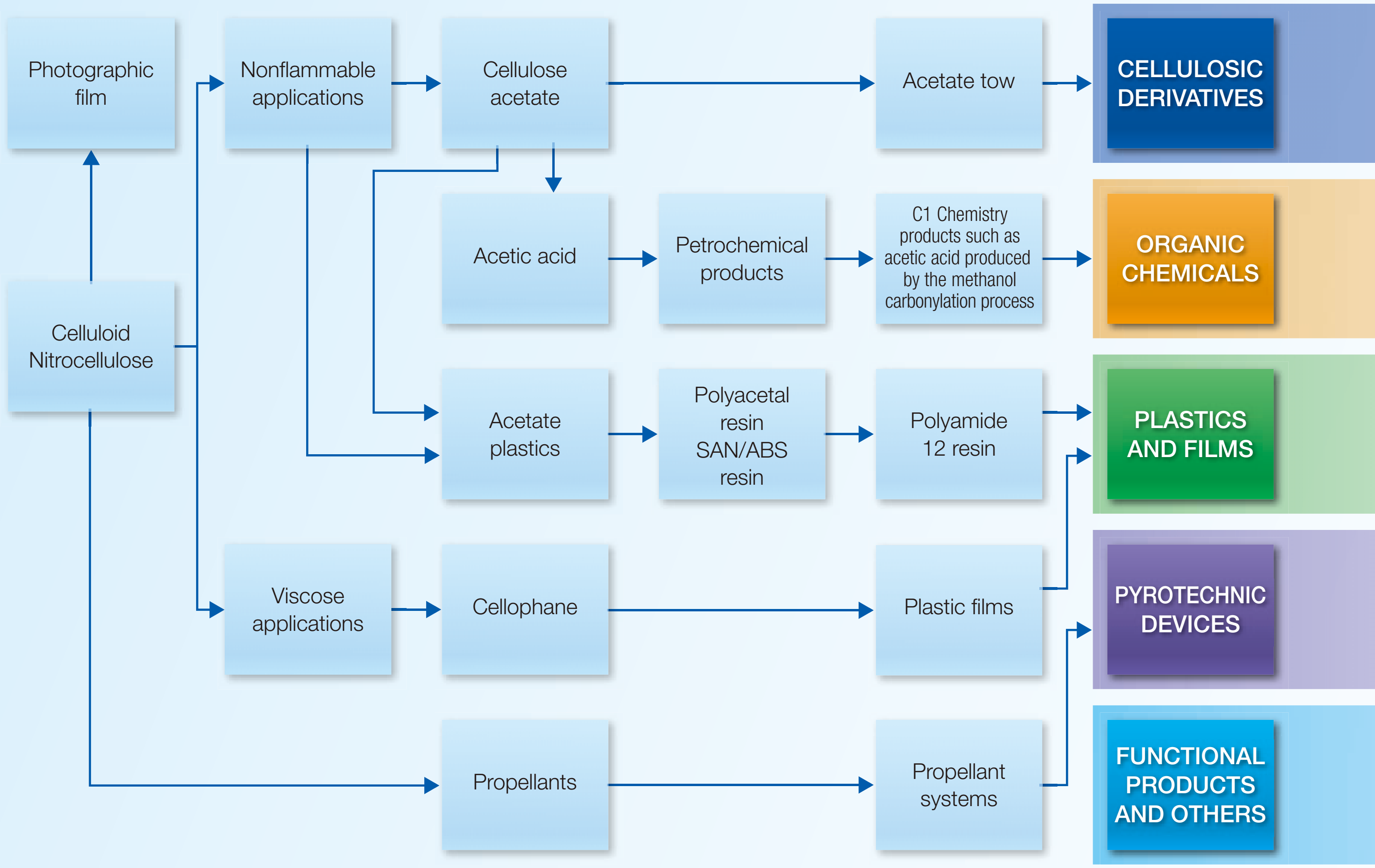
LAYING THE GROUND FOR THE FUTURE

ANNUAL REPORT 2012

Year ended March 31, 2012

DAICEL CORPORATION

BUSINESS DEVELOPMENT FLOWCHART



PROFILE

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

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

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.

