Annual Report 2010

Year ended March 31, 2010

Meeting New Demand

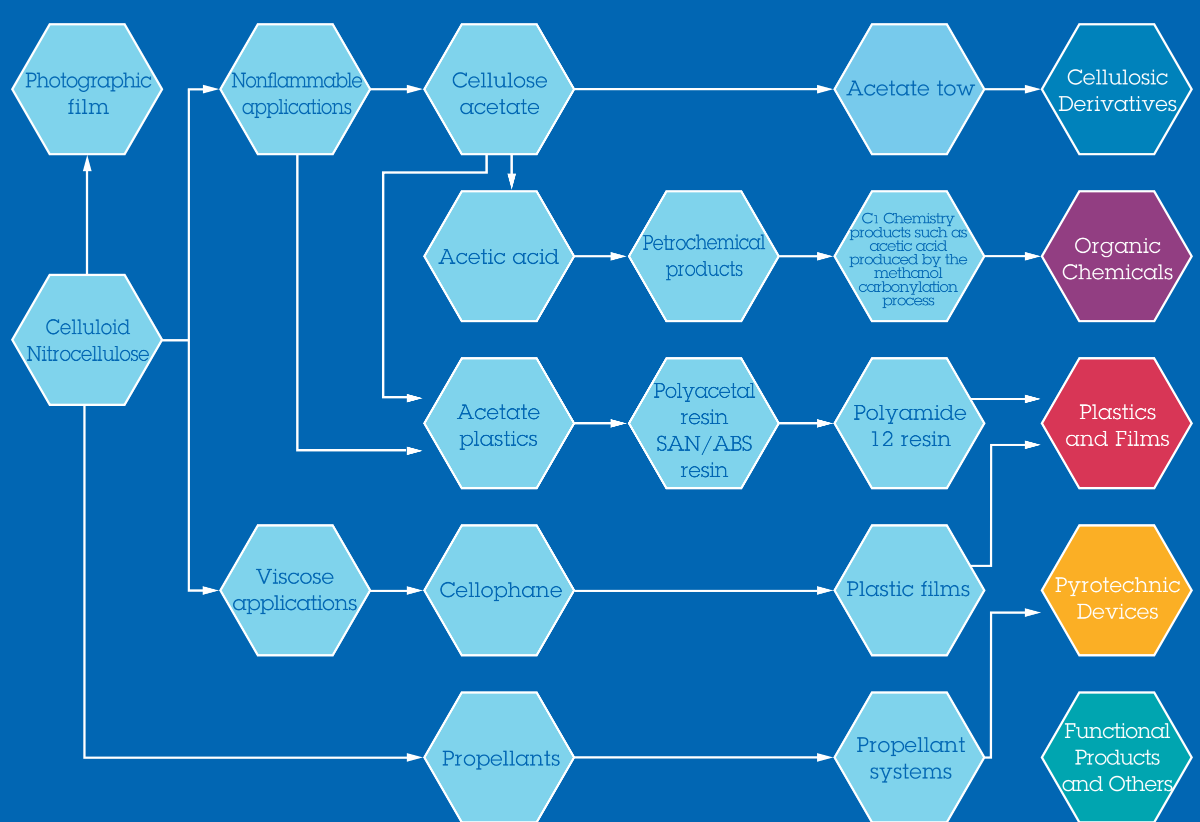
DAICEL CHEMICAL INDUSTRIES, LTD.

Profile

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

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

Business Development Flowchart



Contents

In Fiscal 2009, amid severe business conditions, revenue declined due to a reduction in sales volume and the strong yen. Nevertheless, we were able to generate earnings growth by cutting costs, including lowering fixed costs and improving the ratio of materials used, with the aim of returning to a growth track.

With the unprecedented growth of the LED market, we are establishing complete operations, ranging from raw material supply to production and sales, with the aim of becoming a comprehensive source of LED encapsulant materials and products.

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

Caution with Respect to Forward-Looking Statements

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

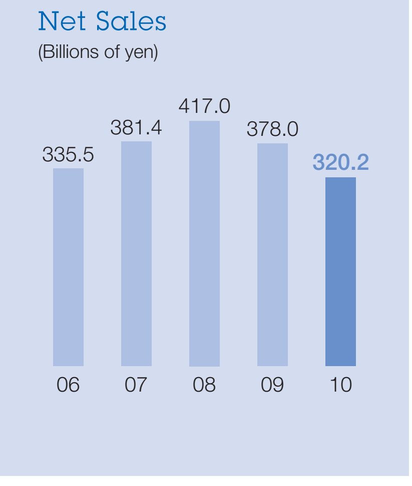
Consolidated Financial Highlights

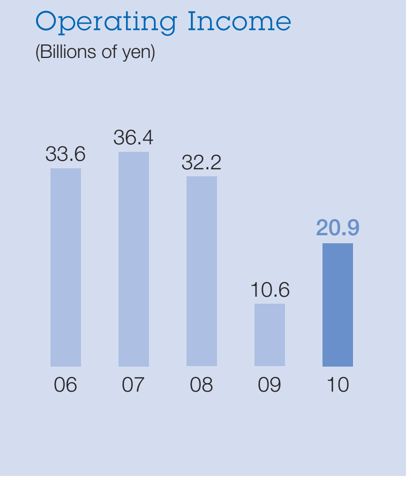
Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31

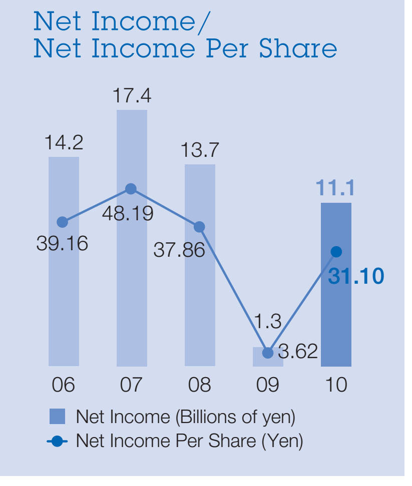
	Millions of yen					Thousands of U.S. dollars*3
	2006	2007	2008	2009	2010	2010
Results for the year						
Net sales	¥ 335,520	¥ 381,423	¥ 416,990	¥ 377,980	**¥ 320,243**	**$ 3,443,473**
Operating income	33,570	36,399	32,164	10,590	**20,856**	**224,258**
Income before income taxes and minority interests	29,386	33,185	27,145	6,272	**16,911**	**181,839**
Net income	14,221	17,438	13,676	1,297	**11,070**	**119,032**
Capital expenditures	59,018	55,316	46,930	25,666	**18,424**	**198,108**
Depreciation and amortization	22,484	23,774	29,576	39,674	**37,782**	**406,258**
Research and development expenses	11,221	11,717	12,004	12,046	**11,317**	**121,688**
At year-end						
Total assets	¥ 483,469	¥ 547,432	¥ 515,618	¥ 445,912	**¥ 428,377**	**$ 4,606,204**
Total equity*1	197,780	242,409	239,148	211,488	**229,005**	**2,462,418**

	Yen					U.S. dollars*3
Per share*2						
Net income	¥ 39.16	¥ 48.19	¥ 37.86	¥ 3.62	**¥ 31.10**	**$ 0.33**
Cash dividends applicable to the year	8.00	8.00	8.00	8.00	**10.00**	**0.11**

*1. From 2007, Total shareholders' equity is being shown as Total equity.
*2. The computations of net income per common share are based on the weighted average number of shares outstanding.
*3. The U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥93=$1, the approximate exchange rate at March 31, 2010.







Message from the President

On September 8, 2009, Daicel Chemical Industries celebrated the 90th anniversary of its founding. In these rapidly changing times, it is deeply satisfying to realize that our Company has been in business for 90 years. I believe our long history is the result of both the important supportive role that the chemical industry plays for virtually every other industry, and Daicel's ability to consistently provide products that match diverse and evolving needs of various industries.

Looking ahead 10 years to the 100th anniversary of the Company's founding, in April of this year we formulated the "Grand Vision 2010," a long-term vision for the Daicel Group for the next ten years, under which we will work to create a corporate entity capable of continuing to achieve "growth with profitability." Meanwhile, we will endeavor to become a corporate group that is attractive to all its stakeholders, including shareholders, customers, business partners, local communities, and employees. Under "Grand Vision 2010," we aim to become "a company that proudly delivers the best solutions to the global market." We are currently drafting a new three-year, medium-term business plan based on Grand Vision 2010, and the new plan is scheduled to begin in fiscal 2011. To realize the formulation and execution of the new medium-term business plan under a new management team, on June 25, President Daisuke Ogawa acceded to the post of Chairman and I relinquished my role as Executive Officer and assumed the post of President and CEO.

I look forward to your guidance and support as we aim to become a company capable of sustaining growth over the next 10 years, while delivering "the best solutions."

Misao Fudaba
President and CEO

Interview with the President

We aim to be known as a company that proudly delivers the best solutions to the global market.

Q Please discuss Daicel's business performance in fiscal 2009.

A

Revenue declined due to the reduced sales volume and the strong yen amid severe business conditions. Nevertheless, our efforts to cut costs, including lowering fixed costs and improving the ratio of materials used, enabled us to generate earnings growth.

Business conditions were unpredictable in Fiscal 2009, as the Japanese economy slowly edged toward recovery, supported by increasing exports to China and other emerging economies, while several negative factors persisted, including a lackluster recovery in domestic demand, the strong yen and the weak dollar in the foreign exchange markets, and ongoing severe employment conditions.

Against this backdrop, the Daicel Group worked hard to improve its business performance and reestablish a growth track for earnings by placing top priority on cutting costs and implementing emergency cost-cutting countermeasures to reduce fixed costs, which was achieved by lowering the remuneration of executives and all employees and minimizing repair expenses, and controlling other expenses, such as by improving the ratio of materials used.

As a result, in fiscal 2009 the Group posted a 15.3% year-on-year decline in consolidated net sales to ¥320.2 billion, due mainly to the reduced sales volume and the impact from the strong yen. On the earnings side, our efforts to cut costs proved successful as we posted substantial increases in consolidated income, with operating income rising 96.9% to ¥20.9 billion, ordinary income up 143.4% to ¥20.0 billion, and net income growing from ¥1.3 billion in fiscal 2008 to ¥11.1 billion in fiscal 2009.

Fiscal 2008 and 2009 Results

(Billions of yen)

	2008	2009	Change	% Change
Net sales	378.0	320.2	(57.7)	(15.3)%
Operating income	10.6	20.9	10.3	96.9 %
Ordinary income	8.2	20.0	11.8	143.4 %
Net income	1.3	11.1	9.8	753.5 %

Q What are the Company's performance forecasts for fiscal 2010?

A

While anticipating ongoing harsh business conditions, we are aiming to expand both sales and earnings by continuing to reduce fixed costs and cut other expenses, such as by improving the ratio of materials used.

While many believe economic conditions in Japan are bottoming out, we believe the situation remains uncertain and unpredictable, considering the ongoing deterioration of personal income and employment conditions and an anticipated drop in demand as the emergency economic stimulus measures of many countries come to an end.

Business conditions are just as severe, with the chemical industry facing innumerable challenges, including unpredictable fluctuations in demand and rising raw materials prices, as well as the need to secure an adequate workforce, further concentrate management resources in selected areas, maintain cost competitiveness, strengthen R&D activities, reduce greenhouse gas emissions, and respond to stricter environmental and safety regulations.

In these conditions, the Daicel Group, as a manufacturer, will continue to place the highest priority on product safety, quality assurance, and safe operating procedures, while seeking to further lower fixed costs and other expenses, such as by improving the ratio of materials used, with the aim of increasing both sales and profits for the year. In fiscal 2010, we expect our ongoing cost-cutting efforts, combined with growing demand for cellulose acetate used in liquid crystal display (LCD) films, increasing sales volume of cigarette filter tow accompanying our expanded production capacity, and recovery in the sales volumes of engineering plastics and automobile airbag inflators will enable us to realize consolidated net sales of ¥350.0 billion, operating income of ¥31.0 billion, ordinary income of ¥29.0 billion, and net income of ¥16.5 billion.

Fiscal 2009 Results and 2010 Forecasts

(Billions of yen)

	2009 Results	2010 Forecasts	Change	% Change
Net sales	320.2	350.0	29.8	9.3%
Operating income	20.9	31.0	10.1	48.6%
Ordinary income	20.0	29.0	9.0	45.1%
Net income	11.1	16.5	5.4	49.1%

Q Please describe Grand Vision 2010.

A

In 10 years, we aim to be known as a company that proudly delivers the best solutions to the global market.

Following the completion in fiscal 2009 of our Second Long-term Business Plan, in April 2010 we adopted Grand Vision 2010 as the Daicel Group's long-term vision covering the next 10 years. The objective of Grand Vision 2010 is to elevate the Daicel Group to the status of "a company that proudly delivers the best solutions to the global market," with the aim of becoming a corporate group that is attractive to all its stakeholders, including shareholders, customers, business partners, local communities, and employees. We plan to achieve this by creating a world-class manufacturing structure through the development and integration of our advanced production systems and the strong bonds of trust we have formed with our business partners and by accurately identifying the needs of society and customers to create and provide the best solutions.

We are currently drafting a new medium-term business plan based on Grand Vision 2010, and this new plan will become the Fiscal 2010 Medium-term Business Plan, effective from fiscal 2011 to 2013.

Q Please describe the shareholder return policy.

