2014

(Billions of yen)

	2013/3	2014/3	Change	% Change
Net sales	358.5	413.8	+55.3	+15.4%
Operating income	26.2	37.9	+11.7	+44.7%
Ordinary income	28.6	41.4	+12.9	+45.0%
Net income	15.4	22.8	+7.5	+48.6%

Q Can you provide a review of 3D-Ⅰ and describe the main points of 3D-Ⅱ?

A Under 3D-Ⅱ, we will further reinforce existing businesses and expedite creation of new businesses.

Emphasis themes of 3D-Ⅱ

- Further growth in core businesses
- Development of new businesses
- Development and enhancement of businesses from a global perspective
- Enhancement of production foundations
- Enhancement of capabilities of corporate divisions

The most important fundamentals as a manufacturer:
Product safety, Quality assurance and Safe operations

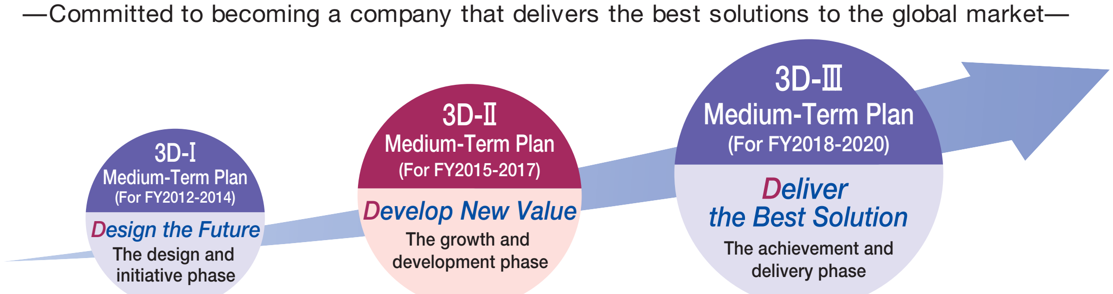
Under our long-term vision, entitled Grand Vision 2020, we are committed to becoming a company that delivers the "best solutions" on a global scale. To realize this vision, we are implementing three medium-term plans: 3D-Ⅰ (April 2011–March 2014), 3D-Ⅱ (April 2014–March 2017), and 3D-Ⅲ (April 2017 and beyond).

In 3D-Ⅰ, completed in the year under review, we did not achieve our numerical targets due to the impact of external factors, such as the Great East Japan Earthquake and major flooding in Thailand. In the final year, however, we recovered strongly, reaching record-high profit figures. During the period of 3D-Ⅰ, we made steady progress in strengthening capacity of core businesses and building a global sales system. Specifically, we generated renewed growth in core businesses, created new businesses, and stepped up our global advancement. With respect to new businesses, we attained some successes, including the launch of products in the fields of electronics, medical and healthcare.

Under 3D-Ⅱ, which started in April 2014, we will continue pursuing the basic strategies of 3D-Ⅰ, with the aim of making significant advancements toward the future. Specifically, we will expedite efforts to deliver renewed growth in core businesses and create new businesses. Our consolidated targets for the final year of the plan are net sales of ¥500 billion, operating income of ¥50 billion, and ROE of 10%.

The 3D Step-up Plan

—Committed to becoming a company that delivers the best solutions to the global market—



Q What are your performance forecasts for the fiscal year ending March 2015?

A We will target further increases in revenue and earnings despite uncertainties surrounding our business environment.

In Japan, while concerned about the impact of the consumption tax hike, we look forward to continued moderate economic recovery owing to several factors. These include firm consumption sentiment stemming from improvement in employment and wages, as well as expanded tax cuts on capital investments and home loans. Overseas, however, various risks remain that could negatively affect the world economy, including tapering of monetary easing in the United States, economic slowdown in China and elsewhere in Asia, and geopolitical instability in some other regions. For these reasons, we expect the situation to remain uncertain.

In response, the Daicel Group will focus on expanding sales of automotive engineering plastics, which are slated for increased production, as well as airbag inflators and other products. At the same time, we will step up efforts to reduce costs in order to further boost earnings.

For the fiscal year ending March 2015, we forecast consolidated net sales of ¥432 billion (up 4.4% year on year), the highest level in the Group's history. We also forecast another year of record-high profit figures across the board, with operating income of ¥41 billion (up 8.1%), ordinary income of ¥42 billion (up 1.4%), and net income of ¥24 billion (up 5.1%).

Earnings Forecasts for the Fiscal Year Ending March 2015

(Billions of yen)

	2014/3 Results	2015/3 Forecasts	Change	% Change
Net sales	413.8	**432.0**	**+18.2**	**+4.4%**
Operating income	37.9	**41.0**	**+3.1**	**+8.1%**
Ordinary income	41.4	**42.0**	**+0.6**	**+1.4%**
Net income	22.8	**24.0**	**+1.2**	**+5.1%**

Q Please tell us about Daicel's shareholder return policy.

A Our aim is to achieve a shareholder return ratio of 30% while retaining sufficient internal reserves to fund medium- and long-term increases in shareholder value.

Daicel's basic policy is to distribute profits in a balanced manner after extensive consideration of various factors. In addition to paying dividends that reflect our consolidated results in each fiscal year, these include establishing a more robust revenue foundation and enhancing internal reserves to improve medium- and long-term shareholder value.

Internal reserves will be applied to investments in expansion of business and reinforcement of highly profitable business structures. Examples include deploying M&As and other strategies to expedite development of new businesses aimed at establishing new business platforms, as well as R&D on process innovation and other ways to strengthen existing businesses. As for share buybacks, we recognize that they are a part of the shareholder return policy to supplement dividends and will buy back shares according to circumstances.

The benchmark we use for returning profits to shareholders is the shareholder return ratio, which is the sum of dividend and share buyback payments divided by consolidated net income for the year. Our shareholder return ratio target under the 3D-II medium-term plan, which runs until March 2017, remains at 30%.

In the fiscal year ended March 2014, we declared annual total dividends of ¥15.00 per share (¥6.00 interim dividend and ¥9.00 year-end dividend), up ¥3.00 from the previous year, reflecting our business results, which saw increases in revenue and earnings. This brought the shareholder return ratio to 23.1%.

Special Feature:

3D-II Medium-Term Plan

Develop New Value

Grand Vision 2020 is a long-term vision depicting what the Daicel Group aspires to become in the future. As part of the vision, we formulated and are implementing our 3D Step-up Plan, which represents our commitment to becoming a company that delivers the "best solutions" to the global market. 3D Step-up Plan consists of three medium-term plans. The second plan, entitled 3D-II, began in April 2014.

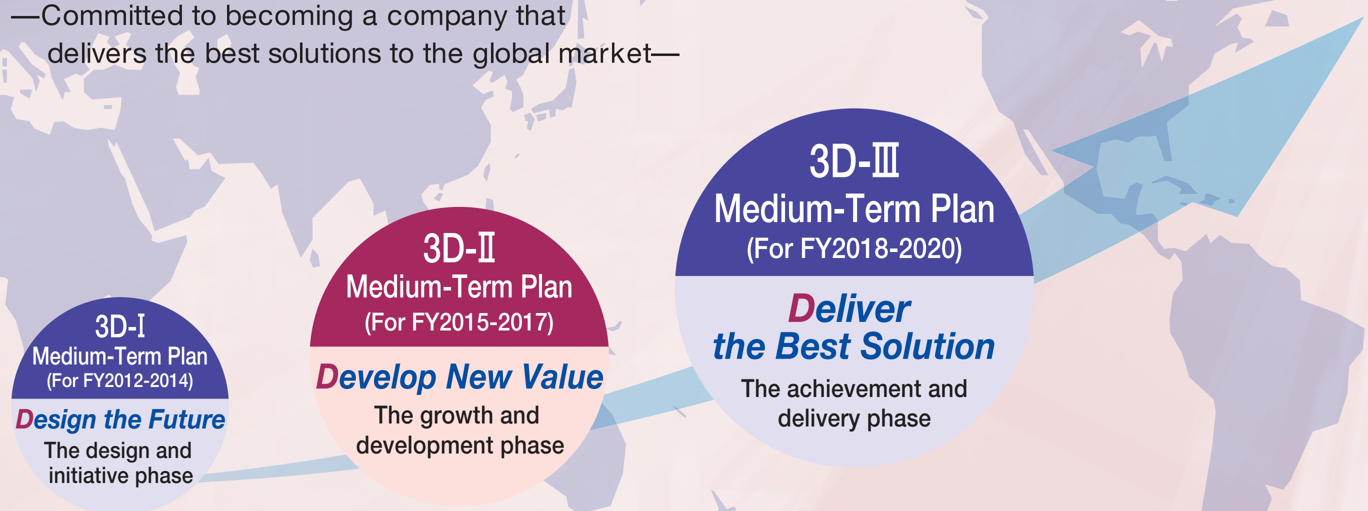
Review of 3D-I and Positioning of 3D-II

The Group was unable to achieve the performance targets of 3D-I—the "design and initiative phase" of the 3D Step-up Plan—due to the Great East Japan Earthquake and changing business conditions, such as the yen's rise and surging prices of raw materials and fuel. Nevertheless, we steadily implemented the seven basic initiatives outlined in 3D-I.

The new medium-term plan, 3D-II, is the "growth and development phase" and is designed to advance and make progress on initiatives undertaken in 3D-I. It is a very important stage leading into the final 3D-III medium-term plan. Under 3D-II, we will pursue various initiatives, including generating new businesses, strengthening core businesses, and reinforcing our production foundation, in order to meet our performance targets.

The 3D Step-up Plan

—Committed to becoming a company that delivers the best solutions to the global market—



I. Outline of 3D-II

1 Business Targets

For fiscal 2017, the final year of 3D-II, the Daicel Group is targeting consolidated net sales of ¥500 billion and operating income of ¥50 billion. We are also targeting 10% or higher for both return on sales (ROS) and return on equity (ROE), which we regard as key operating ratios.

In addition, we have a long-term objective of creating five new business units with annual sales of around ¥10 billion each. To this end, we will step up and expedite efforts to build new businesses.

Consolidated performance

Net sales: **¥500 billion**

Operating income: **¥50 billion**

Accelerate the development of new businesses

Important management index

Targeting **10% or more** ROS and ROE

2 3D-II Priorities

Under 3D-II, the Group will continue implementing the seven basic strategies of 3D-I in order to achieve its performance targets. We will also emphasize the following five core priorities in order to ensure safe operations, product safety, and quality assurance, which we regard are major criteria for a successful manufacturer.

- Further growth in core businesses
- Development of new businesses
- Development and enhancement of businesses from a global perspective
- Enhancement of production foundations
- Enhancement of capabilities of corporate divisions

3 Consolidated Performance Targets for Fiscal 2017 (ending March 2017)

Earnings Forecasts for Fiscal 2017

(Billions of yen)

	Fiscal 2014 Results	Fiscal 2017 Forecasts	Change	% Change
Net sales	413.8	500.0	+86.2	+20.8%
Operating income	37.9	50.0	+12.1	+31.9%
Ordinary income	41.4	52.0	+10.6	+25.6%
Net income	22.8	30.0	+7.2	+31.6%

4 Shareholder Return

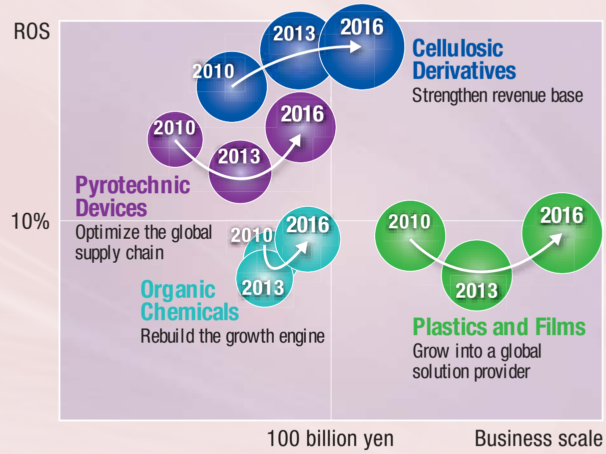
We will continue maintaining a shareholder return target of 30% (including share buybacks), as we did under 3D-I. Our policy is to pay dividends that reflect our consolidated performance and allocate profits after comprehensive consideration of retaining sufficient internal reserves to build a robust earnings base. We will also proceed in a flexible manner with share buybacks, which we regard as a shareholder return measure that complements dividend payments.

Ⅱ. Development and Leap

1 Further Growth in Core Businesses

The Daicel Group has four main business segments that are positioned as core businesses. Under 3D-Ⅱ, we will expand the scope and enhance the profitability of these businesses. We have set specific themes for each segment and will take all necessary measures to achieve these objectives. Namely, we will strengthen the earnings base of the Cellulosic Derivatives Segment, rebuild the growth engine of the Organic Chemicals Segment, grow/transform the Plastics and Films Segment into a global solutions provider, and optimize the supply chain of the Pyrotechnic Devices Segment on a global level.

Image of core businesses growth in 3D-Ⅱ



Cellulosic Derivatives

In this segment, we will further strengthen our earnings base by improving our capacity to supply cigarette filter tow and achieving an optimal manufacturing balance between items for cellulose acetate cigarette filters and items for films used in liquid crystal displays (LCD).

Organic Chemicals

In this segment, we will step up business selection and concentration and pursue business alliances, collaborations, and the like in order to ensure a stable earnings base. In functional products, we will create and foster new products in the fields of electronic materials and cosmetics. In the chiral area, we will focus on developing and launching new analytical columns and searching for new business opportunities in pharmaceutical-related fields.

Plastics and Films

In engineering plastics, we will fully utilize facilities upgraded and expanded during the 3D-Ⅰ period, including a new polyacetal (POM) resin production facility in Malaysia. At the same time, we will target renewed growth on a global basis by mobilizing our sales network, which spreads from Asia and the Pacific to Europe and Americas.

In resin compounds, we will seek to tap new markets by promoting interaction between our operations in Japan and elsewhere in Asia.

Pyrotechnic Device

In automobile airbag inflators, we will emphasize sustained earnings and growth through global business expansion and reinforcement of our earnings base.

As for aerospace and defense, we will solidify our foundation in the defense business and expand our presence in the private sector.

2 Development of New Businesses

With respect to developing new businesses, the Daicel Group will focus on opportunities created during the period of 3D-I. These include functional films in the electronics field and pre-mixed excipients for orally disintegrating tablets in the medical/healthcare field. We will also target new businesses in such areas as cosmetic base compounds, silver nano-materials, and ultra-dispersed nanodiamonds. We hope to produce tangible business outcomes in these areas by 2020.

In the meantime, we will strengthen interaction between our Corporate Research & Development Department and business departments, as well as between Daicel Group companies. In this way, we will increase the speed of new business development, strengthen our competitive edge and marketing capabilities, and expedite the creation of new businesses.