MAJOR APPLICATIONS OF DAICEL GROUP PRODUCTS

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

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

Civil engineering and oil drilling / CMC

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

Automotive paints /
Caprolactone and
special epoxy resins

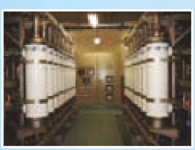
World's **No. 1**
Sales share (Daicel estimate)
Pharmaceutical development /
Chiral columns

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

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

Packaging and films for snacks and pocket warmers /
Packaging films

Japan's **No. 1** / World's **No. 2**
Sales share (Daicel estimate)
Airbag systems /
Inflators



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

Eco-friendly System /
E-Mizu system

Main product application /
Product

CONTENTS

1 PROFILE
3 GROUP SYMBOL
4 BASIC PHILOSOPHY
5 CONSOLIDATED FINANCIAL HIGHLIGHTS
6 MESSAGE FROM THE PRESIDENT
7 INTERVIEW WITH THE PRESIDENT
11 SPECIAL FEATURE: NEW DAICEL BUSINESSES
13 DAICEL HIGHLIGHTS OF THE YEAR
15 REVIEW OF OPERATIONS
- 15 AT A GLANCE
- 17 CELLULOSIC DERIVATIVES
- 18 ORGANIC CHEMICALS
- 19 PLASTICS AND FILMS
- 20 PYROTECHNIC DEVICES
- 21 FUNCTIONAL PRODUCTS AND OTHERS
- 22 THE FIRST IMPROVEMENT CASE STUDY MEETING

23 RESEARCH AND DEVELOPMENT
24 CORPORATE SOCIAL RESPONSIBILITY
- 25 ENVIRONMENT
- 26 RESPONSIBLE CARE
- 30 CORPORATE GOVERNANCE
- 32 CORPORATE ETHICS

33 BOARD OF DIRECTORS AND AUDITORS/ EXECUTIVE OFFICERS
34 FINANCIAL SECTION
74 PRINCIPAL SUBSIDIARIES AND AFFILIATES
76 CORPORATE DATA
76 STOCK INFORMATION

GROUP SYMBOL

The new symbol, which uses Daicel blue, is given a sense of action and speed by the oblique character design used for the word "DAICEL."

The three red circles represent our unceasing passion for creation, our strong will to keep working on innovation, and our fighting spirit to continue taking on new fields outside our company's current scope.

BASIC PHILOSOPHY

The Best Solution for You

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

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

CONSOLIDATED FINANCIAL HIGHLIGHTS

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
Years ended March 31

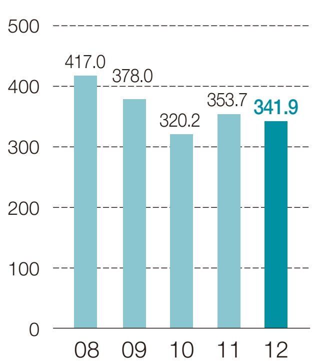
	Millions of yen					Thousands of U.S. dollars*2
	2008	2009	2010	2011	**2012**	**2012**
Results for the year						
Net sales	¥ 416,990	¥ 377,980	¥ 320,243	¥ 353,685	**¥ 341,943**	**$4,170,037**
Operating income	32,164	10,590	20,856	32,711	**20,426**	**249,098**
Income before income taxes and minority interests	27,145	6,272	16,911	29,713	**19,962**	**243,439**
Net income	13,676	1,297	11,070	16,803	**11,827**	**144,232**
Capital expenditures	46,930	25,666	18,424	11,753	**17,394**	**212,122**
Depreciation and amortization	29,576	39,674	37,782	33,529	**28,849**	**351,817**
Research and development expenses	12,004	12,046	11,317	11,971	**12,731**	**155,256**
At year-end						
Total assets	¥ 515,618	¥ 445,912	¥ 428,377	¥ 411,071	**¥ 398,197**	**$4,856,061**
Total equity	239,148	211,488	229,005	235,337	**234,712**	**2,862,341**

	Yen					U.S. dollars*2
Per share*1						
Net income	¥ 37.86	¥ 3.62	¥ 31.10	¥ 47.22	**¥ 33.46**	**$ 0.41**
Cash dividends applicable to the year	8.00	8.00	10.00	10.00	**10.00**	**0.12**

*1. The computations of net income per common share are based on the weighted average number of shares outstanding.
*2. The U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥82 = $1, the approximate exchange rate at March 31, 2012.

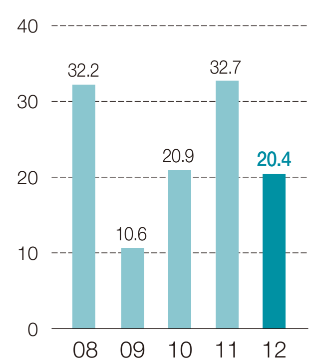
Net Sales

(Billions of yen)



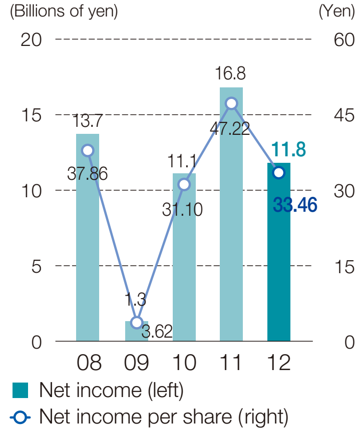
Operating Income

(Billions of yen)