A

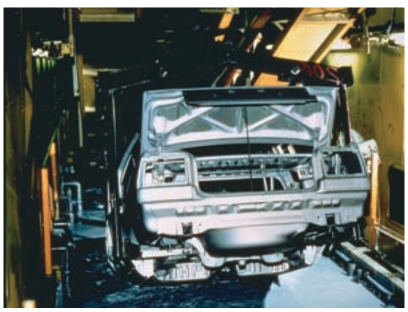
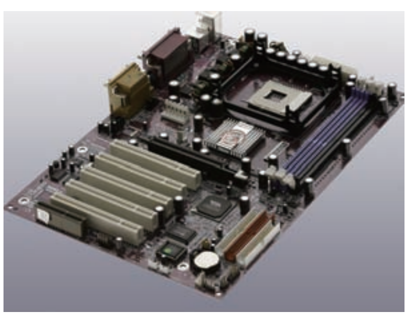
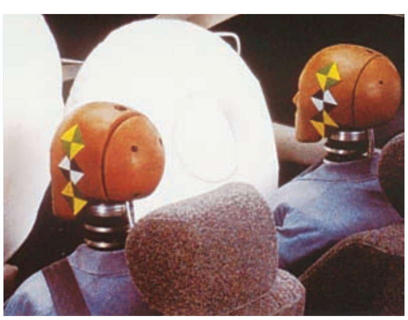
We distributed an ordinary dividend of ¥4 per share, plus a ¥2 per share commemorative dividend in celebration of the 90th year since the Company's founding, for a total year-end dividend payment of ¥6 per share.

Daicel's basic policy on the distribution of profits takes into account both the earnings performance achieved in a given fiscal year and a comprehensive and long-term perspective of our future business development. We also seek to achieve an overall long-term balance between providing a stable and appropriate level of profit distribution and retaining the earnings needed to build a more solid earnings base. In addition to the distribution of dividends, we also utilize the acquisition of our own shares as a supplemental method for providing returns to shareholders.

In fiscal 2009, we distributed a term-end ordinary dividend of ¥4 per share, to which we added a 90th anniversary commemorative dividend of ¥2 per share in appreciation of the support we have received from our shareholders since the Company's founding. The resulting ¥6 per share term-end dividend and the ¥4 per share interim dividend combined for a total dividend distribution of ¥10 per share in fiscal 2009.

Review of Operations

At a Glance

Business Segment		Sales	Operating Income
	Cellulosic Derivatives	24.0%	41.8%
	Organic Chemicals	23.2%	20.3%
	Plastics and Films	34.8%	18.3%
	Pyrotechnic Devices	16.0%	16.7%
	Functional Products and Others	1.9%	2.8%

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	Cellulose acetate, vinyl acetate Auxiliary dyeing agents, pharmaceuticals Agricultural chemicals, pure terephthalic acid (PTA)	The leading manufacturer of acetic acid in Asia, its mainstay product World's largest manufacturer of chiral columns used for the separation of optical isomers
Solvents		
Chiral columns	Separation of optical isomers	
Other organic and inorganic industrial-use chemicals		
Polyacetal resin (POM) Polybutylene terephthalate resin (PBT) SAN/ABS resins and alloys Polystyrene sheets and plastics products	Electric and electronic appliance parts, automobile parts Communications appliance parts, household goods, sundry goods	The top share in Asia for POM, PBT, and LCP, and ranks second for PPS
Moisture-proof packaging films	Packaging for foods	
Inflators	Automobile airbag systems	The top manufacturer of car airbag inflators in Japan and ranks second on a global basis
Aircrew emergency escape systems	Fighters, trainers, helicopters	
Rocket motors	Missiles	
Propellants		
Separation membrane modules	Water treatment	

Positioned to Meet the Rapidly Expanding LED Demand

New Applications and a Growing Market for LEDs

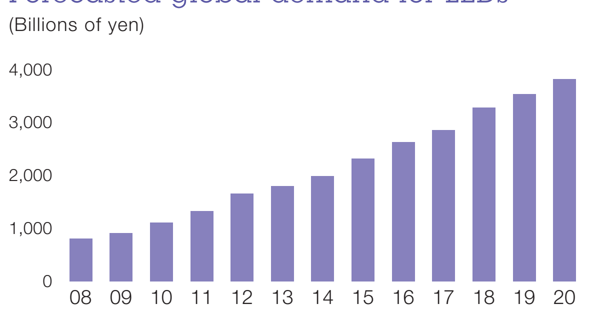
Light-emitting diodes (LEDs) have been hailed as the "next-generation ecolight," and the applications for the ultra-bright, energy-saving lights continue to multiply. LEDs are widely used as the screen backlight for mobile phone screens, in traffic lights, and car interior and brake lights. LEDs are also showing promise for widespread applications as a general lighting source inside the home.

LEDs are a type of semiconductor diode that light up when supplied electric current. Early LEDs produced various colors, but it wasn't until 1993 that LEDs were created that could provide a high brightness blue color, which was the breakthrough that enabled LEDs to produce the three primary colors: red, green and blue.

The key advantages LEDs offer over traditional lighting sources are less power consumption and longer life. LED lights consume just one-seventh the electricity of standard light bulbs and less than half the electricity of fluorescent lights while lasting up to 20 times and 10 times longer, respectively. The superior energy efficiency and longer use translate to substantial reductions in CO_2 emissions. Unlike fluorescent lights, LEDs contain no mercury, making them non-toxic and completely environmentally friendly.

The unique features of LEDs are attracting rapidly growing demand around the world. By 2013, the worldwide production of LEDs for lighting applications is expected to grow by 40% from the 2008 production output. In 2015, the global LED markets are expected to expand by 53.8% for large-screen and other displays, 282.5% for automobile applications, and 168.7% for LCD backlight applications.

Forecasted global demand for LEDs



World's Leading Supplier of Cycloaliphatic Epoxy Compounds

When producing products with LEDs, the diodes are wrapped in an encapsulant to protect the LED from impact damage and from dust, moisture, and other elements. Daicel has been supplying the cycloaliphatic epoxy resin Celloxide 2021P for use as an LED encapsulant since the 1990s.

Cycloaliphatic epoxy resin's characteristics of hardening when exposed to heat or ultraviolet light have made it a popular general-purpose coating material widely used around the world. Daicel became the world's sole producer and supplier of alicyclic epoxy resin in the autumn of 2006 when a major competitor overseas that had commanded nearly 70% market share withdrew from the business.

Cycloaliphatic epoxy resin is more resistant to yellowing and erosion than standard epoxy compounds, making it an ideal encapsulant for blue and white LEDs and equipment used outdoors, such as traffic signals. Even before 2006, Daicel's celloxide maintained a strong market share as an LED encapsulant, and the Company focused on developing applications as an encapsulant for blue and white LEDs to emphasize its high degree of technical hardness and high value-added properties.

Daicel has ramped up its production capacity for alicyclic epoxy resin in three stages, and the latest expansion completed in December 2009 has given the Company ample supply capacity to meet any increase in demand.

From Raw Materials Supplier to Producer and Marketer

Although the Company has been supplying encapsulant materials for two decades, the Company determined that the unprecedented growth of the LED market made it essential for the Company to join and work closely with LED makers to ensure the development of products that continue accurately meeting emerging market needs.

The advancement of this management decision led to Daicel commencing in-house development of LED encapsulants in 2005 and the release in September 2009 of the in-house developed CELVENUS transparent encapsulant. CELVENUS features an cycloaliphatic epoxy compound that does not degrade in light and maintains superior transparency over long periods. The following month, Daicel began sending domestic and overseas clients sample shipments of the CELVENUS W0900 Series with enhanced thermal resistance properties designed specifically for use as LED-backlit LCD TVs.

Becoming a Consummate Encapsulant Producer

Daicel's key strength as a maker of encapsulants arises from its status as a raw materials producer, as this enables the Company to respond directly to customer needs and implement modifications from the ground up, beginning with the fundamental raw materials. In its drive to develop LEDs with even higher luminous intensity (brightness), the Company is currently developing a non-epoxy encapsulant material with thermal- and yellowing-resistant properties surpassing silicone-based compositions. The Company is actively developing a wide variety of applications for its transparent encapsulant materials, but its primary focus is to establish its line-up of high-performance LED encapsulants.

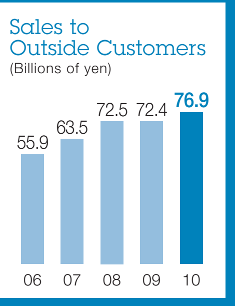
Daicel is building its direct marketing of LED encapsulants while continuing to provide a steady and reliable supply of cycloaliphatic epoxy compounds to other makers of LED encapsulants. The Company is establishing a complete operation from raw material supply to production and sales with the aim of becoming a comprehensive source of encapsulant materials and products. Daicel's development and supply of raw materials and LED encapsulant materials is contributing to the expansion and diversification of LED applications, and the Company is eager to grow along with its customers as the LED market expands.

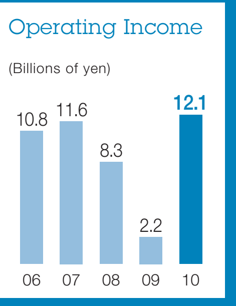
Cellulosic Derivatives

Operations

Years ended March 31

	Millions of yen				
	2006	2007	2008	2009	**2010**
Sales to outside customers	¥55,899	¥ 63,501	¥ 72,467	¥ 72,369	**¥76,938**
Intersegment sales	2,222	2,355	2,852	2,901	**2,680**
Total sales	58,121	65,856	75,319	75,270	**79,618**
Total cost and expenses	47,290	54,226	67,056	73,067	**67,565**
Operating income	¥10,831	¥ 11,630	¥ 8,263	¥ 2,203	**¥12,053**
Total assets	¥86,828	¥118,803	¥126,435	¥107,953	**¥96,558**
Depreciation	4,131	4,549	7,855	16,554	**15,509**
Capital investments	30,154	32,267	23,357	7,169	**4,729**

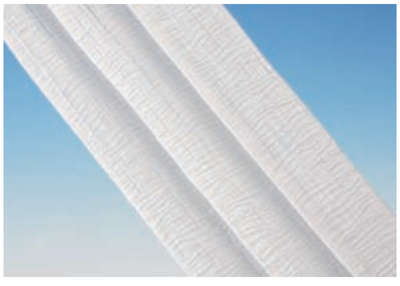




Overview

The Cellulosic Derivatives Segment, which endeavors to further cultivate its cellulosic chemical technologies based on the celluloid manufacturing technologies founded by 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 display (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 in its comprehensive production capabilities for acetic acid, cellulose acetate, and acetate tow.



Acetate tow

Performance

In fiscal 2009, sales to outside customers amounted to ¥76,938 million, an increase of 6.3% from the previous fiscal year. Sales of cellulose acetate are growing, thanks to a recovery in demand for LCD film applications.

Sales declined for acetate tow used in cigarette filters due to inventory reductions overseas and the impact of the strong yen. Reduced production output volume for the year due to the scheduled biennial maintenance operations at the Himeji Production Sector's Aboshi Plant was also a factor.

Operating income for the segment amounted to ¥12,053 million, up from ¥2,203 million in the previous fiscal year, largely due to wide-ranging cost cutting measures and an improved capacity utilization ratio accompanying the increased sales volume of cellulose acetate.


Aboshi Plant's new facility

Aboshi Plant's New Facility Starts Production of Acetate Tow for Cigarette Filters

Daicel began using its cellulose acetate to produce acetate tow for use in cigarette filters in 1958. Cigarette filter acetate tow has grown to become a primary product of the Cellulosic Derivatives segment. Highly regarded both in Japan and overseas, Daicel supplies cigarette filter acetate tow to leading cigarette makers around the world.

Demand for super-slim cigarettes has risen in recent years in overseas markets, notably in Russia and South Korea. Anticipating ongoing growth in demand, the Company began construction last year of a new facility at the Himeji Production Sector's Aboshi Plant to undertake production of cigarette filter acetate tow. Combined with the acetate tow production of the Ohtake Plant, the new facility, which commenced operations in January 2010, boosts our annual production volume of cigarette filter acetate tow by 10%.

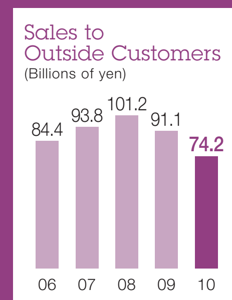

Super-slim cigarettes on the left

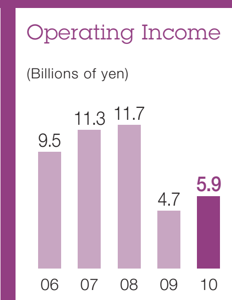
Organic Chemicals

Operations

Years ended March 31

	Millions of yen				
	2006	2007	2008	2009	**2010**
Sales to outside customers	¥84,435	¥ 93,839	¥101,246	¥ 91,058	**¥74,234**
Intersegment sales	10,989	14,126	16,948	15,989	**10,953**
Total sales	95,424	107,965	118,194	107,047	**85,187**
Total cost and expenses	85,947	96,641	106,533	102,344	**79,329**
Operating income	¥ 9,477	¥ 11,324	¥ 11,661	¥ 4,703	**¥ 5,858**
Total assets	¥82,909	¥ 93,690	¥ 91,035	¥ 76,041	**¥74,404**
Depreciation	6,426	5,881	7,590	8,362	**8,493**
Impairment loss on fixed assets	895	—	114	—	**857**
Capital investments	5,461	5,499	9,936	6,246	**5,637**





Overview

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

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

We 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.

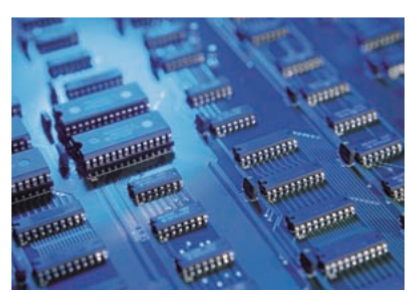
Performance

In fiscal 2009, sales to outside customers in this segment totaled ¥74,234 million, down 18.5% from the previous fiscal year.

Sales of acetic acid, the segment's core product, declined due to reduced product prices, the strong yen, and other factors. This was despite an increase in sales volume, mainly for pure terephthalic acid (PTA) applications, owing to a moderate recovery in demand.