New business creation

High performance films	• Diversification of the touch panel structure. (trend of HD, upsizing, and thinning, light weight) • Customers are in Taiwan, China, and South Korea.	• Expand the lineup of performance that can respond to customer needs. • Strengthen marketing to East Asia where customers are concentrated.
Pharmaceutical excipients Pre-mixed excipient (GRANFILLER-D)	• Response to the arrival of aging society	• Expand the product lineup and customize to suit the needs of customers. • Make further improvement of raw materials and formulations.
Compounding business of cosmetic material	• Increase of new manufacturers to compete in cosmetics market.	• Develop materials with distinctive features, and make proposal. Build a foundation for compound business.

Silver nano material	Ultra-Dispersed Diamonds	Visible Light Response-type Photocatalyst
Synthesize low-temperature sintering silver nanoparticles which suit customer applications; develop ink formulation, scale-up.	Design material for functional expression and build its production technology.	Evaluate the market domains that can best take advantage of the features; and make product design (coating solution design).

3 Enhancement of Production Foundations

The Daicel Group is committed to expediting the creation of new businesses and reinforcing existing ones in order to deliver the “best solutions” to its customers. To this end, we will continue working hard to strengthen our production foundation, which is a crucial part of our commitment. By combining our problem-solving capabilities (acquired in new business creation and process innovation) with our problem-identifying capabilities (gained by well-honed skills and capabilities of workers at our production bases), we will achieve synergistic benefits and build frameworks for strengthening both capabilities.

Enhancement of common foundations for production

Enhancement of common foundations for MONOZUKURI

Daicel Highlights of the Year

Equity investment in Toyama Filter Tow Co., Ltd.

On May 1, 2013, Toyama Filter Tow Co., Ltd.—established in October 2012 through a spin-off by Mitsubishi Rayon Co., Ltd. (MRC)—became a joint venture between Daicel and MRC. Under the arrangement, Daicel supplies Toyama Filter Tow with cellulose acetate, a key material for that company's business, while Daicel and MRC purchase Toyama Filter Tow's products and sell them independently as before.

Increased production capacity of acetate tow for cigarette filters

With respect to acetate tow for cigarette filters, in July 2013 Daicel expanded production facilities at its Ohtake Plant and increased the manufacturing capacity of the Aboshi Plant at the Himeji Production Sector. Together, these actions increased Daicel's acetate tow manufacturing capacity by around 10%. We will continue working to reinforce our acetate tow business in the future.

4 April	5 May	6 June	7 July	8 August	9 September

2013

Sales company established by Polyplastics in Mexico

Daicel Group member Polyplastics Co., Ltd. has established a sales company in Mexico called Polyplastics Marketing Mexico, S.A. de C.V. The new company began operation in October 2013. With a foothold in Mexico, we can now provide more meticulous responses to Japanese clients with operations in North and Latin America. With the help of Polyplastics USA, Inc., a sales company in the U.S., the new company will also offer support for U.S. companies advancing into Asia.

Relocation and expansion of DCTC

Addressing the shift of new medicine development into Asia, Daicel Chiral Technologies (China) Co., Ltd. (DCTC) has relocated its operations and strengthened and upgraded its capabilities in the growing areas of custom separation services and chiral column sales, as well as in chiral reagent development, its new initiative. To mark this event, in October 2013 DCTC hosted its 2nd Chiral Technology Symposium in Shanghai. At the symposium, it held seminars and guided tours of its new R&D laboratory, thus deepening understanding of the Daicel Group's chiral operations among business partners and local university students, staff and faculty.

Commercial manufacture and sales of automobile airbag inflators in South Korea

Daicel Safety Systems Korea, Inc. (DSSK) was established in South Korea as part of the Daicel Group's global expansion strategy for its automobile airbag inflator business. DSSK began commercial manufacture and sales in December 2013. The Group now has six hubs around the world for production and sales of airbag inflators and will continue upgrading its global optimal supply system.

New medium-term plan 3D-Ⅱ announced

In February 2014, the Daicel Group announced 3D-Ⅱ, its new medium-term plan covering the period from April 2014 to March 2017. This is the second stage of the 3D Step-up Plan aimed at achieving the Group's long-term vision, entitled Grand Vision 2020. (For more details, please refer to page 11.)

10 October | 11 November | 12 December | 2014 | 1 January | 2 February | 3 March

Increased POM polymerization capacity in Malaysia

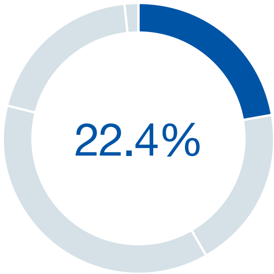
Polyplastics Co., Ltd. has increased the polymerization capacity for polyacetal (POM) resin at Polyplastics Asia Pacific Sdn. Bhd. in Malaysia, with commercial production having begun in January 2014. Accordingly, the Polyplastics Group has one of the world's largest POM resin supply capabilities. The new expanded plant in Malaysia features the latest equipment to ensure reliable product quality, and also deploys the world's most advanced energy-saving processes to maximize cost-competitiveness. Going forward, we will broaden our target market to cover not only China and the rest of Asia but also Europe, Americas, and the entire world.

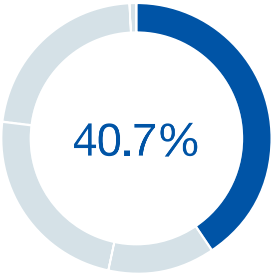
Review of Operations

At a Glance

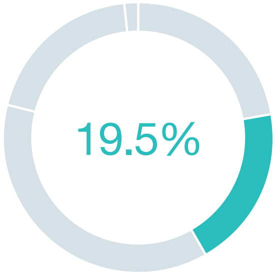
Business Segment	Sales Total 413.8 billion yen	Operating Income Total 37.9 billion yen

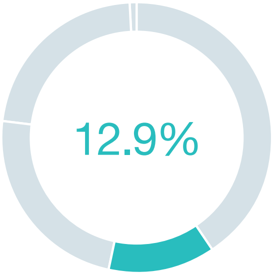
Cellulosic Derivatives



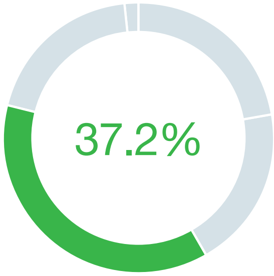


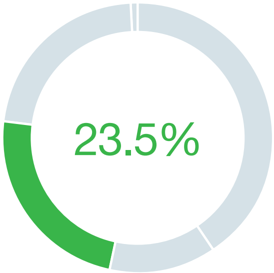
Organic Chemicals



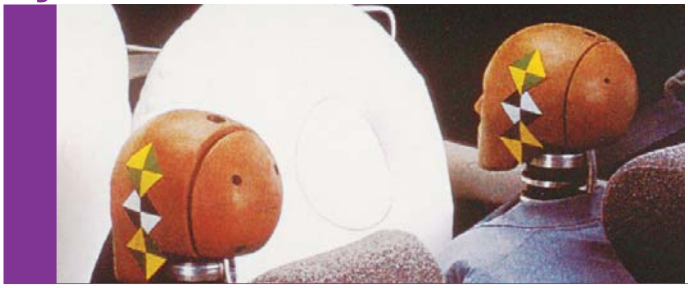


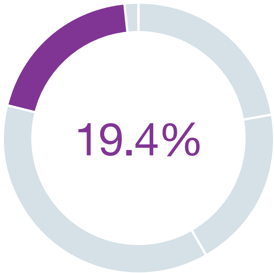
Plastics and Films

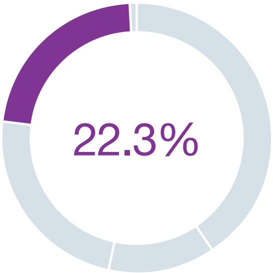




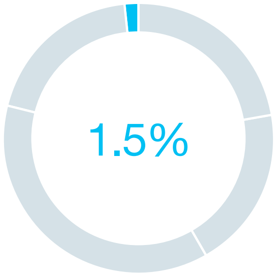
Pyrotechnic Devices

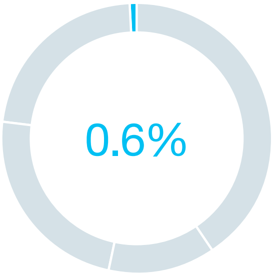






Functional Products and Others





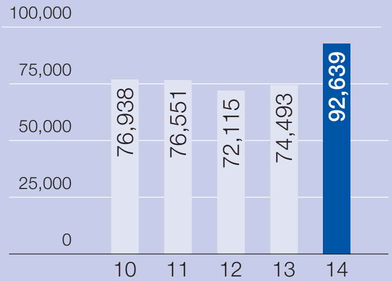
Major Products	Uses	Market Position
Cellulose acetate	LCD films, acetate fibers, photographic films, plastics	Overwhelming market share in the manufacture and sale of triacetyl cellulose (TAC) used in films for LCDs Stable supplier of acetate tow for cigarette filters to a number of leading cigarette manufacturers
Acetate tow	Cigarette filters	
Carboxymethyl cellulose (CMC) and other water-soluble polymers (WSP)	Foods, pharmaceuticals, cosmetics, adhesives, textiles, mud stabilizers, thickeners	
Acetate plastics Celluloid	Frames for glasses, other products	
Acetic acid and its derivatives	Cellulose acetate, vinyl acetate, pure terephthalic acid (PTA), solvents, pharmaceuticals	One of the leading manufacturers of acetic acid in Asia World's largest manufacturer of chiral columns used for the separation of optical isomers
Commodity organic chemicals	Solvents, electronic materials, agricultural chemicals, pharmaceuticals	
Functional chemicals	Electronic materials, cosmetics, polyurethane, epoxy resins, fine coating	
Chiral columns, separation services	Pharmaceuticals, chemical analysis	
Polyacetal (POM) Polybutylene terephthalate (PBT) Liquid Crystal Polymer (LCP) Polyphenylene sulfide (PPS) Cyclic-olefin copolymer (COC) ABS resins and alloys Polystyrene sheets and plastics products	Electric and electronic parts, automotive parts IT and communication device parts, household appliances	The top rank in the world for POM; the top rank in Japan for PBT; the top rank on a global basis for LCP
Functional coating films	Moisture-proof package for foods	
Airbag inflators	Automobile airbag systems, seat-belt pretensioners	The top manufacturer of automobile airbag inflators in Japan
Aircrew emergency escape systems, rocket motors, propellants	Uses for Japanese Self-Defence Forces	
Separation membrane modules	Water treatment	

19 P
20 P
21 P
22 P
23 P

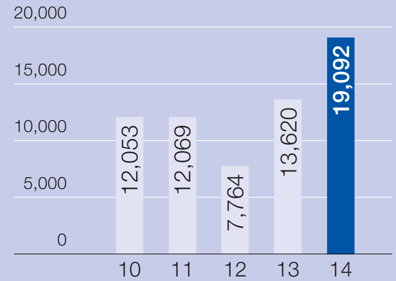
Review of Operations

Cellulosic Derivatives

Sales to External Customers
(Millions of yen)



Operating Income
(Millions of yen)



Operations

	Millions of yen				
Years ended March 31	2010	2011	2012	2013	**2014**
Sales to external customers	¥ 76,938	¥ 76,551	¥ 72,115	¥ 74,493	**¥ 92,639**
Intersegment sales	2,680	2,782	2,629	2,530	**2,396**
Total sales	79,618	79,333	74,744	77,023	**95,035**
Operating income	¥ 12,053	¥ 12,069	¥ 7,764	¥ 13,620	**¥ 19,092**
Total assets	¥ 96,558	¥ 87,712	¥ 80,657	¥ 85,793	**¥ 94,879**
Depreciation	15,509	12,755	9,963	7,578	**7,632**
Capital investments	4,729	908	3,053	5,936	**7,120**

Overview

The Cellulosic Derivatives Segment, which endeavors to further cultivate its cellulosic chemical technologies based on the celluloid manufacturing technologies in use since the establishment of Daicel, produces and sells a wide range of cellulosic derivatives.

Today, our lineup includes cellulose acetate, which is used for applications ranging from liquid crystal displays (LCD) and photographic films to 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 are its commanding share in the manufacture and sale of triacetyl cellulose (TAC) used in film for LCDs, as well as its integrated production system for acetic acid, cellulose acetate, and acetate tow.

Performance

In the fiscal year ended March 2014, sales to external customers amounted to ¥92,639 million, up 24.4% year on year.

Sales of cellulose acetate increased due to an increase in cigarette filter applications despite a decline in demand for LCD film applications.

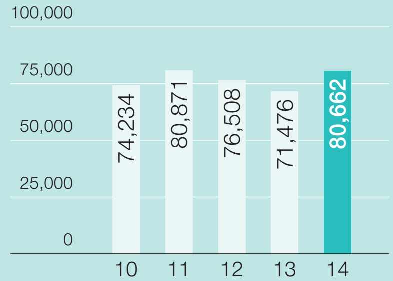
Sales of acetate tow for cigarette filters increased buoyed by the launch of a joint venture business, Toyama Filter Tow Co., Ltd., the production capacity increase at our Ohtake and Aboshi Plants, strong sales in most international markets, the selling price correction and changes in foreign exchange rates, despite decreased production at the Aboshi Plant due to the implementation of the scheduled biennial repair.

Operating income rose to ¥19,092 million (up 40.2% year-on-year), reflecting the price adjustment, changes in foreign exchange rates and other factors.

Organic Chemicals

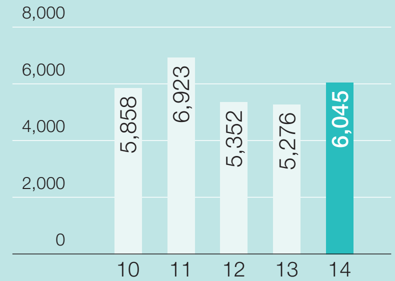
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Operations

	Millions of yen				
Years ended March 31	2010	2011	2012	2013	2014
Sales to external customers	¥ 74,234	¥ 80,871	¥ 76,508	¥ 71,476	¥ 80,662
Intersegment sales	10,953	14,384	15,054	15,103	18,984
Total sales	85,187	95,255	91,562	86,579	99,646
Operating income	¥ 5,858	¥ 6,923	¥ 5,352	¥ 5,276	¥ 6,045
Total assets	¥ 74,404	¥ 69,095	¥ 66,499	¥ 67,277	¥ 67,932
Depreciation	8,493	8,099	6,950	5,387	4,919
Impairment loss on fixed assets	857	245	375	53	—
Capital investments	5,637	2,627	4,553	3,844	3,836

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 separation business including chiral separation columns.

Acetic acid is one of Daicel's mainstay products, and Daicel is one of the leading manufacturers of this product in Asia. As the top manufacturer of peracetic acid derivatives in the world, Daicel has an excellent opportunity to expand its business.

We also hold the top share worldwide in sales of chiral columns used for the separation of optical isomers. We have established operations in China and India, where there has been a dramatic expansion in the research and development of chiral compounds, primarily as research consigned by European and U.S. pharmaceutical companies. Thus, we are now operating across five networks in the world: Japan, the U.S., Europe, China and India.

Performance

In the fiscal year ended March 2014, sales to external customers amounted to ¥80,662 million, up 12.9% year on year.

Sales of acetic acid, the segment's principal product, grew thanks to an increase in sales volume for vinyl acetate and solvent applications, the selling price correction and changes in foreign exchange rates, despite the implementation of the scheduled biennial repair of the Aboshi Plant and a decline in demand for purified terephthalic acid.