Net Income/ Net Income Per Share

(Billions of yen) (Yen)



MESSAGE FROM THE PRESIDENT

Year in Review

The fiscal year ended March 2012 was the first year of the “3D-I” medium-term plan (covering the fiscal years ending in March 2012 to March 2014), which is the first step toward fulfilling the long-term vision “Grand Vision 2020.” Our performance fell short of our plan for the year as the Company posted declines in both sales and profits in severe conditions that included a historically strong yen and soaring prices for raw materials and fuel. Nevertheless, we continued to make steady progress with our measures for new business creation, the enhancement of cost competitiveness, and strategic M&A, which are the basic strategies of the “3D-I” medium-term plan.

Forecasts for the fiscal year ending March 2013

Although we anticipate a gradual economic recovery in Japan in the fiscal year ending March 2013, ongoing concerns regarding the restriction of the electricity supply, the persistent strong yen, and rising raw material and fuel prices suggest that the situation is likely to remain uncertain and unpredictable.

I would like the Daicel Group to not be daunted by the severe environment and to continue with its efforts in various areas, such as responding to the growing demand overseas, particularly in Asia, to expand sales and revising sales prices. Through such efforts, we aim to make this year a new start for earnings growth. I look forward to your continuing guidance and support.

Aiming to reestablish earnings growth undaunted by the severe business environment

Misao Fudaba
President and CEO

INTERVIEW WITH THE PRESIDENT

We are responding to the growing demand overseas and sowing seeds in growth fields, while continuing to diligently implement cost-reduction measures.

Q Please explain Daicel's business performance for the fiscal year ended March 2012.

A Sales remained essentially flat from a year ago but profit fell sharply from the strong yen and rising raw material and fuel prices.

The Japanese economy in the fiscal year ended March 2012 was deeply affected by the Great East Japan Earthquake but began moving in a gradual recovery beginning in June. Nevertheless, business conditions remained volatile owing to the restricted electricity supply and the nuclear disaster, the flooding in Thailand, and deteriorating business conditions in Europe and elsewhere overseas, as well as the record-high yen appreciation to the ¥70 level versus the U.S. dollar, which persisted for seven months from the second quarter to the middle of the fourth quarter.

In these severe conditions, the Daicel Group strove to improve its business performance by stepping up production in line with the production recovery in the automobile and other industries and continuing to cut costs even while diligently implementing measures to respond to the electric power reduction targets requested by the government.

In these conditions, even though product demand was stagnant through the year, most notably for LCD products and other components in the electronic materials field, our efforts secured consolidated net sales of ¥341,942 million for the year, which is down 3.3% but essentially even with the previous fiscal year. On the earnings side, the record high yen and sharp rise in raw material and fuel prices led to steep declines in earnings as operating income fell 37.6% year on year to ¥20,426 million, ordinary income decreased 33.2% to ¥21,094 million, and net income fell 29.6% to ¥11,827 million. In addition, we recorded a ¥434 million loss on disaster as an extraordinary loss in the year.

Results for Fiscal Years Ended March 2011 and 2012

(Billions of yen)

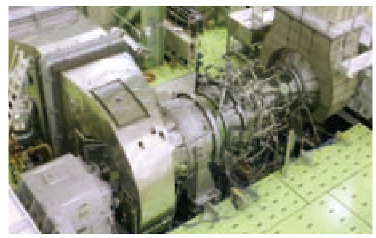
	2011	2012	Change	% Change
Net sales	353.7	**341.9**	**(11.7)**	**(3.3)%**
Operating income	32.7	**20.4**	**(12.3)**	**(37.6)%**
Ordinary income	31.6	**21.1**	**(10.5)**	**(33.2)%**
Net income	16.8	**11.8**	**(5.0)**	**(29.6)%**

Q The fiscal year ended March 2012 was the first year of the "3D-I" medium-term plan. What is the status of the measures being implemented under the plan?

A We made steady progress with our initiatives to create new businesses, utilize strategic M&A, and further solidify our business foundation.

In the area of new business creation, we were able to position the Company to provide one-stop solutions for customers by expanding our lineup of LED encapsulants to span epoxy- and silicone-based materials as well as non-epoxy ultra-high heat-resistant grades. We also began selling visible-light photocatalysts that can be used indoors and are ideal for interior materials used in hospital, hotels, and other facilities (please see the feature article on page 11 for more information). We are also receiving positive responses to our proposals for new functional chemical and functional film applications, including camera lens materials for mobile phones, touch panel films (see page 12), and transparent sealing sheets. In addition, we are taking steps toward commercializing ultradispersed nanodiamonds and plan to commence operations within the year at a detonation testing facility to be constructed at the Harima Plant.