Sales also declined for general-use products, such as acetic acid derivatives and solvents amid ongoing weak demand and falling sales prices.

Sales were flat year on year for organic-designed products, including caprolactone derivatives, epoxy compounds, and semiconductor resist materials. Demand began recovering for some products for electronics materials and other



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

applications, but overall demand remained weak.

In the chiral chemical business, which produces chiral chromatographic columns and pharmaceutical intermediates, sales to China and India were brisk for optical isomer separation columns. However, sluggish sales to Europe and the United States, declining demand in some products, and the strong yen resulted in decreased sales for the chiral chemical business.

Operating income in this segment increased 24.6% year on year to ¥5,858 million, owing to successful cost reduction efforts and other positive factors.

Japan's First Facility to Make Bioethanol-based Ethyl Acetate Begins Operation

Daicel is dedicated to developing environmentally friendly chemical processes, which utilize renewable materials, and environmentally friendly production processes that contribute to reductions in carbon dioxide and nitrogen oxide emissions. Bioethanol is one example of a renewable material being used.

Our first project was the commencement of an ethylamine production facility that uses bioethanol at the Ohtake Plant in December 2007. Ethylamine is widely used in pharmaceuticals and agricultural chemicals.

In the year under review, we began production at the first facility in Japan to make ethyl acetate using the ester process, which uses bioethanol and acetic acid as raw materials, in July 2009. Demand for ethyl acetate is expected to grow as a solvent for adhesive agents used in flat panel displays and other electronic materials.

Carbon dioxide emissions from the ethylamine and ethyl acetate production processes can be reduced markedly by utilizing bioethanol instead of petroleum-based acetaldehyde.

In addition to ethylamine and ethyl acetate, the Company is also advancing research for alternative materials for acetaldehyde, an intermediary material for the production of paracetic acid, and developing production technology by using testing equipment.

Daicel is committed to converting its production processes to enable the use of biomass raw materials.

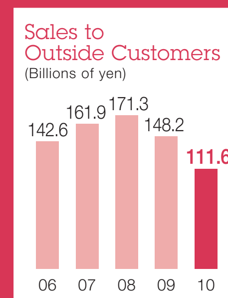
The first facility in Japan to make ethyl acetate using the ester process

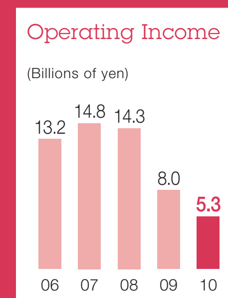
Plastics and Films

Operations

Years ended March 31

	Millions of yen				
	2006	2007	2008	2009	**2010**
Sales to outside customers	¥142,556	¥161,881	¥171,337	¥148,150	**¥111,589**
Intersegment sales	37	29	22	4	**5**
Total sales	142,593	161,910	171,359	148,154	**111,594**
Total cost and expenses	129,421	147,135	157,047	140,171	**106,311**
Operating income	¥ 13,172	¥ 14,775	¥ 14,312	¥ 7,983	**¥ 5,283**
Total assets	¥149,738	¥159,234	¥150,113	¥132,823	**¥123,300**
Depreciation	6,887	7,473	7,009	7,430	**7,215**
Impairment loss on fixed assets	15	66	100	—	**—**
Capital investments	6,960	4,677	6,777	6,431	**2,732**





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 plastic compound business, centering on acrylonitrile styrene (AS) and acrylonitrile butadiene styrene (ABS); and the plastic products business, encompassing sheets, molded vessels, and films.

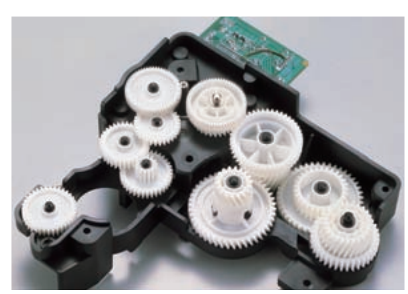
Polyplastics Co., Ltd. (hereinafter Polyplastics), a Daicel subsidiary, is responsible for the engineering plastics business. As a leading manufacturer and marketer of engineering plastics, it holds the top share in Asia for POM, PBT, and LCP, and ranks in second place for PPS. Polyplastics supplies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

Daicel Polymer Ltd., also a subsidiary, manufactures and markets plastic compounds and polystyrene sheets. Daicel Polymer focuses on supplying high-performance products, such as polymer alloys which combines the advantages of two types of resin and reinforced grade, made 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, and Singapore.

Performance

In fiscal 2009, sales to outside customers amounted to ¥111,589 million, down 24.7% from the previous fiscal year.

The production of engineering plastics, such as POM and PBT, is undertaken by Daicel Group companies, led by our consolidated subsidiary Polyplastics, which uses a fiscal year ending in December. In fiscal year 2009, sales of engineering plastics declined, due to the fact that overall sales volume fell short of the previous-year level, despite a recovery trend in sales for its core products.



Polyacetal is used in drive gears in laser printers.

Sales declined in the plastic compounds business, which centers on AS, ABS, and engineering plastic alloys, owing mainly to shrinking demand in the domestic housing and other markets and falling raw materials prices, which put downward pressure on product prices.

Sales also fell in the other plastic products business, which encompasses sheets, molded vessels, and films. The primary factors were the sluggish economic conditions and the removal of subsidiary Mikuni Plastics Co., Ltd., from the scope of consolidation in the second half of the previous fiscal year.

Operating income in this segment declined 33.8% year on year to ¥5,283 million, largely owing to decreased sales volume and the accompanying drop in the capacity utilization ratio.

PEEK Compound Marketing Collaboration

Daicel-Evonik Ltd., and Polyplastics Co., Ltd. are collaborating to expand the Japanese market for polyether ether ketone (PEEK) compounds under the trade name VESTAKEEP®, manufactured by Evonik Industries A.G., of Germany.

VESTAKEEP® offers excellent chemical resistance and sliding friction behavior from its extremely smooth surface and creep, fatigue resistance, and other mechanical strength properties at very high temperatures (200 degrees Celsius and above). These attributes have led to PEEK compounds becoming prominent in recent years among engineering plastics for their suitability in an increasingly broad range of applications including electronic components, automotive products, and semiconductor manufacturing equipment components.

The market for PEEK compounds in fiscal 2007 was 3,000 tons worldwide and 300 tons in Japan. Although sales volumes have been decreasing since the Lehman Brothers shock and the subsequent worldwide recession, double-digit growth in sales is a possibility in the future.

Daicel-Evonik has already begun import and sales of VESTAKEEP® in Japan, and is aiming to accelerate expansion of its existing sales network by utilizing Polyplastics considerable know-how in development of markets for a broad range of engineering plastics. Polyplastics aims to strengthen its product portfolio through the synergistic effect that the addition of VESTAKEEP® will have on its ample lineup of engineering plastics businesses, including POM, PBT, PPS, and LCP.

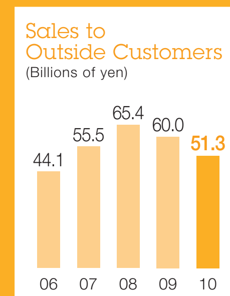
Review of Operations

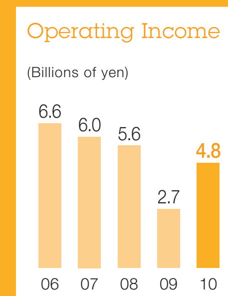
Pyrotechnic Devices

Operations

Years ended March 31

	Millions of yen				
	2006	2007	2008	2009	**2010**
Sales to outside customers	¥44,090	¥55,496	¥65,375	¥59,984	**¥51,298**
Total sales	44,090	55,496	65,375	59,984	**51,298**
Total cost and expenses	37,473	49,449	59,748	57,321	**46,472**
Operating income	¥ 6,617	¥ 6,047	¥ 5,627	¥ 2,663	**¥ 4,826**
Total assets	¥52,786	¥59,965	¥67,789	¥50,594	**¥52,140**
Depreciation	3,434	4,393	5,087	5,159	**4,613**
Capital investments	12,678	4,227	9,331	3,751	**3,005**





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 devices (PGG); and the aerospace & defense business, made up mainly of aircrew emergency escape systems, gun propellants, and rocket motors.

Daicel has earned high praise for its automobile airbag inflators, which are the most important component of the constantly advancing airbag systems.

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

Performance

In fiscal 2009, sales to outside customers declined 14.5% year on year to ¥51,298 million.

Sales of automobile airbag inflators declined, primarily as a result of a sharp drop in automobile unit sales in Japan, North America, and Europe, despite a slight recovery in demand during the year. Sales of seatbelt PGG devices increased, owing to a rise in sales volume.

In the aerospace & defense business, which handles gun propellants, missile components, and aircrew emergency escape systems, overall sales increased on expanding sales volumes for certain products.

Operating income increased 81.2% from the previous fiscal year, to ¥4,826 million, thanks to successful efforts to reduce fixed costs.

Automobile Airbag Inflators

Daicel's Aerospace & Defense Systems/ Safety Systems Company holds 2nd Global Kaizen Contest

Our Aerospace & Defense Systems/Safety Systems Company constantly makes improvements to its operations with the objective of establishing a "production system to ensure safety, quality, and customer confidence."

Between September 30 and October 8, 2009, the company held its second annual Global Kaizen Contest at the Harima Plant, where finalists presented the results of their Kaizen (improvement) activities, and the contest winners were chosen. This year's theme added "connecting" to the previous year's theme of "gathering, competing, and learning." The "connecting" concept covers three levels: implementing Kaizen activities by connecting with other divisions within a company, emphasizing the importance of connecting overseas sites through Kaizen activities, and connecting current and future Kaizen activities.

The preliminary contests, which covered the topics of Safety, the 3S's*, and the Toyota Production System, were held at the Pyrotechnic Devices Segment's sites, with the winning 18 teams advancing to the Global Kaizen Contest.

The enthusiasm and energy that the team put into their presentations marked an improvement over the previous year's efforts, prompting one invited guest to say, "The presentation content is more substantial than last year. All of the participants clearly put a lot of effort into their activities."

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

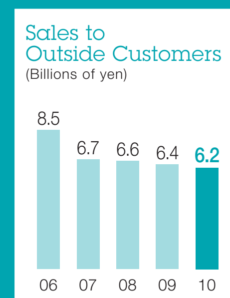
2nd Global Kaizen Contest

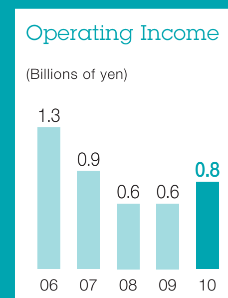
Functional Products and Others

Operations

Years ended March 31

	Millions of yen				
	2006	2007	2008	2009	**2010**
Sales to outside customers	¥ 8,540	¥ 6,706	¥ 6,565	¥ 6,419	**¥ 6,184**
Intersegment sales	10,267	11,876	12,348	10,980	**9,369**
Total sales	18,807	18,582	18,913	17,399	**15,553**
Total cost and expenses	17,490	17,657	18,354	16,787	**14,751**
Operating income	¥ 1,317	¥ 925	¥ 559	¥ 612	**¥ 802**
Total assets	¥10,908	¥ 9,704	¥ 7,981	¥ 7,338	**¥ 7,297**
Depreciation	290	327	361	367	**313**
Capital investments	340	224	279	258	**109**





Performance

In fiscal 2009, sales to outside customers amounted to ¥6,184 million, a year-on-year decrease of 3.7%.

In the membrane systems business, which includes separation membrane modules and other products for water treatment, sales overall remained firm, due in part to strong growth in export shipments of products for general industrial applications, including wastewater treatment systems.

Sales of new functional materials and other products declined owing to diminishing demand amid the stagnant economic conditions.

Operating income in this segment increased 30.7% year on year to ¥802 million.

Daicel's Growth Foundation

Research and Development

The Importance of R&D in Group Operations

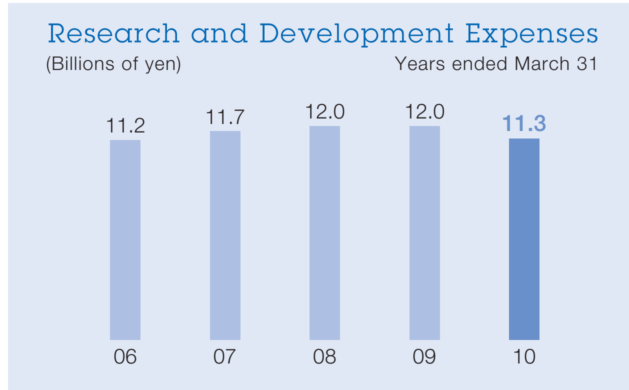
Given Japan's lack of natural resources, to achieve continued profitable growth chemical manufacturers must demonstrate their ability to deliver to the market a continuous stream of creative, highly distinctive products, embodying proprietary technologies. The Daicel Group recognizes that research and 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 organic synthesis chemistry, cellulose chemistry, polymer chemistry, and pyrotechnic engineering.

R&D Activities for this Fiscal Year

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

Central Research Center



Consolidated R&D expenses amounted to ¥11,317 million in fiscal 2009. The Group has 857 employees, representing 11.2% of the Group's total employees, engaged in R&D activities.

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 ¥12,000 miliion in R&D in fiscal 2010.