Other organic chemicals, including acetic acid derivatives and solvents, posted an increase in sales revenue buoyed by an increased sales volume for LCD panels and other electronic materials as well as changes in foreign exchange rates, despite a decreased sales volume of coating applications.

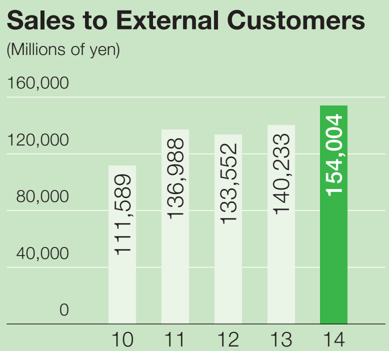
Growth of sales revenue was also registered for organic designed products such as caprolactone derivatives and epoxy compounds, backed by an increased sales volume for electronic materials and changes in foreign exchange rates.

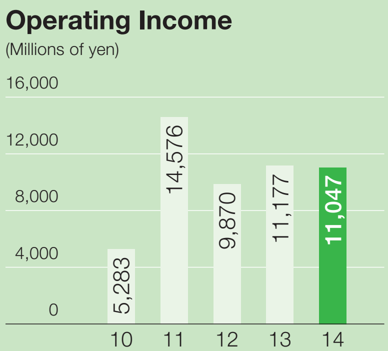
The chiral separation business, such as optical resolution columns, also experienced an increase in sales thanks to steady column sales for China and India, as well as changes in foreign exchange rates.

Operating income was ¥6,045 million (up 14.6% year-on-year) due partly to the selling price correction and changes in foreign exchange rates.

Review of Operations

Plastics and Films





Operations

	Millions of yen				
Years ended March 31	2010	2011	2012	2013	2014
Sales to external customers	¥ 111,589	¥ 136,988	¥ 133,552	¥ 140,233	¥ 154,004
Intersegment sales	5	10	12	7	2
Total sales	111,594	136,998	133,564	140,240	154,006
Operating income	¥ 5,283	¥ 14,576	¥ 9,870	¥ 11,177	¥ 11,047
Total assets	¥ 123,300	¥ 124,173	¥ 120,239	¥ 148,113	¥ 168,922
Depreciation	7,215	6,459	6,550	5,715	5,090
Impairment loss on fixed assets	—	74	—	—	—
Amortization of goodwill	—	—	—	77	389
Capital investments	2,732	3,430	6,498	13,044	10,084

Overview

The Plastics and Films Segment consists of several businesses, notably the engineering plastics business, which includes polyacetal (POM), polybutylene terephthalate (PBT), polyphenylene sulfide (PPS), and liquid crystal polymers (LCP); the resin compound business, such as high performance polymer alloys; and the plastic processing business, such as polystyrene-based sheets, molded packages, and functional coating films.

Polyplastics Co., Ltd., a Daicel subsidiary, is responsible for the engineering plastics business. With the world's largest market share in engineering plastics like POM and LCP, Polyplastics supplies products for a wide range of applications mainly in the electronics and automobile industries but also for precision machinery, construction materials, and household appliances. The market for engineering plastics has been concentrated in the Asia-Pacific region but is now expanding worldwide.

Daicel Polymer Ltd., also a subsidiary, manufactures and markets plastic compounds and polystyrene sheets. Daicel Polymer focuses on supplying high performance products, such as polymer alloys that combine the advantages of two types of resin and reinforced grade using special fillers. The company 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, Guangzhou, Singapore, and Thailand.

Performance

In the fiscal year ended March 2014, sales to external customers amounted to ¥154,004 million, up 9.8% year on year.

The engineering plastics business, such as polyacetal (POM), polybutylene terephthalate (PBT) and liquid crystal polymers (LCP), is operated by the Polyplastics Co., Ltd. Group whose closing month is December. During the fiscal year under review, sales increased, buoyed by an increase in overseas automobile production and changes in foreign exchange rates, despite a decrease in domestic automobile production volume and weak sales of electronic device products.

In the resin compound business, which is focused on ABS resins and engineering plastic alloy resins, sales increased supported by the solid performance of automotive and other parts, as well as the selling price correction.

The plastic processing business—which includes sheets, molded containers and films—also posted an increase in sales as a result of strong sales of molded containers and the selling price correction.

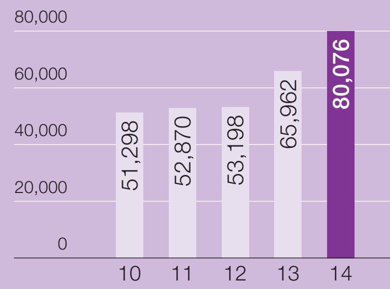
Operating income was ¥11,047 million (down 1.2% year-on-year) due partly to an increase in expenses related to the construction of the engineering plastic global business structure.

Review of Operations

Pyrotechnic Devices

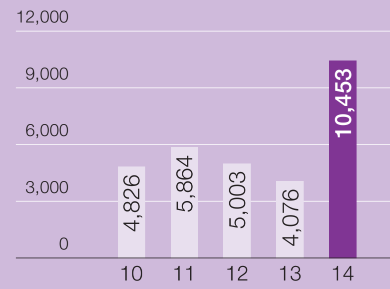
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Operations

	Millions of yen				
Years ended March 31	2010	2011	2012	2013	**2014**
Sales to external customers	¥ 51,298	¥ 52,870	¥ 53,198	¥ 65,962	**¥ 80,076**
Total sales	51,298	52,870	53,198	65,962	**80,076**
Operating income	¥ 4,826	¥ 5,864	¥ 5,003	¥ 4,076	**¥ 10,453**
Total assets	¥ 52,140	¥ 48,459	¥ 58,736	¥ 80,401	**¥ 82,264**
Depreciation	4,613	4,632	3,998	4,551	**5,208**
Amortization of goodwill	—	—	—	741	**447**
Capital investments	3,005	2,067	3,667	15,737	**3,687**

Overview

The Pyrotechnic Devices Segment consists of two main businesses the motor vehicle safety device business, which handles inflators (gas-generating devices) for automobile airbags and seatbelt pretensioner gas-generating (PGG) devices; and the aerospace & defense business, made up mainly of pilot emergency escape systems, propellants, and rocket motors.

The Company's automobile airbag inflators, which are highly regarded and considered as essential components in the constantly advancing technology for airbag systems, maintain a global market share close to 20%.

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

Performance

In the fiscal year ended March 2014, sales to external customers amounted to ¥80,076 million, up 21.4% year on year.

Automobile airbag inflators and PGG recorded sales growth. This is attributable to the continued expansion of the North American automobile market, a recovery in Japanese automobile sales in China and last-minute demand before the consumption tax hike.

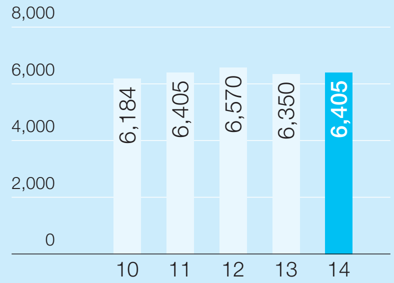
Meanwhile, the aerospace & defense business posted a sales decline due to reduced procurement of certain products by the Ministry of Defense.

Operating income surged to ¥10,453 million (up 156.5% year-on-year), reflecting an increased sales volume, changes in foreign exchange rates and other factors.

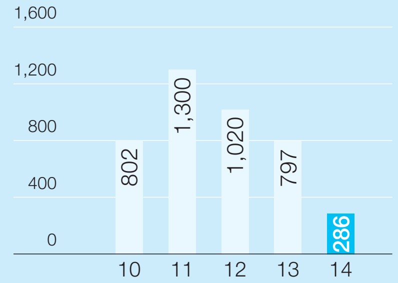
Review of Operations

Functional Products and Others

Sales to External Customers
(Millions of yen)



Operating Income
(Millions of yen)



Operations

	Millions of yen				
Years ended March 31	2010	2011	2012	2013	2014
Sales to external customers	¥ 6,184	¥ 6,405	¥ 6,570	¥ 6,350	¥ 6,405
Intersegment sales	9,369	10,133	9,480	9,784	9,571
Total sales	15,553	16,538	16,050	16,134	15,976
Operating income	¥ 802	¥ 1,300	¥ 1,020	¥ 797	¥ 286
Total assets	¥ 7,297	¥ 7,165	¥ 7,065	¥ 7,873	¥ 9,103
Depreciation	313	300	264	244	272
Capital investments	109	288	193	255	270

Performance

In the fiscal year ended March 2014, sales to external customers amounted to ¥6,405 million, up 0.9% year on year.

The membrane business, such as separation membrane modules for water treatment, posted growth in sales thanks to healthy demand for the sewage sector.

Sales declines were seen in the transportation and warehousing business and other business areas.

Operating income was ¥286 million (down 64.2% year-on-year).

Research and Development

The 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 deliver to the market a continuous stream of creative, highly distinctive products, embodying proprietary technologies. The Daicel Group recognizes that research and development is a key factor to 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 cellulose chemistry, organic synthesis chemistry, polymer chemistry, and pyrotechnic engineering.

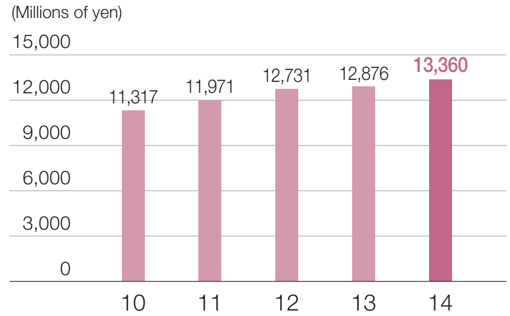
R&D Activities for this Fiscal Year

The Daicel Group (Daicel Corporation and consolidated subsidiaries) engages in R&D aimed at further expanding existing businesses and creating new ones.

On July 1, 2013, the Cellulose Company closed its existing Planning & Development Office and Business Planning Group, and established a new Business Planning Office, with the aims of identifying new R&D themes, as well as product and business opportunities, and bringing them to commercial application. Within the new Business Planning Office, we set up the Planning & Development Group and Commercialization Group, and the Functional Materials Development Center, previously under the Planning & Development Office, is now under the direct jurisdiction of the president of the Cellulose Company.

Consolidated R&D expenses amounted to ¥13,360 million in the fiscal year ended March 2014. The Group has 1,004 employees, representing 10% of the Group's total employees, engaged in R&D activities.

Research and Development Expenses



R&D Initiatives by Business Segment

The main research themes, objectives and expenses for R&D undertaken by each of the business segments during the year under review are presented in the accompanying table. We plan to invest ¥14,000 million in R&D in the fiscal year ending March 2015.

Business Segment	R&D Main Themes	R&D Expenses
Cellulosic Derivatives	• Raising production capacity and improving the quality of cellulose acetate • Strengthening production technology and improving the quality of filter tow • Development of new applications and products using existing products and technologies	¥ 842 million
Organic Chemicals	• Research into improving acetic acid manufacturing technologies; development of new organic derivatives; and development and commercialization of organic-designed products • Development of optical isomer separation columns and applying such technologies to develop related products • Development of high-performance materials, such as LED encapsulants, light sources, and optical materials	¥2,525 million
Plastics & Films	• Enhancement of quality and environmental responsiveness of engineering plastics; development of high-performance resins and polymer alloys; and development of styrene products	¥4,077 million
Pyrotechnic Devices	• R&D on new gas-generating agents and new inflators for automobile airbags; and development of propellants • Application of pyrotechnic devices to develop products in new fields	¥2,631 million
Functional Products & Others	• Development of membrane separation systems	¥ 138 million
Company-Wide R&D	• R&D on creation of new businesses; and basic research that cannot be allocated to any specific segment • Development of functional chemical products and functional films for the electronics market; and development of functional materials for advanced fields, such as the environment and healthcare fields	¥3,144 million

Corporate Governance

The Daicel Group seeks to increase corporate value by strengthening its corporate governance and endeavors to maintain sound company management by enhancing management transparency and fairness.

Corporate Governance

Daicel is a company with Board of Corporate Auditors. We appoint several external directors and ensure the appropriateness of the management decisions and strengthen the supervisory function of the Board of Directors by soliciting their opinions and advice based on wisdom and experience. We have also adopted an executive officer system in an attempt to separate the management decision-making and supervisory functions from the business execution functions and strengthen the structure for business execution. Further measures to improve corporate governance include the introduction of the in-house company system, establishing fully integrated management of the manufacturing, sales, and research operations, taking steps to increase the productivity and strengthen the strategic capabilities of the Corporate division.

Board of Directors

Daicel's Board of Directors consists of seven directors, two of whom have been externally appointed. The Board of Directors meets, in principle, once a month to make decisions concerning important management issues in line with the regulations for the Board of Directors meetings. Furthermore, the Board of Directors supervises the execution of operations.

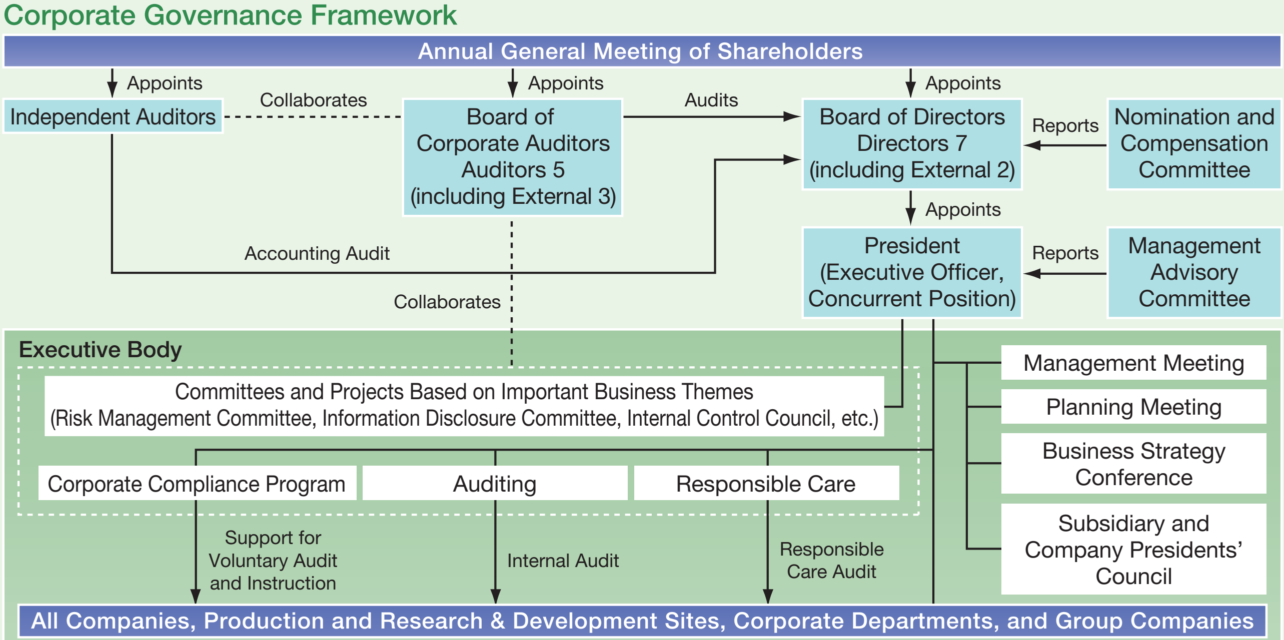
At Daicel, external directors are tasked with providing advice and supervisory functions based on their experience and expertise. Two of the external directors are independent directors.