Business Segment	R&D Main Themes	R&D Expenses
Cellulosic Derivatives	Raising production capacity and improving the quality of acetate cellulose; strengthening production technology and improving the quality of acetate filter tow	¥786 million
Organic Chemicals	Research into improving acetic acid manufacturing technologies; development of new organic derivatives; development and commercialization of organic designed products; examination of industrialization of new pharmaceutical intermediates; development of columns for the separation of optical isomers and development of separation processes for such columns	¥2,784 million
Plastics & Films	Quality enhancement and environmental responsiveness of engineering plastics; development of high-performance resins and polymer alloys; development of styrene products	¥3,327 million
Pyrotechnic Devices	Research into the development of new gas-generating agents and new inflators for car airbags; development of propellants	¥1,476 million
Functional Products & Others	Development of membrane separation systems	¥86 million
Company-wide R&D	Basic research and research for the creation of new businesses	¥2,855 million

Daicel has conducted its business activities with full consideration of the environment and safety since its inception. Daicel introduced its Responsible Care activities to the public in 1995, and the president of Daicel signed a declaration of support for the Responsible Care Global Charter in June 2008.

Responsible Care is the chemical industry's global initiative for companies involved in the production and handling of chemical substances to voluntarily implement health, safety and environmental measures in all their operating processes, from initial development to disposal.

Daicel is actively engaged in Responsible Care for a wide range of social issues, such as the prevention of global warming, the preservation of the environment, and the elimination of work-related injuries.

Energy Conservation Activities in the Home

Daicel Receives the Japan Chemical Industry Association's "Award for Effort in ABC Activities"

Household carbon dioxide emissions in Japan have increased by approximately 40% since 1990, and now amount to some 180 million tons annually, or 14% of the country's total CO_2 output. Reducing household CO_2 emissions has become critically important.

In 2005, accompanying the introduction of the Japanese government's Team Minus 6% campaign, the chemical industry responded with the Japan Chemical Industry Association (JCIA) launching "ABC Activities," which is short for "Accelerate By Chemical Industry for Cool Earth," to promote CO_2 reduction efforts in the home in 2008.

Daicel actively promotes CO_2 reduction efforts in the home by devising imaginative ideas to encourage employees to implement energy-saving measures at home. Such initiatives include creating challenge targets and developing programs to make it easy to calculate reductions in CO_2 emissions using the government's "Personal Challenge Sheets."

In 2009, the JCIA presented Daicel with the "Award for Effort in ABC Activities" in recognition of the Company's efforts.

Activities to Eliminate Work-related Injuries

Third Straight Year of Decreases in Work-related Injuries (for both injuries requiring leave and those not requiring leave)

In fiscal 2009, Daicel recorded two work-related injuries requiring a leave of absence and 12 work-related injuries not requiring leave. Both of these figures have decreased markedly for three consecutive years, and represent vast improvements in the frequency rate of work-related injuries.

We believe these positive trends are the result of on-site safety programs to heighten employee sensitivity to dangerous situations. Specifically, CAPD (check, act, plan, and do) activities are incorporated into the 3S's (sorting, setting in order, and systematic cleaning) sessions, near-accident incident reporting, danger prognosis, and trouble modulation countermeasures. We also undertake analogous accident prevention measures and information sharing on work-related injuries via the companywide alert database on work-related injuries. We will continue aiming to achieve zero work-related injuries in fiscal 2010.

Corporate Governance

Corporate Governance

Daicel has adopted a corporate auditor system. We are ensuring the appropriateness of the management decisions and strengthening the supervisory function of the Board of Directors by soliciting opinions and advice from several external directors. 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 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, and reorganizing the R&D system.

Board of Directors

The Board of Directions is comprised of eight directors, including three external directors. The Board meets, in principle, on a monthly basis to make decisions on important management matters and to supervise business operations.

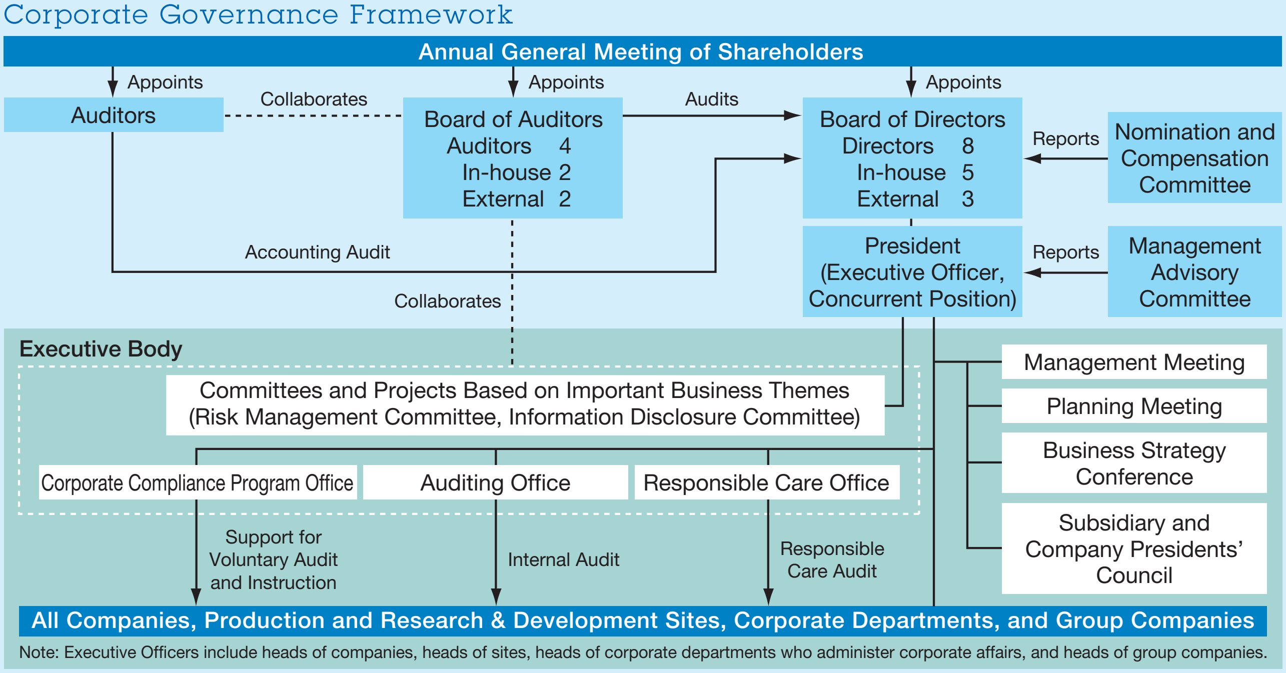
Four of the board members are concurrently executive officers in the positions of president, who fulfills a supervisory role for business divisions, and general managers of corporate departments. Their execution of duties as executive officers does not cover in-house companies, which play the main role in our business operations.

In addition, the Company does not appoint directors with specific titles, such as senior managing director or executive director, in order to further strengthen the Board of Directors' decision-making and supervisory functions and provide a greater degree of separation from business execution functions.

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 policies set by the Board of Directors. The Management Meeting is convened twice per month, in principle, and is attended by the president, members of the Management Advisory Committee, and executive officers appointed by the president.

Corporate Governance Framework



Board of Auditors

The Board of Auditors is comprised of four auditors, including two 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.

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 Structure

Fiscal 2008 was the first year of the internal control system's introduction. Thanks to the company-wide effort from all employees, we were able to report that the internal control system was functioning effectively in the Internal Control Report on financial reporting for fiscal 2008 submitted to the Financial Services Agency.

Continuing the accurate execution of the internal control system for financial reporting was a management priority in fiscal 2009, and a company-wide operation was implemented centering on corporate departments. In addition to financial reporting, we are fortifying internal controls related to the Company's business activities, including establishing the infrastructure to further promote our corporate culture of legal compliance by ensuring accurate comprehension and knowledge of all laws and regulations and further improving the information management infrastructure, which is one of the Company's essential business elements and management resources.

Risk Management

In April 2006, Daicel adopted a Risk Management Code that stipulates a company-wide risk management policy and formed a Risk Management Committee to supervise and promote company-wide risk management. Since November 2006, under the instructions of the Risk Management Committee, we have been conducting comprehensive risk identification activities on an annual basis. When a major risk is identified, we assign a priority level, consider countermeasures, and adopt initiatives to limit exposure to risk. Risk management activities are promoted throughout over thirty Group companies in Japan and overseas, and were further expanded to cover two domestic companies that were newly added to the Group in fiscal 2009.

We have established risk response procedures covering the initial response in the event of a major emergency, including such aspects as communication networks and the setting up of an emergency response headquarters. We also regularly conduct emergency response drills in preparation for a major event. Emergency response drills in fiscal 2009 focused on information sharing at the initial response stage, and included training drills in the event of a factory disaster. In addition, we examined issues that came to our attention during the drills, and revised our response rules to improve their practicality.

Corporate Ethics

Corporate Ethics Management System

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

Corporate Ethics Management System

Promotional Framework

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

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

Education and Training Programs

The Company's corporate ethics training system provides job-level-specific training, which includes training for new employees, labor union members, managers and directors, and Group company presidents. Under the system, we also provide training at the time of promotion or other career events. As a manufacturing company, we also provide systematic education, including legal compliance, as part of our Engineer Development Program, which is designed to provide training in the basic skills necessary to ensure safe manufacturing practices and the steady provision of products.

In addition, each division gathers information and conducts training to impart knowledge of laws and regulations required for business operations. Compliance is further reinforced through an ongoing program of in-house seminars conducted in the corporate departments.

Fair Trading

Daicel's Raw Material Purchasing Center, in charge of the purchase of raw materials, and the Engineering Center Procurement Group, responsible for the purchase of machinery, both operate under the Basic Purchasing Policy, which guides purchasing activities with business partners. Drafted in accordance with the Daicel Group Conduct Policy, the Basic Purchasing Policy comprises four sections governing: fair and rational transactions; legal compliance, confidentiality and information disclosure; the establishment of a relationship of trust; and initiatives based on CSR perspectives.

Board of Directors and Corporate Auditors/Executive Officers

(As of July 31, 2010)

Chairman **Daisuke Ogawa**

President **Misao Fudaba**

Director **Tetsuji Yanami**

Board of Directors and Corporate Auditors

CHAIRMAN

Daisuke Ogawa

PRESIDENT

Misao Fudaba

DIRECTORS

Tetsuji Yanami

Ichiro Katagiri

Kohji Shima

Shigetaka Komori
President of FUJIFILM Holdings Corporation

Akishige Okada
Advisor of Sumitomo Mitsui Banking Corporation

Yuichi Miura
Advisor of Tokuyama Corporation

CORPORATE AUDITORS

Mikio Kitagawa

Kazuo Sato

AUDITORS

Yoshikatsu Moriguchi
Lawyer

Kunie Okamoto
President and CEO, Nippon Life Insurance Company

Executive Officers

CHIEF EXECUTIVE OFFICER

Misao Fudaba

SENIOR MANAGING EXECUTIVE OFFICER

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

MANAGING EXECUTIVE OFFICERS

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

Kohji Shima
General Manager of R&D Management, New Business Planning Office, Intellectual Property Center

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

Shuzaburo Kumano
President of Cellulose Company General Manager of Raw Material Purchasing Center

Masumi Fukuda
President of Organic Chemical Products Company

Masayuki Mune
President of Daicel Polymer Ltd.

EXECUTIVE OFFICERS

Shinzo Uda
General Representative in China, Chairman of the Board of Daicel Chemical (China) Investment Co., Ltd.

Mitsuharu Shimada
President of Daicel FineChem Ltd.

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

Yasunori Iwai
General Manager of Central Research Center, General Manager of Corporate Research Center, R&D Management

Yuji Iguchi
General Manager of Corporate Planning Office

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

Hisao Nishimura
President of CPI Company

Financial Section

Eleven Year Summary

Years ended March 31

	2000	2001	2002	2003
For the year:				
Net sales	¥ 238,240	¥ 261,520	¥ 261,358	¥ 271,342
Operating income	14,369	14,627	15,483	20,410
Income before income taxes and minority interests	8,396	10,066	6,841	6,864
Net income	3,125	3,381	3,635	2,029
Amounts per common share (yen):				
Net income	¥ 8.48	¥ 9.03	¥ 9.86	¥ 5.50
Cash dividends applicable to the year	6.00	6.00	6.00	6.00
Capital expenditures	¥ 38,820	¥ 22,189	¥ 20,082	¥ 16,747
Depreciation and amortization	26,931	28,484	26,709	25,413
Research and development expenses	10,393	11,841	11,485	11,747
At year-end:				
Total current assets	¥ 191,248	¥ 168,079	¥ 150,862	¥ 143,280
Total assets	439,108	442,055	412,008	381,518
Total current liabilities	156,916	141,072	135,303	107,385
Total long-term liabilities	107,933	114,526	95,150	94,934
Total equity*1	142,777	155,314	154,515	151,987
Ratios:				
Current ratio (%)	121.9	119.1	111.5	133.4
Shareholders' equity ratio (%)*2	32.5	35.1	37.5	39.8
Return on assets (%)	0.7	0.8	0.9	0.5
Return on equity (%)	2.2	2.3	2.3	1.3
Ratio of net income to net sales (%)	1.3	1.3	1.4	0.7
Assets turnover (times)	0.6	0.6	0.6	0.7
Tangible fixed assets turnover (times)	1.3	1.4	1.4	1.5
Other information:				
Price range of common stock (yen):				
High	¥ 497	¥ 378	¥ 467	¥ 423
Low	260	273	290	293
Exchange rate at year-end (yen per US$1)	¥ 106.00	¥ 124.00	¥ 133.00	¥ 120.00
Number of employees (at year-end)	5,132	5,412	5,363	5,416