The term of office for Daicel's directors is one year. Such a short term of office enables Daicel shareholders to be better involved with the appointment of directors. At the same time, it allows us to better clarify the management responsibilities of our directors and thereby reinforce our corporate governance.

Management Meeting

The Management Meeting has been established as a forum for the president and others to discuss and make decisions concerning the implementation of basic management

Corporate Governance Framework



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

(As of June 20, 2014)

policies set by the Board of Directors. The Management Meeting is convened twice per month, in principle, and is attended by the president, directors (expect external), corporate auditors (expect external), and executive officers appointed by the president.

Board of Corporate Auditors

The Board of Corporate Auditors is comprised of five auditors, including three external auditors. Each auditor attends the Board of Directors meetings. Corporate auditors also attend Management Meetings, Risk Management Committee Meetings, and other important meetings to provide audit oversight to the execution of Company business.

Meanwhile, the Company's corporate auditors all together form the Board of Corporate Auditors. The Board of Corporate Auditors holds meetings to report, deliberate and makes decisions on important issues relating to the Company's audits.

Corporate Auditors receive reports from the Company's internal auditing division and independent accounting auditors on a regular basis. They also exchange information and opinions as necessary and otherwise perform audits in a spirit of mutual cooperation. All three of the Company's external auditors are independent auditors.

Auditing Office

Regarding the Company's internal auditing system, an Auditing Office has been set up to fulfill the internal auditing functions within the executive body. The Auditing Office conducts periodic internal audits of each business department and Group company.

Internal Control System

Daicel works to administer and enhance its efficient and effective internal control systems in accordance with its basic policies concerning the development of internal control systems formulated by the Board of Directors. We believe that these systems help the Daicel Group sustain steady growth.

To accurately grasp the status of the entire Group and regularly discuss initiatives aimed at ensuring the effective functioning of internal control systems, Daicel has established an Internal Control Council.

The Auditing Office assesses the effectiveness of the Company's internal control over financial reporting to prepare and submit a report to the Financial Services Agency (FSA) every year. Through these activities, the Auditing Office is striving to ensure the reliability and transparency of Daicel's financial reporting.

Risk Management

Daicel established the Risk Management Committee in 2006 as an organization to coordinate and promote companywide risk management activities. Since its establishment, the Risk Management Committee has guided the entire Company in conducting risk management activities.

The Company actively conducts a review in each department to identify risks that could significantly hinder the achievement of its business objectives. Any risks identified are entered in the intranet database, together with countermeasures aimed at preventing such risks from materializing or minimizing the impact of the risks that do materialize. All departments assign priority levels and implement specific countermeasures, and the progress of the countermeasures is regularly recorded (when new risks are identified, they are also entered into the database). Each department carries out risk management activities using the database to apply the Plan-Do-Check-Act (PDCA) cycle. Daicel Group companies in Japan and overseas carry out similar risk management activities.*

The Risk Management Committee verifies the progress of countermeasures taken by departments and Group companies on a regular basis, providing advice and support as necessary. The Committee also keeps abreast of the situation by receiving fiscal year-end activity reports from departments and Group companies.

* Some overseas Group companies are excluded from database usage.

Board of Directors and Auditors/ Executive Officers (As of June 20, 2014)

PRESIDENT
Misao Fudaba

DIRECTOR
Masumi Fukuda

BOARD OF DIRECTORS AND CORPORATE AUDITORS

PRESIDENT
Misao Fudaba

DIRECTORS
Masumi Fukuda
Yoshimi Ogawa
Hisao Nishimura
Noboru Goto
President of Polyplastics Co., Ltd.

EXTERNAL DIRECTORS
Akishige Okada
Advisor of Sumitomo Mitsui Banking Corporation

Tadao Kondo
Senior Advisor of Nippon Shokubai Co., Ltd.

CORPORATE AUDITORS
Hitoshi Oya
Tsuyoshi Kihara

EXTERNAL CORPORATE AUDITORS
Kunie Okamoto
Chairman of Nippon Life Insurance Company

Toshio Takano
Lawyer

Ryo Ichida
Certified Public Accountant

EXECUTIVE OFFICERS

CHIEF EXECUTIVE OFFICER
Misao Fudaba

SENIOR MANAGING EXECUTIVE OFFICERS
Masumi Fukuda
General Manager of Corporate Support Center, Responsible for Corporate Compliance Program and Business Process Innovation

Tetsuzo Miyazaki
Responsible for Organic Chemical Products Company and Aerospace & Defense Systems/Safety Systems Company

MANAGING EXECUTIVE OFFICERS
Masayuki Mune
Responsible for Cellulose Company and Raw Material Purchasing Center

Yuji Iguchi
General Manager of Corporate Planning, New Business Planning and Topas Business Group

Yoshimi Ogawa
General Manager of Production Technology Headquarters, Responsible for Responsible Care and Engineering Center

Hisao Nishimura
General Manager of R&D Headquarters, Responsible for Intellectual Property Center

EXECUTIVE OFFICERS
Yasunori Iwai
Assistant General Manager of Production Technology Headquarters

Naohide Hakushi
General Manager of Ohtake Plant

Hidekage Kojima
President of Cellulose Company

Dieter Heckmann
General Manager of CPI Global Operations, Responsible for CPI Company, President of Chiral Technologies, Inc., Chiral Technologies Europe S.A.S. and Daicel Chiral Technologies (India) Pvt. Ltd.

Takahiko Ando
General Manager of Himeji Production Sector and Aboshi Plant

Tetsuaki Nonaka
Division Manager of Process Technology Division, Production Technology Headquarters

Satoshi Sakamoto
President of Aerospace & Defense Systems/ Safety Systems Company, President of Special Devices, Inc.

Hisanori Imanaka
General Manager of Raw Material Purchasing Center

Yasuhiro Sakaki
President of Organic Chemical Products Company

Koutarou Sugimoto
President of Daicel Logistics Service Co., Ltd.

Financial Section

Eleven Year Summary

Years ended March 31

	2004	2005	2006	2007
For the year:				
Net sales	¥ 281,740	¥ 306,335	¥ 335,520	¥ 381,423
Operating income	21,207	28,553	33,570	36,399
Income before income taxes and minority interests	8,055	22,380	29,386	33,185
Net income	5,166	10,844	14,221	17,438
Amounts per common share (yen):				
Net income	¥ 14.21	¥ 29.82	¥ 39.16	¥ 48.19
Cash dividends applicable to the year	6.00	8.00	8.00	8.00
Capital expenditures	¥ 20,991	¥ 25,377	¥ 59,018	¥ 55,316
Depreciation and amortization	24,514	22,490	22,484	23,774
Research and development expenses	11,085	11,219	11,221	11,717
At year-end:				
Total current assets	¥ 141,233	¥ 160,541	¥ 172,344	¥ 206,670
Total assets	381,485	413,493	483,469	547,432
Total current liabilities	105,093	102,779	133,420	152,556
Total long-term liabilities	88,684	110,875	121,159	152,467
Total equity*1	160,479	171,225	197,780	242,409
Ratios:				
Current ratio (%)	134.4	156.2	129.2	135.5
Shareholders' equity ratio (%)*2	42.1	41.4	40.9	39.5
Return on assets (%)	1.4	2.7	3.2	3.4
Return on equity (%)	3.3	6.5	7.7	8.4
Ratio of net income to net sales (%)	1.8	3.5	4.2	4.6
Assets turnover (times)	0.7	0.8	0.7	0.7
Tangible fixed assets turnover (times)	1.7	1.9	1.8	1.8
Other information:				
Price range of common stock (yen):				
High	¥ 501	¥ 597	¥ 1,017	¥ 1,050
Low	374	441	516	739
Exchange rate at year-end (yen per U.S.$1)	¥ 106.00	¥ 107.00	¥ 117.00	¥ 118.00
Number of employees (at year-end)	5,604	5,819	6,248	7,034

*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

2008	2009	2010	2011	2012	2013	2014
¥ 416,990	¥ 377,980	¥ 320,243	¥ 353,685	¥ 341,943	¥ 358,514	**¥ 413,786**
32,164	10,590	20,856	32,711	20,426	26,197	**37,912**
27,145	6,272	16,911	29,713	19,962	25,283	**40,824**
13,676	1,297	11,070	16,803	11,827	15,373	**22,844**
¥ 37.86	¥ 3.62	¥ 31.10	¥ 47.22	¥ 33.46	¥ 43.71	**¥ 64.98**
8.00	8.00	10.00	10.00	10.00	12.00	**15.00**
¥ 46,930	¥ 25,666	¥ 18,424	¥ 11,753	¥ 17,394	¥ 26,067	**¥ 28,026**
29,576	39,674	37,782	33,529	28,849	24,605	**24,257**
12,004	12,046	11,317	11,971	12,731	12,876	**13,360**
¥ 207,834	¥ 185,547	¥ 180,232	¥ 197,909	¥ 197,170	¥ 232,201	**¥ 261,046**
515,618	445,912	428,377	411,071	398,197	461,513	**509,834**
158,230	151,158	102,167	90,746	101,828	113,226	**115,894**
118,240	83,266	97,205	84,988	61,657	85,387	**98,135**
239,148	211,488	229,005	235,337	234,712	262,900	**295,805**
131.3	122.8	176.4	218.1	193.6	205.1	**225.2**
41.4	42.3	48.1	51.6	54.7	52.2	**52.7**
2.6	0.3	2.5	4.0	2.9	3.6	**4.7**
6.4	0.6	5.6	8.0	5.5	6.7	**9.0**
3.3	0.3	3.5	4.8	3.5	4.3	**5.5**
0.8	0.8	0.7	0.9	0.9	0.8	**0.9**
1.9	1.8	1.7	2.2	2.4	2.5	**2.7**
¥ 921	¥ 677	¥ 655	¥ 679	¥ 563	¥ 787	**¥ 933**
488	298	341	363	391	424	**683**
¥ 100.00	¥ 98.00	¥ 93.00	¥ 83.00	¥ 82.00	¥ 94.00	**¥ 103.00**
7,685	7,803	7,665	7,747	8,149	9,233	**9,700**

Management's Discussion and Analysis

Operating Results

Net Sales

In the fiscal year ended March 31, 2014, consolidated net sales amounted to ¥413.8 billion, up ¥55.3 billion, or 15.4%, from the previous year. The increase was due to a rise in sales volume, sales price revisions, and foreign exchange factors.

The fluctuation of the yen against the U.S. dollar during the year had an estimated ¥36.8 billion positive effect on net sales, compared with the previous fiscal year.

Main factors boosting net sales were increased revenues in four business segments. In the Cellulosic Derivatives Segment, sales rose ¥18.1 billion year on year, owing to healthy overseas sales of cigarette filter tow—of which production was increased during the year—as well as sales price revisions and foreign exchange factors. In the Organic Chemicals Segment, sales climbed ¥9.2 billion, thanks to higher sales volume, sales price revisions, and foreign exchange factors. In the Plastics and Films Segment, sales grew ¥13.8 billion. This was due mainly to an increase in overseas automobile production volume, which boosted sales in the engineering plastics business (handled by the Polyplastics Group, which has a December 31 fiscal year-end), as well as foreign exchange factors. In the Pyrotechnic Devices Segment, sales rose ¥14.1 billion. This was due mainly to ongoing expansion of the North American automobile market, recovery in sales of Japanese vehicles in China, increased sales of automobile airbag inflators—stemming from a rush in demand ahead of the consumption tax hike—and foreign exchange factors.

Gross Profit

Gross profit amounted to ¥97.6 billion, up ¥16.7 billion, or 20.7%, from the previous year. The gross margin thus climbed 1.0 percentage point, to 23.6%. Main factors included higher sales volume, sales price revisions, and foreign exchange factors.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥59.7 billion, up ¥5.0 billion, or 9.1%, from the previous year. This was due mainly to costs associated with building a global operating framework for the engineering plastics business, as well as foreign exchange factors. The ratio of SG&A expenses to net sales declined 0.9 percentage point, to 14.4%.

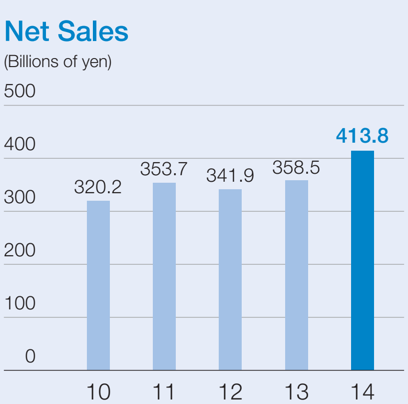
Operating Income

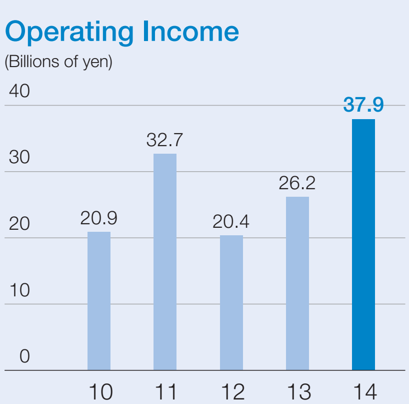
Operating income jumped ¥11.7 billion, or 44.7%, to ¥37.9 billion, and the operating margin rose 1.9 percentage points, to 9.2%. The fluctuation of the yen against the U.S. dollar during the year had an estimated ¥9.1 billion positive effect on operating income, compared with the previous fiscal year.

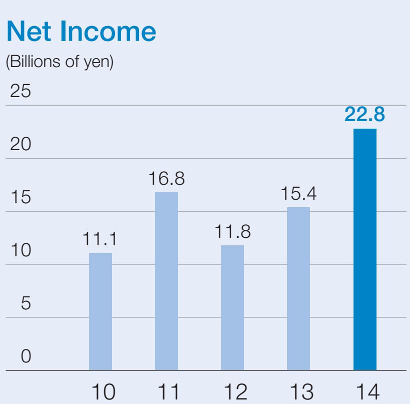
Main factors are as follows. In the Cellulosic Derivatives Segment, operating income increased ¥5.5 billion, due largely to sales price revisions and foreign exchange factors. In the Organic Chemicals Segment, operating income rose ¥0.8 billion, owing mainly to sales price revisions and foreign exchange factors. In the Pyrotechnic Devices Segment, operating income grew ¥6.4 billion, thanks largely to higher sales volume and foreign exchange factors.

Other Income (Expenses)

Other income (net) amounted to ¥2.9 billion, an improvement of ¥3.8 billion from the previous fiscal year.







This was due primarily to foreign exchange gains and gain on sale of investment securities.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests totaled ¥40.8 billion, up ¥15.5 billion, or 61.5%, from the previous year.

Income Taxes

The effective tax rate after application of tax-effect accounting increased 6.7 percentage points, to 36.3%.