*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

2004	2005	2006	2007	2008	2009	2010
¥ 281,740	¥ 306,335	¥ 335,520	¥ 381,423	¥ 416,990	¥ 377,980	**¥ 320,243**
21,207	28,553	33,570	36,399	32,164	10,590	**20,856**
8,055	22,380	29,386	33,185	27,145	6,272	**16,911**
5,166	10,844	14,221	17,438	13,676	1,297	**11,070**
¥ 14.21	¥ 29.82	¥ 39.16	¥ 48.19	¥ 37.86	¥ 3.62	**¥ 31.10**
6.00	8.00	8.00	8.00	8.00	8.00	**10.00**
¥ 20,991	¥ 25,377	¥ 59,018	¥ 55,316	¥ 46,930	¥ 25,666	**¥ 18,424**
24,514	22,490	22,484	23,774	29,576	39,674	**37,782**
11,085	11,219	11,221	11,717	12,004	12,046	**11,317**
¥ 141,233	¥ 160,541	¥ 172,344	¥ 206,670	¥ 207,834	¥ 185,547	**¥ 180,232**
381,485	413,493	483,469	547,432	515,618	445,912	**428,377**
105,093	102,779	133,420	152,556	158,230	151,158	**102,167**
88,684	110,875	121,159	152,467	118,240	83,266	**97,205**
160,479	171,225	197,780	242,409	239,148	211,488	**229,005**
134.4	156.2	129.2	135.5	131.3	122.8	**176.4**
42.1	41.4	40.9	39.5	41.4	42.3	**48.1**
1.4	2.7	3.2	3.4	2.6	0.3	**2.5**
3.3	6.5	7.7	8.4	6.4	0.6	**5.6**
1.8	3.5	4.2	4.6	3.3	0.3	**3.5**
0.7	0.8	0.7	0.7	0.8	0.8	**0.7**
1.7	1.9	1.8	1.8	1.9	1.8	**1.7**
¥ 501	¥ 597	¥ 1,017	¥ 1,050	¥ 921	¥ 677	**¥ 655**
374	441	516	739	488	298	**341**
¥ 106.00	¥ 107.00	¥ 117.00	¥ 118.00	¥ 100.00	¥ 98.00	**¥ 93.00**
5,604	5,819	6,248	7,034	7,685	7,803	**7,665**

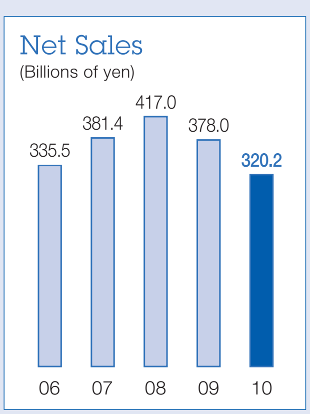
Management's Discussion and Analysis

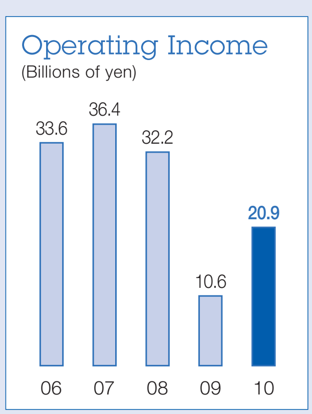
Operating Results

Net Sales

Consolidated net sales amounted to ¥320.2 billion in fiscal 2009, representing a decline of ¥57.7 billion, or 15.3%, from the previous fiscal year. The primary factors behind the decline were a decrease in sales volume, reflecting sluggish product demand and the impact of the strong yen and the weak U.S. dollar. The yen's appreciation against the U.S. dollar during the term under review had an estimated ¥12.9 billion negative effect on sales.

Revenue declines in three business areas accounted for a large portion of the decrease in sales. Consolidated sales in the organic chemicals segment were down ¥16.8 billion year on year due to sluggish demand and deteriorating market conditions for all products, with the exception of some products for electronics materials, as well as the impact from the yen's appreciation. In the plastics and films segment, consolidated sales decreased ¥36.6 billion from the previous fiscal year owing to a sharp drop in sales volume of engineering plastics by our consolidated subsidiaries, centered on Polyplastics Co., Ltd., with December fiscal year-ends and the impact from the strong yen. Consolidated sales in the pyrotechnic devices segment declined ¥8.7 billion year on year due to a decrease in the sales volume of automobile airbag inflators accompanying the drop in automobile sales and the strong yen.





Gross Profit

Gross profit amounted to ¥69.3 billion, an increase of ¥4.4 billion, or 6.8%, from the previous fiscal year. The ratio of gross profit to net sales rose to 21.6%, up 4.4 percentage points from the previous fiscal year. The increase was largely the result of both efforts to lower fixed costs and the decline in raw material prices.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled ¥48.4 billion, down ¥5.8 billion, or 10.8%, from the previous fiscal year. The decrease was primarily due to reduced direct sales costs accompanying the fall in sales volume and efforts to curtail spending. The ratio of SG&A expenses to consolidated net sales rose 0.7 percentage point, to 15.1%.

Operating Income

Operating income increased ¥10.3 billion, or 96.9% from the previous fiscal year, to ¥20.9 billion. The operating margin rose 3.7 percentage points, to 6.5%. The yen's appreciation against the dollar had an estimated ¥4.5 billion negative effect on consolidated operating income compared to the previous fiscal year.

Three main factors contributed to the improvement in operating income for the year. The cellulosic derivatives segment posted a ¥9.9 billion rise in operating income largely due to increased sales volume of cellulose acetate, a decrease in depreciation expenses, and reduced costs. In the organic chemicals segment, cost-cutting efforts helped produce a ¥1.2 billion increase in the segment's operating income. The pyrotechnic devices segment raised operating income ¥2.2 billion by revising its staff structure and implementing a global effort to reduce total costs. Factors that negatively affected consolidated operating income during the year included a ¥2.7 billion decline in the operating income of the plastics and films segment, which was largely the result of the substantial drop in sales volume of engineering plastics.

Other Income (Expenses)

Other expenses, net, amounted to ¥3.9 billion, down ¥0.4 billion from the previous fiscal year. This was primarily attributable to improvements in the foreign exchange loss and equity in earnings of unconsolidated subsidiaries and associated companies.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests increased ¥10.6 billion, or 169.6%, to ¥16.9 billion.

Income Taxes

The effective tax rate after application of tax-effect accounting decreased 13.6 percentage points, to 30.9%.

Minority Interests in Net Income

Minority interests in net income decreased ¥1.6 billion, or 71.9%, to ¥0.6 billion.

Net Income

Net income for the year increased ¥9.8 billion, or 753.5%, to ¥11.1 billion.

Per Share Information

Net income per share totaled ¥31.10, an increase of ¥27.48 from the previous fiscal year.

In the year under review, we distributed a term-end ordinary dividend of ¥4 per share, to which we added a 90th anniversary commemorative dividend of ¥2 per share in appreciation of the support we have received from our shareholders since the Company's founding. The resulting ¥6 per share term-end dividend and the ¥4 per share interim dividend combined for a total dividend distribution of ¥10 per share in fiscal 2009.

Financial Position

Assets

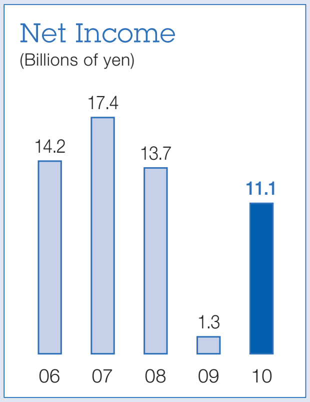
As of March 31, 2010, total assets stood at ¥428.4 billion, down ¥17.5 billion, or 3.9%, from a year earlier. The decline stemmed mainly from a decrease in inventories, and property, plant and equipment, which outbalanced increases in trade accounts receivable, and the fair value of investment securities.

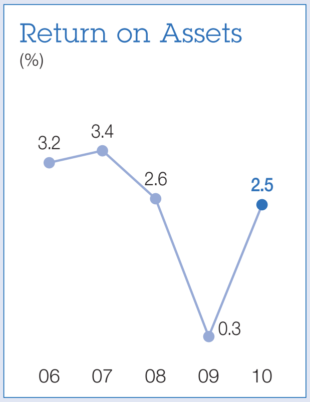
Liabilities

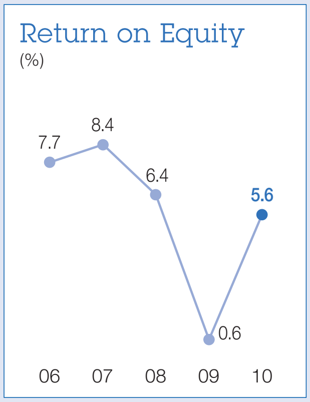
Total liabilities amounted to ¥199.4 billion, a decline of ¥35.1 billion, or 15.0%, from a year earlier. The decrease was mainly due to declines in short-term bank loans which more than offset an increase in proceeds from the issuance of bonds.

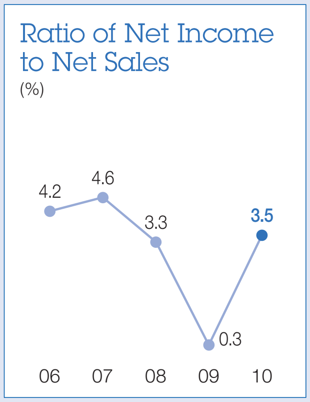
Equity

Total equity at the fiscal year-end came to ¥229.0 billion. Total shareholders' equity (total equity minus minority interest) amounted to ¥206.1 billion. The shareholders' equity ratio was 48.1%.









Cash Flows

Cash and cash equivalents at the fiscal year-end stood at ¥30.1 billion, virtually unchanged from the ¥30.5 billion level at the end of the previous fiscal year.

Cash from Operating Activities

Net cash provided by operating activities amounted to ¥66.4 billion, an increase of ¥26.3 billion, or 65.4%, from the previous fiscal year. An increase in income before income taxes and minority interests and a decrease in inventories contributed to the rise.

Cash from Investing Activities

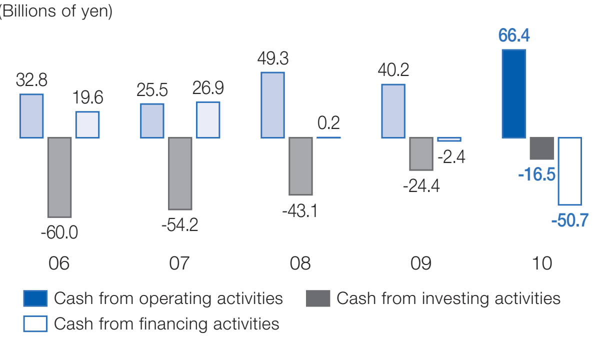
Net cash used in investing activities totaled ¥16.5 billion, down ¥7.9 billion, or 32.5%, from the previous fiscal year. The decline was mainly the result of a decrease in capital expenditures.

Cash from Financing Activities

Net cash used in financing activities came to ¥50.7 billion, compared with ¥2.4 billion used in the previous fiscal year. This was primarily attributable to a decrease in short-term bank loans.

Cash Flows

(Billions of yen)



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 (36.7% in fiscal 2009), and the Company's results can be more easily influenced by trends in currency exchange rates. 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 forward currency exchange contracts and other risk-hedging activities, this does not guarantee that exchange risks can be completely avoided.

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.

Fluctuations in Raw Material (Methanol) Prices

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

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.

Outlook for Fiscal 2010

In Fiscal 2010, the Daicel Group plans to continue its cost-cutting efforts and anticipates growing demand for acetate cellulose for use in LCD films, increasing sales volume of acetate tow for cigarette filters accompanying the Company's expanded production capacity, and recovering sales volumes for engineering plastics and automobile airbag inflators. The Daicel Group forecasts fiscal 2010 net sales of ¥350.0 billion, operating income of ¥31.0 billion, ordinary income of ¥29.0 billion, and net income of ¥16.5 billion.

Consolidated Balance Sheets

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 30,129	¥ 30,508	$ 323,968
Marketable securities (Notes 3 and 13)	26	26	280
Receivables (Note 13):			
Trade notes	3,542	3,238	38,086
Trade accounts	68,740	55,981	739,140
Unconsolidated subsidiaries and associated companies	4,832	4,958	51,957
Allowance for doubtful receivables	(135)	(141)	(1,452)
Inventories (Note 4)	62,615	75,984	673,280
Deferred tax assets (Note 9)	4,310	6,020	46,344
Other current assets	6,173	8,973	66,375
Total current assets	180,232	185,547	1,937,978
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 16):			
Land	26,423	26,486	284,118
Buildings and structures	134,679	134,199	1,448,161
Machinery and equipment	499,406	487,148	5,369,957
Construction in progress	6,848	11,707	73,635
Total	667,356	659,540	7,175,871
Accumulated depreciation	(492,006)	(463,200)	(5,290,387)
Net property, plant and equipment	175,350	196,340	1,885,484
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 13)	50,250	38,709	540,323
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 13)	7,751	8,693	83,344
Deferred tax assets (Note 9)	848	1,759	9,118
Other assets	13,946	14,864	149,957
Total investments and other assets	72,795	64,025	782,742
TOTAL	¥ 428,377	¥ 445,912	$ 4,606,204

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 13)	¥ 11,666	¥ 56,683	$ 125,441
Current portion of long-term debt (Notes 6, 12 and 13)	24,311	36,480	261,409
Payables (Note 13):			
Trade notes	149	145	1,602
Trade accounts	40,487	31,723	435,344
Construction	4,815	6,757	51,774
Unconsolidated subsidiaries and associated companies	2,168	1,932	23,312
Income taxes payable (Notes 9 and 13)	4,990	1,199	53,656
Other current liabilities	13,581	16,239	146,032
Total current liabilities	102,167	151,158	1,098,570
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 12 and 13)	79,917	69,540	859,323
Liability for retirement benefits (Note 7)	9,126	8,823	98,129
Deferred tax liabilities (Note 9)	6,224	4,382	66,925
Other long-term liabilities	1,938	521	20,839
Total long-term liabilities	97,205	83,266	1,045,216
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 12, 14 and 18)			
EQUITY (Notes 8 and 19):			
Common stock, — authorized 1,450,000,000 shares issued 364,942,682 shares in 2010 and 2009	36,275	36,275	390,054
Capital surplus	31,577	31,576	339,538
Retained earnings	130,570	122,348	1,403,978
Unrealized gain on available-for-sale securities	16,903	9,150	181,752
Deferred gain (loss) on derivatives under hedge accounting	(171)	(193)	(1,839)
Foreign currency translation adjustments	(4,916)	(6,271)	(52,860)
Treasury stock, — at cost 9,032,862 shares in 2010 and 8,987,467 shares in 2009	(4,102)	(4,077)	(44,108)
Total	206,136	188,808	2,216,515
Minority interests	22,869	22,680	245,903
Total equity	229,005	211,488	2,462,418
TOTAL	¥428,377	¥445,912	$4,606,204