Minority Interests in Net Income

Minority interests in net income rose ¥0.7 billion, or 30.7%, to ¥3.2 billion.

Net Income

Net income for the year increased ¥7.5 billion, or 48.6%, to ¥22.8 billion. Return on equity (ROE) rose 2.3 percentage points, to 9.0%.

Per Share Information

Net income per share totaled ¥64.98, up ¥21.27 from the previous year.

Reflecting increases in both consolidated revenue and earnings, the Company paid annual cash dividends of ¥15.00 per share (including a ¥6.00 interim dividend), up ¥3.00 from the previous year. The dividend payout ratio was 23.1%.

Financial Position

Assets

As of March 31, 2014, total assets stood at ¥509.8 billion, up ¥48.3 billion, or 10.5%, from a year earlier. The increase stemmed mainly from rises in notes and accounts receivable, inventories, and investment securities.

Liabilities

Total liabilities amounted to ¥214.0 billion, up ¥15.4 billion, or 7.8%, from a year earlier. This increase was due mainly to issuance of bonds.

Equity

Total equity at fiscal year-end amounted to ¥295.8 billion. Total shareholders' equity (total equity minus minority interests) was ¥268.6 billion, and the shareholders' equity ratio was 52.7%.

Cash Flows

Cash and cash equivalents at the fiscal year-end stood at ¥62.6 billion, up ¥9.3 billion, or 17.5%, from a year earlier.

Cash from Operating Activities

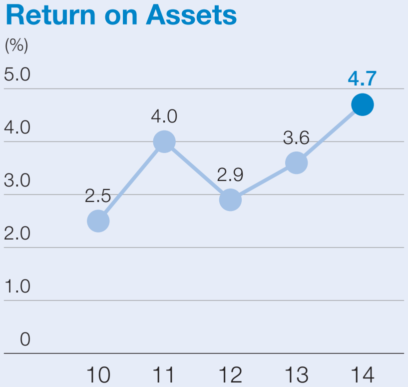
Net cash provided by operating activities amounted to ¥44.8 billion, compared with ¥44.5 billion in the previous fiscal year.

Factors increasing cash flow included income before income taxes and minority interests as well as depreciation and amortization. Factors decreasing cash flow included an increase in notes and accounts receivable as well as income taxes paid.

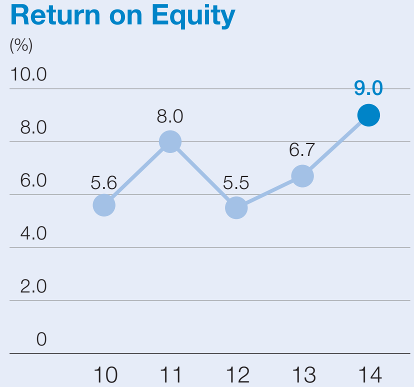
Cash from Investing Activities

Net cash used in investing activities totaled ¥35.0 billion, compared with ¥35.3 billion in the previous fiscal year. The primary factor was purchases of property, plant and equipment.

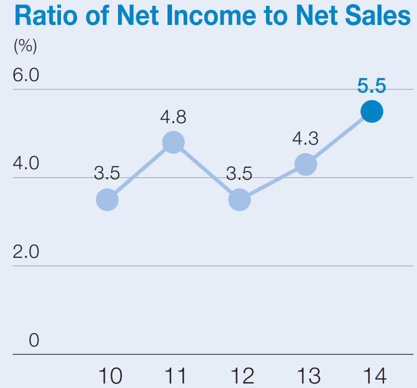
Return on Assets



Return on Equity



Ratio of Net Income to Net Sales



Cash from Financing Activities

Net cash used in financing activities was ¥4.5 billion, compared with net cash provided by financing activities of ¥5.7 billion in the previous year. Factors increasing cash flow included proceeds from issuance of bonds and proceeds from long-term debt. Factors decreasing cash flow included repayments of long-term debt, a net decrease in short-term bank loans, and dividends paid.

Business Risks

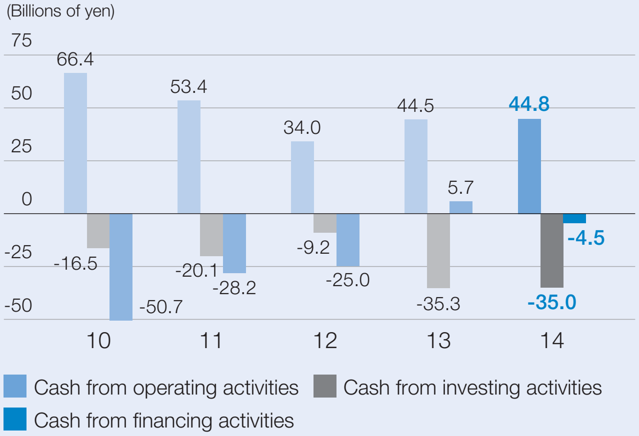
Business risks that may potentially have significant influence on investor decisions include not only risks common to industrial sectors, such as changes in macroeconomic and political conditions, but also the following types of factors. Items listed in this annual report do not necessarily comprise 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 in a general increasing trend (48.2% in the fiscal year ended March 2014), and the Company's results can be more easily influenced by trends in currency exchange. We generally believe that depreciation of the yen has a positive effect on our performance, while appreciation of the yen has a negative effect on our performance. Though the Company executes exchange contracts and other risk-hedging activities, this does not guarantee that exchange risks can be completely avoided.

Cash Flows

(Billions of yen)



Risks in Expanding Overseas Business Operations

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 hiring and retaining qualified employees, and 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 the Daicel Group's consolidated performance and business plans would be affected.

Risks in Procuring Raw Materials

The Daicel Group emphasizes stable procurement of raw materials by purchasing from multiple suppliers and works hard to secure adequate supplies necessary for its production activities. Despite purchasing from multiple suppliers, however, the Group may become reliant on a limited number of suppliers for certain special raw materials. Alternatively, supplies may be suspended due to events affecting a supplier, such as natural disaster, accident, or bankruptcy. Also, a sharp increase in demand could lead to a supply shortage. Any of these cases could have a negative effect on the Group's performance.

Fluctuations in Raw Material (Methanol) Price

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.

Fluctuations 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, reducing costs through improved manufacturing, and revising product sales prices. However, there is a limit as to how much can be absorbed. In the event of escalating costs that exceed certain limits, there is the possibility that this would have a negative impact on Group performance.

Quality Guarantee and Product Liability

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

Industrial Accidents

The Company routinely 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 Co., Ltd., 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.

Risks 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.

Risks Related to Intellectual Property

As stated in its Code of Conduct, the Daicel Group strives to maintain and protect its intellectual property (IP) rights and shall not infringe on the IP rights held by third parties. Based on this, the Group meticulously investigates IP-related information and adopts a strategic approach to the acquisition and management of IP rights, as well as to the conclusion and management of IP-related contracts. However, it is possible that the Group may be subject to an unexpected warning or litigation about infringement of third-party IP rights, or a third party may infringe on the Group's IP rights without permission. Any of these cases could have a negative effect on the Group's performance.

Risks Related to Environmental Regulations

Through its energy-saving and resource-saving initiatives, the Daicel Group works hard to prevent further global warming, reduce the environmental impact of its activities—by effectively using resources and reducing waste, for example—and handle chemical substances in an appropriate manner. Due to tightening of environmental regulations, however, the Group may be forced to make capital expenditures or business reorganizations in order to achieve legal compliance, which could have a negative effect on the Group's performance.

Risks Related to Information Security

In the conduct of its business, the Daicel Group holds large quantities of confidential and personal information. The Group is building management frameworks and conducting employee training programs to ensure appropriate handling of such information, and also constantly introduces and updates its security software to address the changing IT environment. However, unpredictable and unauthorized access by outside parties could cause such information to be leaked or altered, which could have a negative effect on the Group's performance.

Outlook for Fiscal Year Ending March 2015

In the fiscal year ending March 2015, the Daicel Group expects increases in sales volumes for engineering plastics, automobile airbag inflators, and the like amid growth in automobile production. At the same time, we will continue working to reduce costs. For the year, the Group forecasts consolidated net sales of ¥432.0 billion, operating income of ¥41.0 billion, ordinary income of ¥42.0 billion, and net income of ¥24.0 billion.

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 62,574	¥ 53,238	$ 607,515
Marketable securities (Notes 3 and 14)	5,155	628	50,049
Receivables (Notes 14 and 16):			
Trade notes	3,067	3,246	29,777
Trade accounts	81,200	72,728	788,349
Unconsolidated subsidiaries and associated companies	5,811	5,733	56,417
Allowance for doubtful receivables	(168)	(191)	(1,631)
Inventories (Note 4)	89,832	82,977	872,155
Deferred tax assets (Note 10)	3,342	4,436	32,447
Other current assets	10,233	9,406	99,349
Total current assets	261,046	232,201	2,534,427
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 17):			
Land	26,812	26,707	260,311
Buildings and structures	144,510	139,716	1,403,010
Machinery and equipment	540,335	523,253	5,245,971
Construction in progress	24,532	20,545	238,175
Total	736,189	710,221	7,147,467
Accumulated depreciation	(579,151)	(560,897)	(5,622,826)
Net property, plant and equipment	157,038	149,324	1,524,641
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	54,543	45,961	529,544
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	11,890	8,185	115,437
Deferred tax assets (Note 10)	1,278	1,598	12,408
Asset for retirement benefits (Notes 2.i and 7)	2,330		22,621
Other assets	21,709	24,244	210,767
Total investments and other assets	91,750	79,988	890,777
TOTAL	¥ 509,834	¥ 461,513	$ 4,949,845

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 14,553	¥ 19,119	$ 141,291
Current portion of long-term debt (Notes 6, 13, 14 and 16)	19,652	13,211	190,796
Payables (Note 14):			
Trade notes	212	232	2,058
Trade accounts	52,508	47,212	509,787
Construction	3,267	5,527	31,718
Unconsolidated subsidiaries and associated companies	3,358	3,020	32,602
Income taxes payable (Notes 10 and 14)	5,395	5,842	52,379
Other current liabilities	16,949	19,063	164,553
Total current liabilities	115,894	113,226	1,125,184
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 13, 14 and 16)	71,631	66,768	695,447
Liability for retirement benefits (Note 7)	16,087	11,909	156,184
Asset retirement obligations (Note 8)	1,098	1,049	10,661
Deferred tax liabilities (Note 10)	7,411	4,360	71,951
Other long-term liabilities	1,908	1,301	18,525
Total long-term liabilities	98,135	85,387	952,768
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 20)			
EQUITY (Notes 9 and 22)**:**			
Common stock—authorized, 1,450,000,000 shares; issued, 364,942,682 shares in 2014 and 2013	36,275	36,275	352,184
Capital surplus	31,579	31,579	306,592
Retained earnings	183,199	164,928	1,778,631
Treasury stock—at cost 13,590,663 shares in 2014 and 13,226,066 shares in 2013	(6,349)	(6,025)	(61,640)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	20,517	15,002	199,194
Deferred gain (loss) on derivatives under hedge accounting	79	(185)	767
Foreign currency translation adjustments	5,375	(609)	52,184
Defined retirement benefit plans	(2,063)		(20,029)
Total	268,612	240,965	2,607,883
Minority interests	27,193	21,935	264,010
Total equity	295,805	262,900	2,871,893
TOTAL	¥509,834	¥ 461,513	$ 4,949,845

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2013	2012	2014
NET SALES (Note 16)	¥413,786	¥358,514	¥341,943	$ 4,017,340
COST OF SALES (Note 11)	316,207	277,644	271,201	3,069,971
Gross profit	97,579	80,870	70,742	947,369
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	59,667	54,673	50,316	579,291
Operating income	37,912	26,197	20,426	368,078
OTHER INCOME (EXPENSES):				
Interest and dividend income	1,560	1,309	1,571	15,146
Gain on sales of subsidiaries and associated companies' stock			240	
Gain on liquidation of a subsidiary			822	
Gain on sales of investment securities	1,923			18,670
Subsidies from municipal governments (Note 17)	99		1,000	961
Equity in earnings of unconsolidated subsidiaries and associated companies	726	1,148	1,358	7,049
Interest expense	(1,114)	(1,232)	(1,478)	(10,816)
Foreign exchange gain (loss)	1,734	687	(321)	16,835
Loss on dispositions of property, plant and equipment	(1,744)	(1,390)	(1,497)	(16,932)
Impairment loss on fixed assets		(304)	(375)	
Loss on claim compensation (Note 18)	(515)	(1,304)		(5,000)
Loss on closure of business facilities (Note 19)	(680)			(6,602)
Loss on employees' pension fund withdrawal (Note 7)		(567)		
Reduction of cost of property, plant and equipment (Note 17)	(66)		(912)	(641)
Losses from a natural disaster			(435)	
Other—net	989	739	(437)	9,602
Other income (expenses)—net	2,912	(914)	(464)	28,272
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	40,824	25,283	19,962	396,350
INCOME TAXES (Note 10)**:**				
Current	10,732	8,868	4,607	104,194
Deferred	4,086	(1,377)	1,332	39,670
Total income taxes	14,818	7,491	5,939	143,864
NET INCOME BEFORE MINORITY INTERESTS	26,006	17,792	14,023	252,486
MINORITY INTERESTS IN NET INCOME	3,162	2,419	2,196	30,699
NET INCOME	¥ 22,844	¥ 15,373	¥ 11,827	$ 221,787

	Yen			U.S. Dollars
PER SHARE INFORMATION (Notes 2.q and 12)**:**				
Basic net income	¥ 64.98	¥ 43.71	¥ 33.46	$ 0.63
Cash dividends applicable to the year	15.00	12.00	10.00	0.15

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2013	2012	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 26,006	¥ 17,792	¥ 14,023	$ 252,486
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21):				
Unrealized gain (loss) on available-for-sale securities	5,612	3,500	(1,058)	54,485
Deferred gain (loss) on derivatives under hedge accounting	406	(183)	39	3,942
Foreign currency translation adjustments	7,926	8,975	(1,705)	76,951
Share of other comprehensive income (loss) in associates	1,237	561	(1)	12,010
Total other comprehensive income (loss)	15,181	12,853	(2,725)	147,388
COMPREHENSIVE INCOME	¥ 41,187	¥ 30,645	¥ 11,298	$ 399,874
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the parent	¥ 34,607	¥ 26,149	¥ 9,832	$ 335,991
Minority interests	6,580	4,496	1,466	63,883