Consolidated Statements of Income

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
NET SALES	**¥320,243**	¥377,980	¥416,990	**$3,443,473**
COST OF SALES (Note 10):	**250,951**	313,116	327,019	**2,698,398**
Gross profit	**69,292**	64,864	89,971	**745,075**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	**48,436**	54,274	57,807	**520,817**
Operating income	**20,856**	10,590	32,164	**224,258**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**989**	1,604	1,389	**10,634**
Gain on sales of securities	**153**	32	181	**1,645**
Gain on sales of subsidiaries' stocks			1,457	
Equity in earnings of unconsolidated subsidiaries and associated companies	**1,256**	711	584	**13,505**
Interest expense	**(2,331)**	(2,865)	(3,477)	**(25,064)**
Foreign exchange gain (loss)	**(299)**	(1,232)	(1,627)	**(3,215)**
Reversal of deferred gain from expropriation (Note 17)			16,833	
Subsidies from municipal governments (Note 16)		1,233	1,000	
Reduction of cost of property, plant and equipment (Notes 16 and 17)		(813)	(17,833)	
Loss on dispositions of property, plant and equipment	**(2,000)**	(1,971)	(2,164)	**(21,505)**
Impairment loss on fixed assets	**(857)**	(79)	(214)	**(9,215)**
Legal settlement	**(399)**			**(4,290)**
Other - net	**(457)**	(938)	(1,148)	**(4,914)**
Other income (expenses)-net	**(3,945)**	(4,318)	(5,019)	**(42,419)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**16,911**	6,272	27,145	**181,839**
INCOME TAXES (Note 9):				
Current	**6,046**	3,149	8,447	**65,011**
Deferred	**(819)**	(359)	1,922	**(8,807)**
Total income taxes	**5,227**	2,790	10,369	**56,204**
MINORITY INTERESTS IN NET INCOME	**614**	2,185	3,100	**6,603**
NET INCOME	**¥ 11,070**	¥ 1,297	¥ 13,676	**$ 119,032**

	Yen			U.S. dollars
PER SHARE INFORMATION (Notes 2.o and 11):				
Net income	**¥ 31.10**	¥ 3.62	¥ 37.86	**$ 0.334**
Cash dividends applicable to the year	**10.00**	8.00	8.00	**0.108**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries Years ended March 31, 2010, 2009 and 2008

		Millions of yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2007	361,835,006	¥36,275	¥31,575	¥112,970	¥ 34,234	¥ 37	¥ 2,074	¥(1,193)	¥215,972	¥26,437	¥242,409
Effect of initial inclusion of certain subsidiaries in consolidation				7					7		7
Net income				13,676					13,676		13,676
Cash dividends, ¥8.00 per share				(2,894)					(2,894)		(2,894)
Repurchase of treasury stock	(2,402,817)							(1,486)	(1,486)		(1,486)
Disposal of treasury stock	8,537		2					4	6		6
Net change in the year					(13,426)	(140)	1,626		(11,940)	(630)	(12,570)
BALANCE, MARCH 31, 2008	359,440,726	36,275	31,577	123,759	20,808	(103)	3,700	(2,675)	213,341	25,807	239,148
Adjustment of retained earnings due to an adoption of PITF No. 18 (Note 2.b)				(118)					(118)		(118)
Net income				1,297					1,297		1,297
Cash dividends, ¥8.00 per share				(2,875)					(2,875)		(2,875)
Repurchase of treasury stock	(3,514,132)							(1,415)	(1,415)		(1,415)
Disposal of treasury stock	28,621		(1)					13	12		12
Decrease due to exclusion of consolidated subsidiaries				285					285		285
Change of scope of equity method				0					0		0
Net change in the year					(11,658)	(90)	(9,971)		(21,719)	(3,127)	(24,846)
BALANCE, MARCH 31, 2009	355,955,215	36,275	31,576	122,348	9,150	(193)	(6,271)	(4,077)	188,808	22,680	211,488
Net income				11,070					11,070		11,070
Cash dividends, ¥10.00 per share				(2,848)					(2,848)		(2,848)
Repurchase of treasury stock	(48,919)							(26)	(26)		(26)
Disposal of treasury stock	3,524		1					1	2		2
Net change in the year					7,753	22	1,355		9,130	189	9,319
BALANCE, MARCH 31, 2010	355,909,820	¥ 36,275	¥ 31,577	¥130,570	¥ 16,903	¥ (171)	¥ (4,916)	¥ (4,102)	¥206,136	¥ 22,869	¥229,005

	Thousands of U.S. dollars (Note 1)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2009	$390,054	$339,527	$1,315,570	$ 98,386	$ (2,075)	$ (67,430)	$ (43,839)	$2,030,193	$243,871	$2,274,064
Net income			119,032					119,032		119,032
Cash dividends, $0.11 per share			(30,624)					(30,624)		(30,624)
Repurchase of treasury stock							(280)	(280)		(280)
Disposal of treasury stock		11					11	22		22
Net change in the year				83,366	236	14,570		98,172	2,032	100,204
BALANCE, MARCH 31, 2010	$ 390,054	$ 339,538	$1,403,978	$ 181,752	$ (1,839)	$ (52,860)	$ (44,108)	$2,216,515	$ 245,903	$2,462,418

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries   Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 16,911**	¥ 6,272	¥ 27,145	**$ 181,839**
Adjustments for:				
Income taxes-paid	**(2,947)**	(7,629)	(10,935)	**(31,688)**
Income taxes-refunded	**2,024**			**21,763**
Depreciation and amortization	**37,782**	39,674	29,576	**406,258**
Impairment loss on fixed assets	**857**	79	214	**9,215**
Loss on dispositions of property, plant and equipment	**2,000**	1,971	2,164	**21,505**
Reduction of cost of property		813	17,833	
Reversal of deferred gain from expropriation			(16,833)	
Subsidies from municipal governments		(1,233)	(1,000)	
Gain on sales of securities		(32)	(181)	
Gain on sales of subsidiaries' stocks			(1,457)	
Equity in earnings of unconsolidated subsidiaries and associated companies	**(1,256)**	(711)	(584)	**(13,505)**
Changes in assets and liabilities:				
Notes and accounts receivable	**(13,203)**	24,701	4,055	**(141,968)**
Inventories	**13,824**	(8,011)	699	**148,645**
Notes and accounts payable	**8,798**	(20,649)	2,077	**94,602**
Other - net	**1,655**	4,920	(3,497)	**17,796**
Net cash provided by operating activities	**66,445**	40,165	49,276	**714,462**
INVESTING ACTIVITIES:				
Capital expenditures	**(18,424)**	(25,666)	(46,930)	**(198,108)**
Payment for purchases of investment securities	**(20)**	(999)	(954)	**(215)**
Proceeds from sales and redemption of investment securities	**1,788**	78	1,093	**19,226**
Proceeds from sales of property, plant and equipment	**137**	36	487	**1,473**
Increase in finance receivables	**(613)**	(1,817)	(856)	**(6,591)**
Collection of finance receivables	**2,198**	1,449	2,169	**23,634**
Increase in investments in and advances to unconsolidated subsidiaries and associated companies		(657)	(344)	
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation			1,750	
Proceeds from sales of plant for expropriation		5,880	919	
Proceeds from suspense receipts for expropriation			80	
Payment for moving expense for expropriation	**(478)**	(2,845)		**(5,140)**
Payment for suspense payments for expropriation			(586)	
Subsidies from municipal governments		1,233	1,115	
Other	**(1,060)**	(1,094)	(1,084)	**(11,397)**
Net cash used in investing activities	**(16,472)**	(24,402)	(43,141)	**(177,118)**
FINANCING ACTIVITIES:				
Net change in short-term bank loans	**(45,043)**	27,485	(8,717)	**(484,333)**
Proceeds from issuance of long-term debt	**35,576**	10,810	35,227	**382,538**
Repayments of long-term debt	**(37,550)**	(35,510)	(18,961)	**(403,763)**
Dividends paid	**(2,848)**	(2,875)	(2,894)	**(30,624)**
Dividends paid to minority interests	**(846)**	(930)	(2,930)	**(9,097)**
Payment for purchases of treasury stock	**(26)**	(1,415)	(1,486)	**(280)**
Other	**2**	12	5	**21**
Net cash provided by (used in) financing activities	**(50,735)**	(2,423)	244	**(545,538)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**383**	(3,539)	254	**4,118**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(379)**	9,801	6,633	**(4,074)**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR			149	
CASH AND CASH EQUIVALENTS OF SUBSIDIARIES, EXCLUDED FROM CONSOLIDATION		(33)	(1)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**30,508**	20,740	13,959	**328,042**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 30,129**	¥ 30,508	¥ 20,740	**$ 323,968**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Chemical Industries, Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 consolidated financial statements to conform to the classifications used in 2010.

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 ¥93 to $1, the approximate rate of exchange at March 31, 2010. 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, 2010 include the accounts of the Company and its 46 significant (46 in 2009, 48 in 2008) 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 has the ability to exercise significant influence are accounted for by the equity method.

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

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

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

Investments in one (two in 2009, four in 2008) unconsolidated subsidiary and eight (eight in 2009 and 2008) associated companies are accounted for by the equity method. During the year ended March 31, 2010, one subsidiary was excluded from the equity method as a result of its liquidation. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

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

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statement prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development cost of R&D; 4) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Company applied this accounting standard effective April 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

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

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

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

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

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

Prior to April 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories." This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purpose be measured at the market price. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. The Companies applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests for year ended March 31, 2009 by ¥2,144 million.

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

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.

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

g. **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 would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

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

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

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

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

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

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

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

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

k. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standards for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

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

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

All other leases are accounted for as operating leases.

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

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

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

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated income statements. For derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

Long-term debt and trade accounts denominated in foreign currencies, for which foreign exchange forward contracts or foreign currency swaps are used to hedge the foreign currency fluctuation, are translated at the contracted rate if the forward contracts or the swap contracts qualify for specific hedge accounting. Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Swaps that qualify for hedge accounting are measured at market value at the balance sheet date, and unrealized gains or losses are deferred until maturity and included in other liabilities or assets.

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

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

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

p. New Accounting Pronouncements

Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—The current accounting standard requires to unify accounting policies within the consolidation group. However, the current guidance allows to apply the equity method for the financial statements of its foreign associated company which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

In December 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), “Revised 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 adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States 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 of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; 5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and 6) exclusion of minority interests from net income, if included.

This standard is applicable to the equity method of accounting for investments effective on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Asset Retirement Obligations—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, 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 the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

Accounting Changes and Error Corrections—In December 2009, ASBJ issued 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 under this standard and guidance are as follows;

(1) Changes in Accounting Policies

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an 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.

This accounting standard and guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures—In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Current:			
Government and corporate bonds	**¥ 26**	¥ 26	**$ 280**
Non-current:			
Equity securities	**¥48,959**	¥36,711	**$526,441**
Government and corporate bonds	**1,287**	1,280	**13,839**
Trust fund investments and other	**4**	718	**43**
Total	**¥50,250**	¥38,709	**$540,323**

The costs and aggregate fair values of marketable and investment securities at March 31, 2010 and 2009 were as follows:

	Millions of yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥19,381	¥27,883	¥246	¥47,018
Debt securities	1,000		5	995

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

	Thousands of U.S. dollars			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$208,398	$299,817	$2,645	$505,570
Debt securities	10,753		54	10,699

Securities whose fair values are not readily determinable as of March 31, 2010 and 2009 were as follows:

	Carrying Amount		
	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Available-for-sale:			
Equity securities	¥1,941	¥1,941	$20,871
Debt securities	318	344	3,420
Trust fund investments and other	4	4	43
Total	¥2,263	¥2,289	$24,334

Proceeds from sales of available-for-sale securities for the years ended March 31, 2010, 2009 and 2008 were ¥1,788 million ($19,226 thousand), ¥78 million and ¥1,093 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥244 million ($2,624 thousand) and ¥91 million ($978 thousand), respectively for the year ended March 31, 2010 and ¥32 million and ¥0 million, respectively for the year ended March 31, 2009 and ¥181 million and ¥0 million, respectively for the year ended March 31, 2008.

4. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Finished products	**¥28,354**	¥37,725	**$304,882**
Semi-finished products and work in process	**11,464**	13,560	**123,269**
Raw materials and supplies	**22,797**	24,699	**245,129**
Total	**¥62,615**	¥75,984	**$673,280**

5. INVESTMENT PROPERTY

On November 28, 2008, the ASBJ issued ASBJ Statement No. 20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23 "Guidance on Accounting Standard for Investment Property and Related Disclosures." This accounting standard and guidance are applicable to investment property and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Companies applied the new accounting standard and guidance effective March 31, 2010.

The Companies hold some rental properties such as land and buildings in Osaka and other areas.

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, 2009	Increase/Decrease	March 31, 2010	March 31, 2010
¥3,659	¥146	**¥3,805**	**¥14,066**

Thousands of U.S. dollars			
Carrying Amount			Fair Value
April 1, 2009	Increase/Decrease	March 31, 2010	March 31, 2010
$39,344	$1,570	**$40,914**	**$151,247**

Notes:

1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair value of properties as of March 31, 2010 is measured by the Companies in accordance with its Real-estate Appraisal Standard.
3) Net of rental income and operating expenses are not disclosed due to insignificance.