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen											
						Accumulated Other Comprehensive Income						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2011	355,756,875	¥ 36,275	¥ 31,579	¥ 143,814	¥ (4,195)	¥ 12,517	¥ (154)	¥ (7,783)		¥ 212,053	¥ 23,284	¥ 235,337
Net income				11,827						11,827		11,827
Cash dividends, ¥10.00 per share				(3,893)						(3,893)		(3,893)
Repurchase of treasury stock	(4,018,398)				(1,818)					(1,818)		(1,818)
Disposal of treasury stock	1,765				1					1		1
Effect of change in closing period of certain consolidated subsidiaries				1,093						1,093		1,093
Effect of initial inclusion of certain subsidiaries in consolidation				18						18		18
Net change in the year						(1,009)	39	(605)		(1,575)	(6,278)	(7,853)
BALANCE, MARCH 31, 2012	351,740,242	36,275	31,579	152,859	(6,012)	11,508	(115)	(8,388)		217,706	17,006	234,712
Net income				15,373						15,373		15,373
Cash dividends, ¥12.00 per share				(3,517)						(3,517)		(3,517)
Repurchase of treasury stock	(24,185)				(13)					(13)		(13)
Disposal of treasury stock	559											
Effect of change in closing period of certain consolidated subsidiaries				101						101		101
Effect of initial inclusion of certain subsidiaries in consolidation				112						112		112
Net change in the year						3,494	(70)	7,779		11,203	4,929	16,132
BALANCE, MARCH 31, 2013	351,716,616	36,275	31,579	164,928	(6,025)	15,002	(185)	(609)		240,965	21,935	262,900
Net income				22,844						22,844		22,844
Cash dividends, ¥13.00 per share				(4,573)						(4,573)		(4,573)
Repurchase of treasury stock	(364,778)				(324)					(324)		(324)
Disposal of treasury stock	181											
Net change in the year						5,515	264	5,984	¥ (2,063)	9,700	5,258	14,958
BALANCE, MARCH 31, 2014	351,352,019	¥ 36,275	¥ 31,579	¥ 183,199	¥ (6,349)	¥ 20,517	¥ 79	¥ 5,375	¥ (2,063)	¥ 268,612	¥ 27,193	¥ 295,805

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2013	$ 352,184	$ 306,592	$1,601,242	$ (58,494)	$ 145,650	$ (1,796)	$ (5,913)		$ 2,339,465	$ 212,961	$2,552,426
Net income			221,787						221,787		221,787
Cash dividends, $0.13 per share			(44,398)						(44,398)		(44,398)
Repurchase of treasury stock				(3,146)					(3,146)		(3,146)
Disposal of treasury stock											
Net change in the year					53,544	2,563	58,097	$ (20,029)	94,175	51,049	145,224
BALANCE, MARCH 31, 2014	$ 352,184	$ 306,592	$1,778,631	$ (61,640)	$ 199,194	$ 767	$ 52,184	$ (20,029)	$ 2,607,883	$ 264,010	$2,871,893

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2014, 2013 and 2012

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2014	2013	2012	2014
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	¥ 40,824	¥ 25,282	¥ 19,962	$ 396,350
Adjustments for:				
Income taxes—paid	(11,507)	(3,127)	(8,249)	(111,718)
Depreciation and amortization	24,257	24,605	28,849	235,505
Impairment loss on fixed assets		304	375	
Amortization of goodwill	836	818		8,117
Loss on dispositions of property, plant and equipment	1,744	1,390	1,497	16,932
Gain on sales of investment securities	(1,923)			(18,670)
Equity in earnings of unconsolidated subsidiaries and associated companies	(726)	(1,148)	(1,358)	(7,049)
Reduction of cost of property, plant and equipment	66		912	641
Gain on liquidation of a subsidiary			(822)	
Subsidies from municipal governments	(99)		(1,000)	(961)
Changes in assets and liabilities:				
Notes and accounts receivable	(4,825)	4,626	(6,410)	(46,845)
Inventories	(3,323)	(7,859)	(1,131)	(32,262)
Notes and accounts payable	2,511	664	1,329	24,379
Other—net	(3,057)	(1,075)	47	(29,681)
Net cash provided by operating activities	44,778	44,480	34,001	434,738
INVESTING ACTIVITIES:				
Net decrease (increase) in time deposits	483	262	2,520	4,689
Net decrease (increase) in short-term investment securities	(3,633)	1,000	5,479	(35,272)
Capital expenditures	(28,026)	(26,067)	(17,394)	(272,097)
Payment for purchases of investment securities	(3,711)	(320)	(1,751)	(36,029)
Payment for purchase of consolidated subsidiaries, net of cash acquired (Note 22)		(9,438)		
Proceeds from sales and redemption of investment securities	3,238	327	527	31,437
Proceeds from sales of property, plant and equipment	463	486	10	4,495
Payment for purchases of securities of an associated company	(2,911)			(28,262)
Increase in finance receivables	(41)	(9)	(32)	(398)
Collection of finance receivables	7	40	508	68
Subsidies from municipal governments	99		1,000	961
Proceeds from liquidation of a subsidiary		40	1,237	
Other	(953)	(1,633)	(1,294)	(9,252)
Net cash used in investing activities	(34,985)	(35,312)	(9,190)	(339,660)
FINANCING ACTIVITIES:				
Net change in short-term bank loans	(6,223)	3,331	1,399	(60,417)
Proceeds from issuance of long-term debt	1,015	30,736		9,854
Repayments of long-term debt	(13,355)	(23,898)	(12,970)	(129,660)
Proceeds from issuance of bonds	19,894			193,146
Proceeds from issuance of subsidiary's stock to minority interests		83		
Dividends paid	(4,573)	(3,517)	(3,893)	(44,398)
Dividends paid to minority interests	(906)	(983)	(7,792)	(8,796)
Payment for purchases of treasury stock	(324)	(14)	(1,817)	(3,146)
Other			29	
Net cash used in financing activities	(4,472)	5,738	(25,044)	(43,417)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	4,015	4,221	(28)	38,980
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,336	19,127	(261)	90,641
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		8	157	
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CHANGE IN CLOSING PERIOD OF CONSOLIDATED SUBSIDIARIES		349	(184)	
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM MERGER		318		
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	53,238	33,436	33,724	516,874
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 62,574	¥ 53,238	¥ 33,436	$ 607,515

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

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 ¥103 to $1, the approximate rate of exchange at March 31, 2014. 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, 2014, include the accounts of the Company and its 58 significant (58 in 2013 and 50 in 2012) subsidiaries (collectively, 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 Companies have the ability to exercise significant influence are accounted for by the equity method.

During the year ended March 31, 2014, one newly established subsidiary was included in consolidation. One existing subsidiary was excluded from the consolidation as a result of an absorption-type merger.

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

Investments in one (one in 2013 and 2012) unconsolidated subsidiary and seven (six in 2013 and 2012) associated companies are accounted for by the equity method. During the year ended March 31, 2014, one associated company was included in equity method accounting as a result of purchases of securities.

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

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

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—** 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 that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of research and development (R&D); (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—**In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (3) expensing capitalized development costs 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; and (5) exclusion of minority interests from net income, if contained in net income.

d. **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.

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

f. **Inventories—**Inventories are stated at the lower of cost, determined by the average cost method, or net selling value.

g. **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.

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

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

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

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

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

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

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

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.s).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, asset for retirement benefits of ¥2,330 million ($22,621 thousand) was recorded as of March 31, 2014, accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥2,063 million ($20,029 thousand) and minority interests for the year ended March 31, 2014, decreased by ¥415 million ($4,029 thousand).

j. **Asset Retirement Obligations—**In March 2008, the ASBJ published ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

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

l. **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" under accumulated other comprehensive income in a separate component of equity.

m. **Leases—**In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed 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 was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The revised accounting standard effective April 1, 2008, permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions. The Companies adopted the revised accounting standard, including the transitional treatment.

All other leases are accounted for as operating leases.

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

o. **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.

p. 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 statements of income. 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.

q. 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.

r. Accounting Changes and Error Corrections—Under ASBJ Statement No. 24, “Accounting Standard for Accounting Changes and Error Corrections” and ASBJ Guidance No. 24, “Guidance on Accounting Standard for Accounting Changes and Error Corrections” accounting treatments are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

s. New Accounting Pronouncement

Accounting Standard for Retirement Benefits—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, “Accounting Standard for Retirement Benefits” and ASBJ Guidance No. 25, “Guidance on Accounting Standard for Retirement Benefits,” which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, “deficit or surplus”), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014. The Company expects that the effect of applying (c) will be to increase retained earnings by ¥2,329 million ($22,612 thousand).

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Current:			
Government and corporate bonds	¥ 5,155	¥ 628	$ 50,049
Non-current:			
Equity securities	¥ 52,098	¥ 45,646	$ 505,806
Government and corporate bonds	2,442	311	23,709
Other	3	4	29
Total	¥ 54,543	¥ 45,961	$ 529,544

The costs and aggregate fair values of marketable and investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
	2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 20,862	¥ 30,001	¥ 137	¥ 50,726
Debt securities	7,394	1	9	7,386

	Millions of Yen			
	2013			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 21,517	¥ 23,060	¥ 303	¥ 44,274
Debt securities	700			700

	Thousands of U.S. Dollars			
	2014			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 202,544**	**$ 291,272**	**$ 1,331**	**$ 492,485**
Debt securities	**71,786**	**10**	**87**	**71,709**

Securities whose fair values are not readily determinable as of March 31, 2014 and 2013, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Available-for-sale:			
Equity securities	**¥ 1,371**	¥ 1,372	**$ 13,311**
Debt securities	**211**	239	**2,049**
Other	**4**	4	**39**
Total	**¥ 1,586**	¥ 1,615	**$ 15,399**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2014, 2013 and 2012, were ¥3,238 million ($31,437 thousand), ¥1,327 million and ¥2,762 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥1,923 million ($18,670 thousand) for the year ended March 31, 2014.

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Finished products	**¥ 38,260**	¥ 38,593	**$ 371,456**
Semi-finished products and work in process	**17,489**	14,682	**169,796**
Raw materials and supplies	**34,083**	29,702	**330,903**
Total	**¥ 89,832**	¥ 82,977	**$ 872,155**

5. INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. The rental income for the years ended March 31, 2014 and 2013, were ¥180 million ($1,748 thousand) and ¥44 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2013	Increase/Decrease	March 31, 2014	March 31, 2014
¥ 3,444	¥ (33)	**¥ 3,411**	**¥ 13,027**

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2012	Increase/Decrease	March 31, 2013	March 31, 2013
¥ 3,771	¥ (327)	¥ 3,444	¥ 12,637

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2013	Increase/Decrease	March 31, 2014	March 31, 2014
$ 33,437	$ (320)	**$ 33,117**	**$ 126,476**

Notes:

1) The increase and decrease of items related to rental properties are not disclosed for this fiscal year due to insignificance.
2) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3) Fair values of properties as of March 31, 2014 and 2013, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

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

Short-term bank loans were principally represented by bank overdrafts. Weighted-average annual interest rates of short-term bank loans at March 31, 2014 and 2013, were 1.13% and 0.85%, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
0.84% bonds due 2015	**¥ 10,000**	¥ 10,000	**$ 97,087**
1.69% bonds due 2020	**10,000**	10,000	**97,087**
0.412% bonds due 2018	**10,000**		**97,087**
1.05% bonds due 2023	**10,000**		**97,087**
Unsecured loans from banks and other financial institutions, due through 2023, with interest rates ranging from 0.62% to 6.98% for 2014 (from 0.71% to 6.69% for 2013)	**51,283**	59,979	**497,895**
Total	**91,283**	79,979	**886,243**
Less current portion	**(19,652)**	(13,211)	**(190,796)**
Long-term debt, less current portion	**¥ 71,631**	¥ 66,768	**$ 695,447**

At March 31, 2014, annual maturities of long-term debt were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 19,652	$ 190,796
2016	13,226	128,408
2017	5,255	51,019
2018	14,272	138,563
2019	3,590	34,854
2020 and thereafter	35,288	342,603
Total	¥ 91,283	$ 886,243

The unsecured long-term bank debt of ¥1,000 million ($9,709 thousand) includes the following financial restriction agreement during its payment period. The agreement provides that the amount of shareholder's equity must be maintained at or above ¥137,300 million ($1,333,010 thousand) at every fiscal year-end and semiannual interim period.

7. RETIREMENT AND PENSION PLANS

One domestic consolidated subsidiary having participated in a multiemployer plan, and withdrew from the plan at August 31, 2012. As a condition of the withdrawal, the subsidiary contributed special premiums. Accordingly, the Companies recorded ¥567 million of loss on employees' pension fund withdrawal as other expense.

During the year ended March 31, 2012, one domestic consolidated subsidiary partially transferred from a defined benefit plan to a defined contribution plan. Accordingly, the Companies recorded ¥103 million of loss on transition from a defined benefit plan to a defined contribution plan as other expense.

Year Ended March 31, 2014

(1) The changes in defined benefit obligation (except for cases where the simplified method was applied) for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 31,306	$ 303,942
Current service cost	1,364	13,243
Interest cost	564	5,476
Actuarial losses	2,280	22,135
Benefits paid	(1,462)	(14,194)
Others	290	2,815
Balance at end of year	¥ 34,342	$ 333,417

(2) The changes in plan assets (except for cases where the simplified method was applied) for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 18,527	$ 179,874
Expected return on plan assets	228	2,214
Actuarial gains	3,262	31,670
Contributions from employer	2,097	20,359
Benefits paid	(872)	(8,466)
Others	107	1,038
Balance at end of year	¥ 23,349	$ 226,689

(3) The changes in defined benefit obligation as a result of applying the simplified method for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 2,481	$ 24,087
Retirement benefit cost	238	2,311
Benefits paid	(106)	(1,029)
Contributions from employer	(50)	(485)
Others	110	1,067
Balance at end of year	¥ 2,673	$ 25,951

(4) Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 35,034	$ 340,136
Plan assets	(23,872)	(231,767)
	11,162	108,369
Unfunded defined benefit obligation	2,504	24,311
Net liability arising from defined benefit obligation	¥ 13,666	$ 132,680

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 15,996	$ 155,301
Asset for retirement benefits	(2,330)	(22,621)
Net liability arising from defined benefit obligation	¥ 13,666	$ 132,680

Note: Including defined benefit obligation under the simplified method.

(5) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 1,364	$ 13,243
Interest cost	564	5,476
Expected return on plan assets	(228)	(2,214)
Recognized actuarial losses	689	6,688
Amortization of prior service cost	118	1,146
Amortization of transitional obligation	238	2,311
Net periodic benefit costs	¥ 2,745	$ 26,650

The Companies recorded ¥204 million ($1,981 thousand) of special severance payments as other expense in addition to the costs mentioned above.

(6) Accumulated other comprehensive income on defined retirement benefit plans before adjusting for tax effects as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized actuarial losses	¥ 3,782	$ 36,718

(7) Plan assets

a. Components of plan assets

Plan assets consisted of the following:

Debt investments	34%
Equity investments	46
General accounts of insurance companies	10
Others	10
Total	100%

Note: 40% of total plan assets consisted of a Retirement Benefit Trust.

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

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

(8) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	1.3%
Expected rate of return on plan assets	1.2

(9) The amount of contributions to defined contribution plans for subsidiaries is ¥231 million ($2,243 thousand).

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Liability for retirement benefits" in the consolidated balance sheets. The amounts were ¥91 million ($883 thousand) and ¥75 million at March 31, 2014 and 2013, respectively.

Years Ended March 31, 2013 and 2012

The liability for retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 34,304
Fair value of plan assets	(18,970)
Unrecognized actuarial loss	(5,414)
Unrecognized prior service cost	(118)
Net liability	9,802
Prepaid benefit costs	2,107
Liability for retirement benefits	¥ 11,909

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	Millions of Yen	
	2013	2012
Service cost	¥ 1,651	¥ 1,610
Interest cost	583	599
Expected return on plan assets	(218)	(237)
Recognized actuarial loss	925	943
Amortization of prior service cost	237	237
Loss on transition from a defined benefit plan to a defined contribution plan		103
Other (Contributions to defined contribution plans)	276	131
Net periodic benefit costs	¥ 3,454	¥ 3,386

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013	2012
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.0%	1.0%
Amortization period of prior service cost	5 years	5 years
Recognition period of actuarial gain/loss	10 years	10 years

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Balance at beginning of year	**¥ 1,050**	¥ 1,032	**$ 10,194**
Reconciliation associated with passage of time	**9**	7	**87**
Reduction associated with settlement of asset retirement obligations	**(2)**	(7)	**(19)**
Other	**41**	18	**399**
Balance at end of year	**¥ 1,098**	¥ 1,050	**$ 10,661**

9. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors 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) at any time during the fiscal year 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 (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts 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.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38% for the years ended March 31, 2014 and 2013, and 41% for the year ended March 31, 2012. Foreign subsidiaries are subject to income tax of the countries in which they operate.

A reconciliation between the normal effective statutory tax rates for the years ended March 31, 2014, 2013 and 2012, and the actual effective tax rates reflected in the accompanying consolidated statements of income was as follows:

	2014	2013	2012
Normal effective statutory tax rate	38%	38%	41%
Increase or decrease of valuation allowance	(0)	(1)	
Tax difference of foreign countries	(4)	(5)	(9)
Equity in earnings of associated companies	(1)	(2)	(3)
Amortization of goodwill	1	1	
Tax credit primarily for research and development costs	(2)	(3)	(2)
Effect of subsidiary merger	2		
Effect of tax rate reduction	0		3
Other— net	2	2	
Actual effective tax rate	36%	30%	30%

On March 31, 2014, Japan enacted its 2014 tax reform legislation eliminating the special reconstruction corporation tax a year ahead of schedule. This results in the effective corporate tax rate being reduced from 38% to 36% for fiscal years beginning on or after April 1, 2014. The effect of this change was to increase deferred tax liabilities by ¥178 million ($1,728 thousand) and income taxes—deferred by ¥178 million ($1,728 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Accrued enterprise taxes	¥ 418	¥ 471	$ 4,058
Accrued bonuses	1,474	1,367	14,311
Liabilities for retirement benefits	8,296	7,079	80,544
Investment securities	98	123	951
Tax loss carryforwards	2,947	3,284	28,612
Intercompany profits	2,425	4,456	23,544
Other	4,110	5,051	39,903
Less valuation allowance	(4,111)	(3,870)	(39,913)
Deferred tax assets	¥ 15,657	¥ 17,961	$ 152,010
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 9,109	¥ 7,615	$ 88,437
Tax purpose reserves regulated by Japanese tax law	666	630	6,466
Undistributed earnings of foreign subsidiaries	2,534	1,723	24,602
Securities contributed to employees' retirement benefit trust	3,154	3,391	30,621
Intangible fixed assets	1,924	1,940	18,680
Other	1,122	1,002	10,893
Deferred tax liabilities	¥ 18,509	¥ 16,301	$ 179,699
Net deferred tax assets (liabilities)	¥ (2,852)	¥ 1,660	$ (27,689)

At March 31, 2014, certain subsidiaries have tax loss carryforwards aggregating approximately ¥7,422 million ($72,058 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
2015	¥ 431	$ 4,184
2016	434	4,214
2017	19	184
2018		
2019		
2020 and thereafter	6,538	63,476
Total	¥ 7,422	$ 72,058

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥13,360 million ($129,709 thousand), ¥12,876 million and ¥12,731 million for the years ended March 31, 2014, 2013 and 2012, respectively.

12. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted-average number of shares outstanding. The average number of common shares in the computation was 351,554,150, 351,731,769 and 353,480,467 for the years ended March 31, 2014, 2013 and 2012, respectively.

13. LEASES

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

Total rental expenses including lease payments under finance leases for the years ended March 31, 2014, 2013 and 2012 were ¥5 million ($49 thousand), ¥12 million and ¥29 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2014		2014	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 3	¥ 665	$ 29	$ 6,456
Due after one year	0	1,254	0	12,175
Total	¥ 3	¥ 1,919	$ 29	$ 18,631

	Millions of Yen	
	2013	
	Finance Leases	Operating Leases
Due within one year	¥ 5	¥ 739
Due after one year	2	1,423
Total	¥ 7	¥ 2,162

Pro forma information of leased property whose lease inception was before March 31, 2008

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, interest expense and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

As of March 31, 2014	Millions of Yen		Thousands of U.S. Dollars	
	Machinery and Equipment	Total	Machinery and Equipment	Total
Acquisition cost	¥ 22	¥ 22	$ 214	$ 214
Accumulated depreciation	19	19	185	185
Net leased property	¥ 3	¥ 3	$ 29	$ 29

As of March 31, 2013	Millions of Yen	
	Machinery and Equipment	Total
Acquisition cost	¥ 34	¥ 34
Accumulated depreciation	27	27
Net leased property	¥ 7	¥ 7

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

Obligations under finance leases as of March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Due within one year	¥ 3	¥ 5	$ 29
Due after one year	0	2	0
Total	¥ 3	¥ 7	$ 29

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

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥5 million ($49 thousand), ¥12 million and ¥29 million for the years ended March 31, 2014, 2013 and 2012, respectively.

There was no impairment loss allocated to leased assets for the years ended March 31, 2014, 2013 and 2012.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

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

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

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

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

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Companies manage their credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. Please see Note 15 for the detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2014.

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

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

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

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

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

Liquidity risk management

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

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 62,574	¥ 62,574	¥
Marketable securities	5,155	5,155	
Receivables	90,078	90,078	
Investment securities	52,957	52,957	
Total	¥ 210,764	¥ 210,764	¥
Short-term bank loans	¥ 14,553	¥ 14,553	
Payables	59,345	59,345	
Income taxes payable	5,395	5,395	
Long-term debt	91,283	92,415	¥ (1,132)
Total	¥ 170,576	¥ 171,708	¥ (1,132)

March 31, 2013	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 53,238	¥ 53,238	¥
Marketable securities	628	628	
Receivables	81,707	81,707	
Investment securities	44,347	44,347	
Total	¥ 179,920	¥ 179,920	¥
Short-term bank loans	¥ 19,119	¥ 19,119	
Payables	55,991	55,991	
Income taxes payable	5,842	5,842	
Long-term debt	79,979	81,172	¥(1,193)
Total	¥ 160,931	¥ 162,124	¥(1,193)

March 31, 2014	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	**$ 607,515**	**$ 607,515**	**$**
Marketable securities	**50,049**	**50,049**	
Receivables	**874,543**	**874,543**	
Investment securities	**514,146**	**514,146**	
Total	**$ 2,046,253**	**$ 2,046,253**	**$**
Short-term bank loans	**$ 141,291**	**$ 141,291**	
Payables	**576,165**	**576,165**	
Income taxes payable	**52,379**	**52,379**	
Long-term debt	**886,243**	**897,233**	**$ (10,990)**
Total	**$ 1,656,078**	**$ 1,667,068**	**$ (10,990)**

Cash and Cash Equivalents

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

Marketable and Investment Securities

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

Receivables, Payables and Income Taxes Payable

The fair values of receivables, payables and income taxes payable are measured at the amount to be received or paid at maturity discounted at the Companies' assumed corporate discount rate.

Short-Term Bank Loans

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

Long-Term Debt

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

March 31, 2014	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 7,114	$ 69,068

March 31, 2013	Carrying Amount
	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 4,713

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

March 31, 2014	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 62,574			
Receivables	90,079			
Marketable securities and investment securities:				
Government bonds	28	¥ 216	¥ 66	¥
Corporate bonds	4,600	1,650		
Other	500	500		
Total	¥ 157,781	¥ 2,366	¥ 66	¥

March 31, 2013	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 53,238			
Receivables	81,708			
Marketable securities and investment securities:				
Government bonds	28	¥ 215	¥ 96	¥
Corporate bonds	100			
Other	500			
Total	¥ 135,574	¥ 215	¥ 96	¥

March 31, 2014	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 607,515			
Receivables	874,553			
Marketable securities and investment securities:				
Government bonds	272	$ 2,097	$ 641	$
Corporate bonds	44,660	16,019		
Other	4,854	4,854		
Total	$ 1,531,854	$ 22,970	$ 641	$

Please see Note 6 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

15. DERIVATIVES

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥ 25,425		¥ (200)	¥ (200)
Selling Euro	3,063		(34)	(34)
Buying U.S.$	21,925		379	379
Buying Japanese yen	66		(1)	(1)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	1,613	¥ 1,193	(197)	(197)
Receiving U.S.$, paying KRW	964	964	(35)	(35)

	Millions of Yen			
March 31, 2013	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥ 18,532		¥ (547)	¥ (547)
Selling Euro	364		(14)	(14)
Buying U.S.$	15,937		(408)	(408)
Buying Japanese yen	66		(2)	(2)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	1,331	¥ 630	(264)	(264)

	Thousands of U.S. Dollars			
March 31, 2014	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	$ 246,845		$ (1,942)	$ (1,942)
Selling Euro	29,738		(330)	(330)
Buying U.S.$	212,864		3,680	3,680
Buying Japanese yen	641		(10)	(10)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	15,660	$ 11,583	(1,913)	(1,913)
Receiving U.S.$, paying KRW	9,359	9,359	(340)	(340)

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2014	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:	Long-term			
Fixed rate payment, floating rate receipt	bank loan	**¥ 18,806**	**¥ 14,809**	**¥ 107**

March 31, 2013	Hedged Item	Millions of Yen		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:	Long-term			
Fixed rate payment, floating rate receipt	bank loan	¥ 22,259	¥17,602	¥ (321)

March 31, 2014	Hedged Item	Thousands of U.S. Dollars		
		Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:	Long-term			
Fixed rate payment, floating rate receipt	bank loan	**$ 182,583**	**$ 143,777**	**$ 1,039**

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

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

16. RELATED PARTY DISCLOSURES

The Company 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, 2014, 2013 and 2012, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2014	2013	2012	**2014**
Sales	**¥ 18,531**	¥ 18,746	¥ 20,920	**$ 179,913**

The balances due from FUJIFILM Corporation at March 31, 2014 and 2013 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Notes and accounts receivable	**¥ 3,225**	¥ 2,316	**$ 31,311**

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

The balances due to Nippon Life Insurance Company at March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Long-term debt	¥ 5,700	¥ 7,225	$ 55,340
Current portion of long-term debt	1,525	3,275	14,806
Interest expense payable	8	13	78

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

17. MUNICIPAL GOVERNMENT SUBSIDIES

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

18. LOSS ON CLAIM COMPENSATION

During the year ended March 31, 2014, one consolidated subsidiary in China received a complaint related to products. Accordingly, the Companies recorded ¥515 million ($5,000 thousand) of loss on claim compensation as other expense.

During the year ended March 31, 2013, one consolidated subsidiary in the United States received a complaint related to products. Accordingly, the Companies recorded ¥1,304 million of loss on claim compensation as other expense.

19. LOSS ON CLOSURE OF BUSINESS FACILITIES

During the year ended March 31, 2014, one consolidated subsidiary in Germany closed pilot plant facilities. Accordingly, the Companies recorded ¥680 million ($6,602 thousand) of loss on closure of business facilities as other expense.

20. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2014, for loans guaranteed amounted to ¥935 million ($9,078 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

21. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014, 2013 and 2012, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2014	2013	2012	2014
Unrealized gain (loss) on available-for-sale securities:				
Gains arising during the year	¥ 9,022	¥ 5,106	¥ (2,898)	$ 87,592
Reclassification adjustments to profit or loss	(1,923)	60	4	(18,670)
Amount before income tax effect	7,099	5,166	(2,894)	68,922
Income tax effect	(1,487)	(1,666)	1,836	(14,437)
Total	¥ 5,612	¥ 3,500	¥ (1,058)	$ 54,485
Deferred gain (loss) on derivatives under hedge accounting:				
Gains arising during the year	¥ 192	¥ (267)	¥ (42)	$ 1,864
Reclassification adjustments to profit or loss	236	103	114	2,291
Amount before income tax effect	428	(164)	72	4,155
Income tax effect	(22)	(19)	(33)	(213)
Total	¥ 406	¥ (183)	¥ 39	$ 3,942
Foreign currency translation adjustments—				
Adjustments arising during the year	¥ 7,926	¥ 8,975	¥ (1,705)	$ 76,951
Share of other comprehensive income in associates—				
Gains arising during the year	¥ 1,237	¥ 561	¥ (1)	$ 12,010
Total other comprehensive income	¥ 15,181	¥12,853	¥ (2,725)	$ 147,388

22. CONSOLIDATED STATEMENTS OF CASH FLOWS

Assets and Liabilities of Newly Consolidated Subsidiaries by Acquisition of Shares

Assets and liabilities of newly consolidated subsidiaries by acquisition of shares at the inception of their consolidation, related acquisition cost and net expenditure for acquisition of shares were as follows:

(1) Special Devices, Inc.