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, 2010 and 2009 were 1.61% and 1.53%, respectively.

Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
2.20% bonds due 2010		¥ 10,000	
1.60% bonds due 2013	**¥ 10,000**	10,000	**$ 107,527**
0.84% bonds due 2015	**10,000**		**107,527**
1.69% bonds due 2020	**10,000**		**107,527**
Unsecured loans from banks and other financial institutions, due through 2020, with interest rates ranging from 0.55% to 6.19% for 2010 (from 0.55% to 6.80% for 2009)	**64,155**	65,669	**689,839**
Unsecured loan from FUJIFILM Corporation, due through 2011, with 0% interest rate	**10,000**	20,000	**107,527**
Collateralized loans from banks and other financial institutions, due through 2009, with interest rates ranging 1.80% for 2009		250	
Lease obligations	**73**	101	**785**
Total	**104,228**	106,020	**1,120,732**
Less current portion	**(24,311)**	(36,480)	**(261,409)**
Long-term debt, less current portion	**¥ 79,917**	¥ 69,540	**$ 859,323**

At March 31, 2010, annual maturities of long-term debt, excluding finance leases (see Note 12) were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2011	**¥ 24,282**	**$ 261,097**
2012	**12,925**	**138,978**
2013	**23,873**	**256,699**
2014	**10,876**	**116,946**
2015	**15,774**	**169,613**
2016 and thereafter	**16,425**	**176,614**
Total	**¥104,155**	**$1,119,947**

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

The unsecured long-term bank debt of ¥11,929 million ($128,269 thousand) contain the following financial restriction agreement during its payment period. The agreement provides that the amount of shareholder's equity ¥137,300 million ($1,476,344 thousand) at every end of fiscal year and semi-annual interim period.

7. RETIREMENT AND PENSION PLANS

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Projected benefit obligation	¥ 33,190	¥ 33,865	$ 356,882
Fair value of plan assets	(21,038)	(16,592)	(226,215)
Unrecognized actuarial loss	(3,136)	(8,522)	(33,721)
Unrecognized prior service cost	(828)	(1,064)	(8,903)
Net liability	8,188	7,687	88,043
Prepaid benefit costs	938	1,136	10,086
Liability for retirement benefit	¥ 9,126	¥ 8,823	$ 98,129

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 1,790	¥ 1,768	$ 19,247
Interest cost	600	574	6,452
Expected return on plan assets	(197)	(273)	(2,118)
Recognized actuarial loss	993	335	10,677
Amortization of prior service cost	237	118	2,548
Net periodic benefit costs	¥ 3,423	¥ 2,522	$ 36,806

Assumptions used for the years ended March 31, 2010 and 2009 were set forth as follows:

	2010	2009
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.0%	1.0%
Amortization period of prior service cost	5years	5years
Recognition period of actuarial gain/loss	10years	10years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Companies Act of Japan. The Company recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors. The annual provisions for retirement allowances for directors and corporate auditors for the years ended March 31, 2010 and 2009 were ¥76 million ($817 thousand) and ¥117 million, respectively.

8. 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 the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) 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 (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 41% for the years ended March 31, 2010, 2009 and 2008. Foreign subsidiaries are subject to income tax of the countries in which they operate.

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2010, 2009 and 2008 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2010	2009	2008
Normal effective statutory tax rate	**41%**	41%	41%
Tax effect on retained earnings for foreign subsidiaries		(10)	
Increase or decrease of valuation allowance	**(1)**	28	
Tax difference of foreign countries	**(4)**	(12)	
Equity in earnings of associated companies	**(3)**	(5)	
Tax credit primarily for research and development expenses	**(6)**	(3)	(3)
Other-net	**4**	5	(1)
Actual effective tax rate	**31%**	44%	38%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Accrued enterprise taxes	**¥ 519**	¥ 70	**$ 5,581**
Accrued bonuses	**1,434**	1,360	**15,419**
Liabilities for retirement benefits	**7,967**	8,006	**85,667**
Investment securities	**179**	175	**1,925**
Tax loss carryforwards	**4,045**	4,592	**43,495**
Intercompany profits	**4,236**	4,190	**45,548**
Other	**7,109**	5,792	**76,440**
Less valuation allowance	**(4,507)**	(4,608)	**(48,462)**
Deferred tax assets	**¥ 20,982**	¥ 19,577	**$ 225,613**
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	**¥ 10,592**	¥ 5,199	**$ 113,892**
Tax purpose reserves regulated by Japanese tax law	**790**	847	**8,495**
Undistributed earnings of foreign subsidiaries	**5,056**	4,102	**54,366**
Securities contributed to employees' retirement benefit trust	**4,447**	4,675	**47,817**
Other	**1,163**	1,357	**12,506**
Deferred tax liabilities	**¥ 22,048**	¥ 16,180	**$ 237,076**
Net deferred tax assets (liabilities)	**¥ (1,066)**	¥ 3,397	**$ (11,463)**

At March 31, 2010, the certain subsidiaries have tax loss carryforwards aggregating approximately ¥4,045 million ($43,495 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
2012	**¥ 23**	**$ 247**
2013	**23**	**247**
2014	**18**	**194**
2015	**158**	**1,699**
2016 and thereafter	**3,823**	**41,108**
Total	**¥ 4,045**	**$ 43,495**

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥11,317 million ($121,688 thousand), ¥12,046 million and ¥12,004 million for the years ended March 31, 2010, 2009 and 2008, respectively.

11. 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 355,930,738, 358,260,876 and 361,213,634 for the years ended March 31, 2010, 2009 and 2008, respectively.

12. LEASES

(Lessee)

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, 2010, 2009 and 2008 were ¥88 million ($946 thousand), ¥120 million and ¥247 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	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 50	¥ 529	$ 538	$ 5,688
Due after one year	50	417	538	4,484
Total	¥ 100	¥ 946	$ 1,076	$ 10,172

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, the 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 the 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:

	Millions of yen		
As of March 31, 2010	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥ 229	¥ 219	¥ 448
Accumulated depreciation	203	145	348
Net leased property	¥ 26	¥ 74	¥ 100

	Thousands of U.S. dollars		
As of March 31, 2010	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	$ 2,462	$ 2,355	$ 4,817
Accumulated depreciation	2,183	1,559	3,742
Net leased property	$ 279	$ 796	$ 1,075

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

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

Obligations under finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 50**	¥ 88	**$ 538**
Due after one year	**50**	100	**538**
Total	**¥ 100**	¥ 188	**$ 1,076**

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 ¥88 million ($946 thousand), ¥120 million and ¥247 million for the years ended March 31, 2010, 2009 and 2008, respectively.

There is no impairment loss allocated to leased assets.

(Lessor)

Finance Leases:

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

Future rental income under such finance leases as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 2**	¥ 2	**$ 22**
Due after one year		2	
Total	**¥ 2**	¥ 4	**$ 22**

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

13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Companies applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Group policy for financial instruments

The Companies use financial instruments, mainly long-term debt, including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund its 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 nine 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 14 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 its 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 in the early stages. Please see Note 14 for the detail about derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2010.

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 from forecasted transactions, forward foreign currency contracts may be used under the limited contract term of half year.

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

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

Basic principles of derivative transactions have been approved by management meeting on a semiannual basis based on internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Reconciliation of the transactions and balances with customers is made, and the transaction data has been reported to the chief financial officer and in the management meeting on a monthly basis.

Liquidity risk management

Liquidity risk comprises the risk that the Companies cannot meet their contractual obligations in full on maturity dates. The Companies manage their liquidity risk by holding adequate volumes of liquid assets at 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 quoted price is not available, other rational valuation techniques are used instead. Also please see Note 14 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen		
March 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 30,129	¥ 30,129	
Marketable securities	26	26	
Receivables	77,114	77,114	
Investment securities	47,987	47,987	
Total	¥155,256	¥155,256	¥
Short-term bank loans	¥ 11,666	¥ 11,666	
Payables	47,619	47,619	
Income taxes payable	4,990	4,990	
Long-term debt	104,228	105,089	¥ (861)
Total	¥168,503	¥169,364	¥ (861)

March 31, 2010	Thousands of U.S. dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 323,968	$ 323,968	
Marketable securities	280	280	
Receivables	829,183	829,183	
Investment securities	515,989	515,989	
Total	$1,669,420	$1,669,420	$
Short-term bank loans	$ 125,441	$ 125,441	
Payables	512,032	512,032	
Income taxes payable	53,656	53,656	
Long-term debt	1,120,732	1,129,989	$(9,257)
Total	$1,811,861	$1,821,096	$(9,257)

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. The information of the fair value 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

The information of the fair value for derivatives is included in Note 14.

(b) Financial instruments whose fair value cannot be reliably determined

March 31, 2010	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	¥6,168	$66,323

(5) Maturity analysis for financial assets and securities with contractual maturities

March 31, 2010	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 30,129			
Receivables	77,114			
Investment securities -				
Held-to-maturity securities	26	¥109	¥147	¥36
Total	¥107,269	¥109	¥147	¥36

	Thousands of U.S. dollars			
March 31, 2010	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 323,968			
Receivables	829,183			
Investment securities -				
Held-to-maturity securities	280	$ 1,172	$ 1,581	$ 387
Total	$ 1,153,431	$ 1,172	$ 1,581	$ 387

Please see Note 6 for annual maturities of long-term debt and Note 12 for obligations under finance leases, respectively.

14. 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 its 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 does not anticipate any losses arising from credit risk.

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

As noted in Note 13, the Companies applied ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

Derivative transactions to which hedge accounting is not applied at March 31, 2010

	Millions of yen			
At March 31, 2010	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥ 8,030		¥ (225)	¥ (225)
Selling THB	596		(8)	(8)
Buying U.S.$	1,649		(2)	(2)
Buying Japanese yen	20		(1)	(1)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	973	¥ 584	113	113
Receiving Japanese yen, paying Euro	468	312	101	101
Receiving U.S.$, paying THB	973	649	39	39

At March 31, 2010	Thousands of U.S. dollars			
	Contract Amount	Contract Amount due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	$ 86,344		$(2,419)	$(2,419)
Selling THB	6,409		(86)	(86)
Buying U.S.$	17,731		(22)	(22)
Buying Japanese yen	215		(11)	(11)
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	10,462	$ 6,280	1,215	1,215
Receiving Japanese yen, paying Euro	5,032	3,355	1,086	1,086
Receiving U.S.$, paying THB	10,462	6,978	419	419

Derivative transactions to which hedge accounting is applied at March 31, 2010

At March 31, 2010	Millions of yen			
	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	¥21,072	¥16,050	¥(285)

At March 31, 2010	Thousands of U.S. dollars			
	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	$226,581	$118,817	$(3,065)

The following is the fair value information for foreign currency forward contracts to which hedge accounting is not applied at March 31, 2009. Foreign currency forward contracts which qualify for hedge accounting are excluded from the information below.

	Millions of yen		
	2009		
	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:			
Selling U.S.$	¥2,596	¥2,612	¥ (16)
Selling THB			
Buying U.S.$	281	281	
Buying Japanese yen	29	29	
Foreign currency swaps:			
Receiving Japanese yen, paying U.S.$	1,363	88	88
Receiving Japanese yen, paying Euro	624	113	113
Receiving U.S.$, paying THB	1,222	134	134

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

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

15. 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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Sales	**¥28,235**	¥22,182	**$303,602**

These balances due from and to FUJIFILM Corporation at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes and accounts receivable	**¥ 4,132**	¥ 1,774	**$ 44,430**
Current portion of long-term debt	**10,000**	10,000	**107,527**
Long-term debt		10,000	

16. 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.

17. EXPROPRIATION

During the year ended March 31, 2005, in connection with expropriations for public expressway construction, the Companies signed an agreement with Hanshin Expressway Public Corporation to sell certain land and certain facilities related to its Sakai Plant, which produced a gain for the Companies of ¥26,388 million. Under Japanese tax regulations, the Companies are allowed to defer this gain by recording it as a deferred gain under long-term liabilities. Because replacement property and plant facilities were acquired, the deferred gain was reversed and the same amount was credited against the cost of such property, plant and equipment as of March 31, 2008.

18. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2010 for loans guaranteed amounted to ¥2,720 million ($29,247 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

19. SUBSEQUENT EVENT

The following plan for appropriations of retained earnings for the year ended March 31, 2010 was approved at the Shareholders' General Meeting of the Company held on June 25, 2010:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥6 ($0.06) per share	**¥ 2,135**	**$ 22,957**

20. SEGMENT INFORMATION

Information about operations in industry segments, geographic segments and sales to foreign customers of the Companies for the years ended March 31, 2010, 2009 and 2008 is as follows:

I. Operations in Industry Segments

	Millions of yen							
Year ended March 31, 2010	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥76,938	¥74,234	¥111,589	¥51,298	¥ 6,184	¥320,243		¥320,243
Intersegment sales	2,680	10,953	5		9,369	23,007	¥(23,007)	
Total sales	79,618	85,187	111,594	51,298	15,553	343,250	(23,007)	320,243
Total cost and expenses	67,565	79,329	106,311	46,472	14,751	314,428	(15,041)	299,387
Operating income	¥12,053	¥ 5,858	¥ 5,283	¥ 4,826	¥ 802	¥ 28,822	¥ (7,966)	¥ 20,856
Total assets	¥96,558	¥74,404	¥123,300	¥52,140	¥ 7,297	¥353,699	¥ 74,678	¥428,377
Depreciation	15,509	8,493	7,215	4,613	313	36,143	551	36,694
Impairment loss on fixed assets		857				857		857
Capital investments	4,729	5,637	2,732	3,005	109	16,212	269	16,481

	Thousands of U.S. dollars							
Year ended March 31, 2010	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Functional Products and Others	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$ 827,290	$ 798,215	$ 1,199,882	$ 551,591	$ 66,495	$3,443,473		$3,443,473
Intersegment sales	28,817	117,774	54		100,742	247,387	$ (247,387)	
Total sales	856,107	915,989	1,199,936	551,591	167,237	3,690,860	(247,387)	3,443,473
Total cost and expenses	726,505	853,000	1,143,129	499,699	158,613	3,380,946	(161,731)	3,219,215
Operating income	$ 129,602	$ 62,989	$ 56,807	$ 51,892	$ 8,624	$ 309,914	$ (85,656)	$ 224,258
Total assets	$1,038,258	$ 800,043	$ 1,325,806	$ 560,645	$ 78,462	$3,803,214	$ 802,990	$4,606,204
Depreciation	166,763	91,323	77,581	49,602	3,366	388,635	5,925	394,560
Impairment loss on fixed assets		9,215				9,215		9,215
Capital investments	50,849	60,613	29,376	32,312	1,172	174,322	2,892	177,214

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

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

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

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2010, 2009 and 2008 included unallocated corporate costs of ¥7,966 million ($85,656 thousand), ¥7,574 million and ¥8,258 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2010, 2009 and 2008 included ¥77,694 million ($835,419 thousand), ¥72,672 million and ¥75,962 million of corporate assets, respectively, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

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

II. Geographical Segments

Year ended March 31, 2010	Millions of yen					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	¥243,936	¥55,717	¥20,590	¥320,243		¥320,243
Intersegment sales	34,809	13,674	1,802	50,285	¥ (50,285)	
Total sales	278,745	69,391	22,392	370,528	(50,285)	320,243
Operating expenses	256,620	62,480	22,606	341,706	(42,319)	299,387
Operating income (loss)	¥ 22,125	¥ 6,911	¥ (214)	¥ 28,822	¥ (7,966)	¥ 20,856
Total assets	¥280,063	¥72,218	¥19,416	¥371,697	¥ 56,680	¥428,377

Year ended March 31, 2010	Thousands of U.S. dollars					
	Japan	Asia	Other	Total	Corporate and Eliminations	Consolidated
Sales to outside customers	$2,622,968	$599,108	$221,397	$3,443,473		$3,443,473
Intersegment sales	374,290	147,032	19,377	540,699	$(540,699)	
Total sales	2,997,258	746,140	240,774	3,984,172	(540,699)	3,443,473
Operating expenses	2,759,355	671,828	243,075	3,674,258	(455,043)	3,219,215
Operating income (loss)	$ 237,903	$ 74,312	$ (2,301)	$ 309,914	$ (85,656)	$ 224,258
Total assets	$3,011,430	$776,538	$208,774	$3,996,742	$ 609,462	$4,606,204

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

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

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

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

Other: North America, Europe

Cost and expenses of Corporate and Eliminations for the years ended March 31, 2010, 2009 and 2008 included unallocated corporate costs of ¥7,966 million ($85,656 thousand), ¥7,574 million and ¥8,258 million, respectively. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2010, 2009 and 2008 included ¥77,694 million ($835,419 thousand), ¥72,672 million and ¥75,962 million of corporate assets, respectively, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

As discussed in Note 2.e, effective April 1, 2008, the Companies applied ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories.” The effect of this change was to decrease operating income of Japan by ¥2,144 million for the year ended March 31, 2009.

III. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2010, 2009 and 2008 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Asia	**¥ 79,338**	¥ 95,214	¥ 105,359	**$ 853,097**
Other	**38,082**	51,374	52,810	**409,484**
Total	**¥117,420**	¥ 146,588	¥ 158,169	**$1,262,581**

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

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

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

Independent Auditors' Report

Deloitte.

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Japan

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Daicel Chemical Industries, Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of income, changes in equity, and cash flows for each of the three years in the period ended March 31, 2010, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Chemical Industries, Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

June 25, 2010

Member of
Deloitte Touche Tohmatsu

Principal Subsidiaries and Affiliates

Domestic Operations

	Paid-in capital (Millions of yen)	The Company's equity ownership (%)	Principal business
Kyodo Sakusan Co., Ltd.	3,000	54	Manufacture and sale of acetic acid Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; Denki Kagaku Kogyo K.K.; Chisso Corporation; and Kyowa Hakko Chemical Co., Ltd.
Dainichi Chemical Corp.	270	100	Manufacture and sale of industrial-use coating resins, non-tin anti-stain compounds, and fine chemicals
Daicel-Cytec Co., Ltd.	50	45	Manufacture and sale of ultraviolet and electron beam curable resins Joint-venture company with Cytec Industries Inc.
Polyplastics Co., Ltd.	3,000	55	Manufacture and sale of polyacetal resin, polybutylene terephthalate (PBT) resin, liquid crystal polymer, and polyphenylene sulfide resin Joint-venture company with Ticona Limited Liability Company of the United States
WinTech Polymer Ltd.*1	2,000	33	Manufacture and sale of polybutylene terephthalate (PBT) resin and glass fiber-reinforced PET (FR-PET) resin Joint-venture company with Teijin Limited
Daicel Polymer Ltd.	100	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel-Evonik Ltd.	340	50	Manufacture and sale of polyamide 12 resin Joint-venture company with Evonik Degussa Japan Co., Ltd.
Daicel Pack Systems, Ltd.	50	100	Manufacture and sale of paper and plastic buffers, vacuum- and pressure-molded plastics, and industrial and food packaging
Daicel Value Coating Ltd.	40	100	Manufacture and sale of barrier films Custom coating business
Daicel Novafoam Ltd.	98	100	Manufacture and sale of foamed plastics
Daicel Safety Systems Inc.	80	100	Manufacture of inflators for automobile airbags
Japan Shotshell Ltd.	150	100	Manufacture and sale of shotgun shells for sport shooting and hunting
Daicel Finance Ltd.	2,000	100	Supervision and implementation of finance and asset management operations for Daicel Group companies
Daicel Logistics Service Co., Ltd.	267	100	Warehousing and transportation
Daicen Membrane-Systems Ltd.	30	55	Manufacture and sale of separation membranes, including ultrafiltration membrane modules, and design, manufacture, and sale of equipment and systems related to ultrafiltration membrane modules
Daicel FineChem Ltd.	70	100	Sale of water-soluble polymers, synthetic resins, and other industrial products, and manufacture, processing, and sale of resin-based construction materials as well as floor coverings and exterior furnishings Manufacture and sale of celluloid, acetate plastics products, and household products

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

International Operations

	Paid-in capital	The Company's equity ownership (%)	Principal business
Ningbo Da-An Chemical Industries Co., Ltd.*2	RMB271mil	30	Manufacture and sale of cellulose acetate and acetic anhydride
Xi'an Huida Chemical Industries Co., Ltd.*2	RMB248mil	30	Manufacture and sale of acetate tow for cigarette filters
Chiral Technologies, Inc.	US$8.8mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Chiral Technologies Europe S.A.S.	€2.1mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Nanning Food Ingredients Co., Ltd.*3	US$33.61mil	100	Manufacture and sale of sorbic acid and potassium sorbate
Polyplastics Taiwan Co., Ltd.*4	NT$1,590mil	41	Manufacture and sale of engineering plastics
Polyplastics Asia Pacific Sdn. Bhd.*5	RM158mil	55	Manufacture and sale of engineering plastics
PTM Engineering Plastics (Nantong) Co., Ltd.*6	RMB386mil	39	Manufacture and sale of engineering plastics Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; Korea Engineering Plastics Co., Ltd.; and Ticona Limited Liability Company
Shanghai Daicel Polymers, Ltd.*7	RMB76.52mil	100	Sale and compounding of plastics
Daicel Polymer (Hong Kong) Ltd.*8	HK$1.0mil	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel Trading (Shanghai) Ltd.*9	US$0.2mil	100	Sale of compound resin, polystyrene sheet and other chemical products
Topas Advanced Polymers GmbH*10	€0.1mil	80	Manufacture, sale and research of cyclic olefin copolymer
Topas Advanced Polymers, Inc.*11	US$0.01mil	80	Sale of cyclic olefin copolymer
Daicel Safety Systems America, LLC*12	US$30mil	83	Manufacture and sale of inflators for automobile airbags Joint-venture company with TG North America Corporation
Daicel Safety Systems Europe Sp. z o. o.	PLN5mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Jiangsu) Co.,Ltd.*3	US$16.86mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Thailand) Co., Ltd.	THB270mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Technologies America,Inc	US$8.5mil	100	Manufacture of inflator components for automobile airbags
Daicel Safety Technologies (Thailand) Co., Ltd.	THB800mil	100	Manufacture of inflator components for automobile airbags
Daicel Chemical (China) Investment Co., Ltd.	US$47.11mil	100	Management of Manufacturing and marketing operations in China
Daicel Chemical (Asia) Pte. Ltd.	S$9.59mil	100	Management of marketing operations in Southeast Asia
Daicel (U.S.A.), Inc.	US$51.9mil	100	Management of marketing operations in North America
Daicel (Europa) GmbH	€0.15mil	100	Management of marketing operations in Europe

*2 30% owned by Daicel Chemical (China) Investment Co., Ltd.
*3 100% owned by Daicel Chemical (China) Investment Co., Ltd.
*4 75% owned by Polyplastics Co., Ltd.
*5 100% owned by Polyplastics Co., Ltd.
*6 70% owned by Polyplastics Co., Ltd.
*7 90% owned by Daicel Chemical Industries, Ltd and 10% owned by Daicel Chemical (China) Investment Co., Ltd.
*8 100% owned by Daicel Polymer Ltd.
*9 90% owned by Daicel Chemical (China) Investment Co.,Ltd. and 10% owned by Shanghai Daicel Polymers,Ltd.
*10 55% owned by Daicel Chemical Industries, Ltd and 45% owned by Polyplastics Co., Ltd.
*11 100% owned by Topas Advanced Polymers GmbH
*12 83% owned by Daicel (U.S.A.), Inc.

Corporate Data

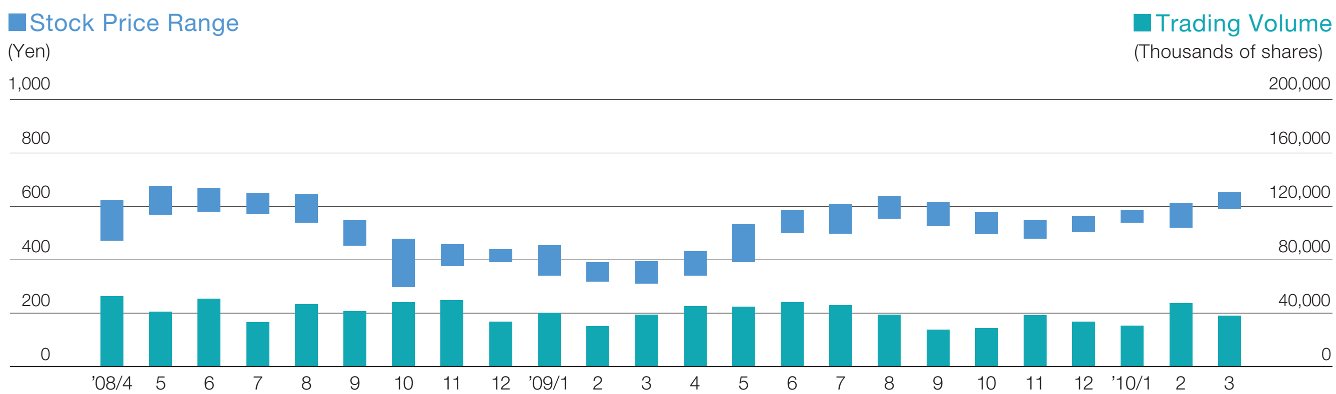
(As of March 31, 2010)

Incorporated	September 8, 1919
Common Stock	
Authorized:	1,450,000,000 shares
Issued:	364,942,682 shares
Capital:	¥36,275 million
Listings:	Tokyo Stock Exchange and Osaka Securities Exchange
Transfer Agent:	The Chuo Mitsui Trust & Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo 105-8574, Japan
Number of Shareholders:	21,197
Independent Auditor	Deloitte Touche Tohmatsu LLC
Osaka Head Office	Mainichi Intecio., 4-5, Umeda 3-chome, Kita-ku, Osaka 530-0001, Japan Tel: +81-6-6342-6111 Fax: +81-6-6342-6118
Tokyo Head Office	2-18-1, Konan Minato-ku, Tokyo 108-8230, Japan Tel: +81-3-6711-8111 Fax: +81-3-6711-8100

Stock Information

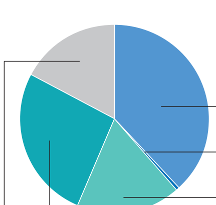
(As of March 31, 2010)

Stock Price Range & Trading Volume



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

Composition of Stockholders



	Thousands of shares	%
Financial institutions	139,062	38.1
Securities companies	2,161	0.6
Other domestic corporations	65,474	17.9
Foreign investors	96,045	26.3
Individual & other investors	62,199	17.1

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)	30,144	8.26
The Master Trust Bank of Japan, Ltd. (Trust Account)	19,886	5.45
Nippon Life Insurance Company	18,813	5.16
FUJIFILM Corporation	16,915	4.64
Toyota Motor Corporation	15,000	4.11
Japan Trustee Services Bank, Ltd. (Trust Account 9)	10,686	2.93
Daicel Chemical Industries, Ltd.	9,032	2.48
Mitsui Sumitomo Insurance Co., Ltd.	9,003	2.47
Mitsui & Co., Ltd.	7,560	2.07
Sumitomo Mitsui Banking Corporation	7,096	1.94

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