	Millions of Yen
Current assets	¥ 2,291
Intangible assets	4,940
Goodwill	3,611
Non-current assets	1,405
Current liabilities	(2,182)
Non-current liabilities	(2,025)
Foreign currency translation adjustments	(153)
Acquisition cost of shares	7,887
Cash and cash equivalents of the acquired companies	(366)
Payment for acquisition of shares of newly consolidated subsidiaries	¥ 7,521

(2) LCP Leuna Carboxylation Plant GmbH

	Millions of Yen
Current assets	¥ 572
Non-current assets	679
Goodwill	1,502
Current liabilities	(299)
Non-current liabilities	(267)
Acquisition cost of shares	2,187
Cash and cash equivalents of the acquired companies	(270)
Payment for acquisition of shares of newly consolidated subsidiaries	¥ 1,917

23. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2014, was approved at the Shareholders' General Meeting of the Company held on June 20, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥9 ($0.09) per share	**¥ 3,162**	**$ 30,699**

24. SEGMENT INFORMATION

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

Segment Information

1. Description of Reportable Segments

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

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

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

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

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2014	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	¥ 92,639	¥ 80,662	¥ 154,004	¥ 80,076	¥ 407,381	¥ 6,405	¥ 413,786		¥ 413,786
Intersegment sales or transfers	2,396	18,984	2		21,382	9,571	30,953	¥ (30,953)	
Total sales	¥ 95,035	¥ 99,646	¥ 154,006	¥ 80,076	¥ 428,763	¥ 15,976	¥ 444,739	¥ (30,953)	¥ 413,786
Segment profit	¥ 19,092	¥ 6,045	¥ 11,047	¥ 10,453	¥ 46,637	¥ 286	¥ 46,923	¥ (9,011)	¥ 37,912
Segment assets	94,879	67,932	168,922	82,264	413,997	9,103	423,100	86,734	509,834
Depreciation	7,632	4,919	5,090	5,208	22,849	272	23,121	548	23,669
Investments in associated companies	8,370	139	2,485		10,994		10,994		10,994
Impairment loss on fixed assets									
Amortization of goodwill			389	447	836		836		836
Increase in property, plant and equipment	7,120	3,836	10,084	3,687	24,727	270	24,997	620	25,617

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2013	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	¥ 74,493	¥ 71,476	¥ 140,233	¥ 65,962	¥ 352,164	¥ 6,350	¥ 358,514		¥ 358,514
Intersegment sales or transfers	2,530	15,103	7		17,640	9,784	27,424	¥ (27,424)	
Total sales	¥ 77,023	¥ 86,579	¥ 140,240	¥ 65,962	¥ 369,804	¥ 16,134	¥ 385,938	¥ (27,424)	¥ 358,514
Segment profit	¥ 13,620	¥ 5,276	¥ 11,177	¥ 4,076	¥ 34,149	¥ 797	¥ 34,946	¥ (8,749)	¥ 26,197
Segment assets	85,793	67,277	148,113	80,401	381,584	7,873	389,457	72,056	461,513
Depreciation	7,578	5,387	5,715	4,551	23,231	244	23,475	552	24,027
Investments in associated companies	4,734	139	2,440		7,313		7,313		7,313
Impairment loss on fixed assets		53			53	251	304		304
Amortization of goodwill			77	741	818		818		818
Increase in property, plant and equipment	5,936	3,844	13,044	15,737	38,561	255	38,816	874	39,690

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2012	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	¥ 72,115	¥ 76,508	¥ 133,552	¥ 53,198	¥ 335,373	¥ 6,570	¥ 341,943		¥ 341,943
Intersegment sales or transfers	2,629	15,054	12		17,695	9,480	27,175	¥ (27,175)	
Total sales	¥ 74,744	¥ 91,562	¥ 133,564	¥ 53,198	¥ 353,068	¥ 16,050	¥ 369,118	¥ (27,175)	¥ 341,943
Segment profit	¥ 7,764	¥ 5,352	¥ 9,870	¥ 5,003	¥ 27,989	¥ 1,020	¥ 29,009	¥ (8,583)	¥ 20,426
Segment assets	80,657	66,499	120,239	58,736	326,131	7,065	333,196	65,001	398,197
Depreciation	9,963	6,950	6,550	3,998	27,461	264	27,725	591	28,316
Investments in associated companies	3,698	139	2,389		6,226		6,226		6,226
Impairment loss on fixed assets		375			375		375		375
Increase in property, plant and equipment	3,053	4,553	6,498	3,667	17,771	193	17,964	776	18,740

Year Ended March 31, 2014	Thousands of U.S. Dollars								
	Reportable Segment								
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	$ 899,408	$ 783,126	$1,495,184	$ 777,437	$3,955,155	$ 62,185	$4,017,340		$4,017,340
Intersegment sales or transfers	23,262	184,311	19		207,592	92,923	300,515	$ (300,515)	
Total sales	$ 922,670	$ 967,437	$1,495,203	$ 777,437	$4,162,747	$ 155,108	$4,317,855	$ (300,515)	$4,017,340
Segment profit	$ 185,359	$ 58,689	$ 107,252	$ 101,485	$ 452,785	$ 2,778	$ 455,563	$ (87,485)	$ 368,078
Segment assets	921,155	659,534	1,640,019	798,680	4,019,388	88,379	4,107,767	842,078	4,949,845
Depreciation	74,097	47,757	49,417	50,564	221,835	2,641	224,476	5,320	229,796
Investments in associated companies	81,262	1,350	24,126		106,738		106,738		106,738
Impairment loss on fixed assets									
Amortization of goodwill			3,777	4,340	8,117		8,117		8,117
Increase in property, plant and equipment	69,126	37,243	97,903	35,796	240,068	2,621	242,689	6,020	248,709

(Notes)

1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥9,010 million ($87,478 thousand), ¥8,749 million and ¥8,583 million for the years ended March 31, 2014, 2013 and 2012, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.

(2) The unallocated corporate assets included in "Reconciliations" amounted to ¥90,247 million ($876,184 thousand), ¥76,122 million and ¥67,595 million for the years ended March 31, 2014, 2013 and 2012, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥3,512 million ($34,097 thousand), ¥4,066 million and ¥2,594 million for the years ended March 31, 2014, 2013 and 2012, respectively.

(3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.

2. The aggregated amounts of operating income are equal to those in the consolidated statements of income.

Related Information

1. Information about Products and Services

	Millions of Yen					
	2014					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	¥ 92,639	¥ 80,662	¥ 154,004	¥ 80,076	¥ 6,405	¥ 413,786

	Millions of Yen					
	2013					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	¥ 74,493	¥ 71,476	¥ 140,233	¥ 65,962	¥ 6,350	¥ 358,514

	Millions of Yen					
	2012					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	¥ 72,115	¥ 76,508	¥ 133,552	¥ 53,198	¥ 6,570	¥ 341,943

	Thousands of U.S. Dollars					
	2014					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	**$ 899,408**	**$ 783,126**	**$ 1,495,184**	**$ 777,437**	**$ 62,185**	**$ 4,017,340**

2. Information about Geographical Areas

(1) Sales

Millions of Yen				
2014				
Japan	Asia		Other	Total
	China	Other		
¥ 214,389	**¥ 55,458**	**¥ 79,200**	**¥ 64,739**	**¥ 413,786**

Millions of Yen				
2013				
Japan	Asia		Other	Total
	China	Other		
¥ 206,712	¥ 42,695	¥ 58,230	¥ 50,877	¥ 358,514

Millions of Yen				
2012				
Japan	Asia		Other	Total
	China	Other		
¥ 206,518	¥ 40,150	¥ 51,842	¥ 43,433	¥ 341,943

Thousands of U.S. Dollars				
2014				
Japan	Asia		Other	Total
	China	Other		
$ 2,081,447	**$ 538,427**	**$ 768,932**	**$ 628,534**	**$ 4,017,340**

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

(2) Property, Plant and Equipment

Millions of Yen			
2014			
Japan	Asia	Other	Total
¥ 101,009	**¥ 45,731**	**¥10,298**	**¥ 157,038**

Millions of Yen			
2013			
Japan	Asia	Other	Total
¥ 105,151	¥ 34,488	¥ 9,685	¥ 149,324

Millions of Yen			
2012			
Japan	Asia	Other	Total
¥ 110,123	¥ 22,488	¥ 6,594	¥ 139,205

Thousands of U.S. Dollars			
2014			
Japan	Asia	Other	Total
$ 980,670	**$ 443,990**	**$ 99,981**	**$ 1,524,641**

3.Information on Impairment Losses of Fixed Assets for Each Reportable Segment

	Millions of Yen						
	2014						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		**¥**			**¥**		**¥**

	Millions of Yen						
	2013						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		¥ 53			¥ 251		¥ 304

	Millions of Yen						
	2012						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		¥ 375					¥ 375

	Thousands of U.S. Dollars						
	2014						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		**$**			**$**		**$**

Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

We have audited the accompanying consolidated balance sheets of Daicel Corporation and its consolidated subsidiaries as of March 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2014, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Corporation and its consolidated subsidiaries as of March 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2014, in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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 accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 20, 2014

Member of
Deloitte Touche Tohmatsu Limited

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	69	Manufacture and sale of acetic acid Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; JNC Corporation; and KH Neochem Co., Ltd.
Dainichi Chemical Corp.	270	100	Manufacture and sale of industrial-use coating resins, non-tin anti-stain compounds, and fine chemicals
Daicel-Allnex Ltd.	50	45	Manufacture and sale of ultraviolet and electron beam curable resins Joint-venture company with Allnex Belgium SA/NV
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 and PEEK resin Joint-venture company with Evonik Degussa Japan Co., Ltd.
Daicel Pack Systems Ltd.	50	100	Manufacture and sale of vacuum- and pressure-molded plastics, industrial and food packaging, and paper and plastic buffers
Daicel Value Coating Ltd.	40	100	Manufacture and sale of barrier films Custom coating business
DM Novafoam Ltd.	98	65	Manufacture and sale of foamed plastics Joint-venture company with Mitsui Chemicals, Inc.
Daicel Safety Systems Inc.	80	100	Manufacture of inflators for automobile airbags
Daicel Pyrotechnics Ltd.	150	100	Manufacture and sale of shotgun shells for sport shooting and hunting
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 Joint-venture company with Central Filter Industries Co., Ltd.; Daicen Maintenance Ltd.
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	RMB 308 mil	30	Manufacture and sale of cellulose acetate and acetic anhydride
Xi'an Huida Chemical Industries Co., Ltd.*2	RMB 248 mil	30	Manufacture and sale of acetate tow for cigarette filters
Chiral Technologies, Inc.	US$ 100	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Chiral Technologies Europe S.A.S.	€ 2.1 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Chiral Technologies (China) Co., Ltd.*3	RMB 10 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Chiral Technologies (India) Private Ltd.	INR 4 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Nanning Food Ingredients Co., Ltd.*3	RMB 194.025 mil	100	Manufacture and sale of sorbic acid and potassium sorbate
Polyplastics Taiwan Co., Ltd.*4	NT$ 1,590 mil	41	Manufacture and sale of engineering plastics
Polyplastics Asia Pacific Sdn. Bhd.*5	RM 158 mil	55	Manufacture and sale of engineering plastics
PTM Engineering Plastics (Nantong) Co., Ltd.*6	RMB 386 mil	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	RMB 75.72 mil	100	Sale and compounding of plastics
Daicel Polymer (Hong Kong) Ltd.*8	HK$ 1.0 mil	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel Polymer (Thailand) Co., Ltd.*8	THB 20 mil	100	Sale of compound resin
Daicel Trading (Shanghai) Ltd.*3	RMB 21.683 mil	100	Sale of compound resin, polystyrene sheet and other chemical products
Topas Advanced Polymers GmbH*9	€ 0.1 mil	80	Manufacture, sale and research of cyclic olefin copolymer
Topas Advanced Polymers, Inc.*10	US$ 0.01 mil	80	Sale of cyclic olefin copolymer
Daicel Safety Systems America, LLC*11	US$ 45 mil	88	Manufacture and sale of inflators for automobile airbags Joint-venture company with TG North America Corporation
Daicel Safety Systems Europe Sp. z o. o.	PLN 5 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Jiangsu) Co., Ltd.*3	RMB 256 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Thailand) Co., Ltd.	THB 270 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems Korea, Inc	KRW 14,500 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Technologies America, Inc.	US$ 8.5 mil	100	Manufacture of inflator components for automobile airbags
Daicel Safety Technologies (Thailand) Co., Ltd.	THB 800 mil	100	Manufacture of inflator components for automobile airbags
Special Devices, Inc.*12	US$ 0.006 mil	100	Manufacture and sale of inflator components for automobile airbags
Daicel (China) Investment Co., Ltd.	RMB 386 mil	100	Management of manufacturing and marketing operations in China
Daicel (Asia) Pte. Ltd.	S$ 9.59 mil	100	Management of marketing operations in Southeast Asia
Daicel (U.S.A.), Inc.	US$ 0.1 mil	100	Management of marketing operations in North America
Daicel (Europa) GmbH	€ 0.15 mil	100	Management of marketing operations in Europe

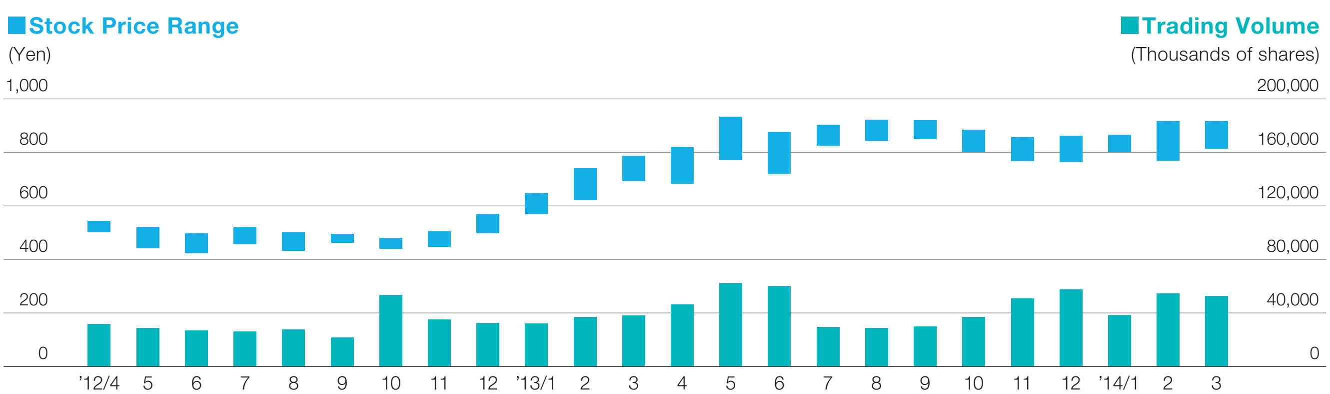
*2: 30% owned by Daicel (China) Investment Co., Ltd.
*3: 100% owned by Daicel (China) Investment Co., Ltd.
*4: 75% owned by Polyplastics Co., Ltd.
*5: 100% owned by Polyplastics Co., Ltd.
*6: 70% owned by Polyplastics Co., Ltd.
*7: 90% owned by Daicel Corporation and 10% owned by Daicel (China) Investment Co., Ltd.
*8: 100% owned by Daicel Polymer Ltd.
*9: 55% owned by Daicel Corporation and 45% owned by Polyplastics Co., Ltd.
*10: 100% owned by Topas Advanced Polymers GmbH
*11: 88% owned by Daicel (U.S.A.), Inc.
*12: 100% owned by Daicel (U.S.A.), Inc.

Corporate Data (As of March 31, 2014)

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
Transfer Agent:	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Number of Shareholders	15,102
Independent Auditor	Deloitte Touche Tohmatsu LLC
Osaka Head Office	Mainichi Intecio, 3-4-5, Umeda, Kita-ku, Osaka 530-0001, Japan Tel: +81-6-6342-6111 Fax: +81-6-6342-6118
Tokyo Head Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-8230, Japan Tel: +81-3-6711-8111 Fax: +81-3-6711-8100

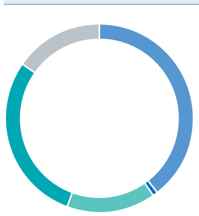
Stock Information (As of March 31, 2014)

Stock Price Range & Trading Volume



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

Composition of Shareholders



	Thousands of shares	%
Financial institutions	144,266	39.5
Securities companies	3,374	0.9
Other domestic corporations	55,599	15.3
Foreign investors	106,279	29.1
Individual & other investors	55,423	15.2

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)	26,079	7.42
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,711	6.46
Nippon Life Insurance Company	18,108	5.15
FUJIFILM Corporation	17,271	4.91
Toyota Motor Corporation	15,000	4.26
Sumitomo Mitsui Banking Corporation	7,096	2.01
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	6,503	1.85
Mitsui Sumitomo Insurance Co., Ltd.	6,303	1.79
SSBT OD05 OMNIBUS ACCOUNT-TREATY CLIENTS	5,621	1.59
Daicel Trading-Partner Shareholding Association	5,613	1.59

DAICEL CORPORATION

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