We are exploring various paths for strategic M&A with the aim of acquiring new business platforms and fortifying the foundations of our core businesses. A recent development was the acquisition in April 2012 of Special Devices, Inc., a manufacturer and seller of initiators (initiating devices for inflators) in the United States (see page 14).



Kawasaki Heavy Industry's newly developed 30 MW high-efficiency gas turbine

To strengthen our cost competitiveness and business foundation, we installed at the Aboshi Plant a gas turbine newly developed by Kawasaki Heavy Industries, Ltd., that provides the world's highest level of generation efficiency. Full operation of the turbine beginning in autumn of 2012 will further enhance our product competitiveness while also reducing our CO_2 emissions.

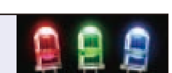
Other measures to further strengthen our core businesses included the decision to expand our polyacetal resin production facilities in Malaysia (see page 13) and the establishment of an automobile airbag inflator manufacturing and sales company in South Korea (see page 14).

All of these measures were part of our efforts to steadily implement the medium-term plan policies.

NEW BUSINESS CREATION

Expand LED and OLED encapsulant material solutions

Providing one-stop solutions using epoxy, non-epoxy, and silicon



Visible-light titanium oxide photocatalysts

Used in wallpaper, clothing, carpets, etc.

Functional chemical products and functional films

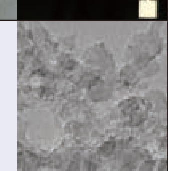
Efforts progressing with proposals for camera lens materials for mobile phones, touch panel films, transparent sealant sheets, materials for printable electronics, etc.

Ultradispersed nanodiamond

Detonation testing facility to be constructed at the Harima Plant aimed at commercial production with operations to start during the fiscal year ending March 2013

Potential fields for application

Glass alternatives, electricity and electronics, energy, and biomedical



Q What is your outlook for the fiscal year ending March 2013?

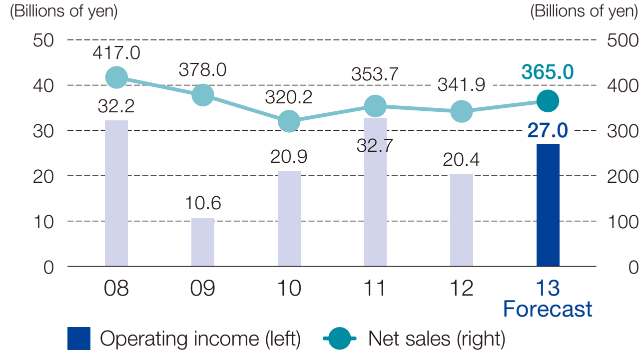
A We plan to increase our sales volume while continuing to cut costs and forecast increase in sales and profit for the year.

The Japanese economy is expected to gradually recover as it rebuilds from the Great East Japan Earthquake. Overall conditions are expected to remain unclear and unpredictable, however, given the numerous points of concern, including the restriction of the electricity supply in Japan, yen appreciation, rising raw materials and fuel prices, the financial crisis in Europe, and the trend of the Chinese economy, which has been a driving force for the global economy.

We anticipate ongoing harsh business environments in the industries in which the Daicel Group operates as we endeavor to address numerous issues ranging from responding to difficult-to-anticipate demand fluctuations and ensuring a stable labor force to improving our cost competitiveness, fortifying our R&D, ensuring our global competitiveness, reducing emissions of greenhouse gases, and responding to tightening environmental and safety regulations.

In this environment, we plan to increase sales by responding to growing demand overseas, particularly in Asia, revise our product prices to reflect the higher raw material and fuel prices, and implement other measures as we seek to reestablish the earnings growth track for the Group.

Net Sales and Operating Income Trends and Forecasts



In the year ending March 2013, we expect the Daicel Group's business performance to reflect our continuing cost-cutting efforts and increasing sales volumes for engineering plastics and automobile airbag inflators accompanying a rise in automobile production. We forecast consolidated net sales rising 6.7% year on year to ¥365.0 billion, operating income growing 32.2% to ¥27.0 billion, ordinary income rising 32.7% to ¥28.0 billion, and net income increasing 35.3% to ¥16.0 billion.

Earnings Forecasts for the Year Ending March 2013

(Billions of yen)

	2012 Results	2013 Forecasts	Change	% Change
Net sales	341.9	**365.0**	**23.1**	**6.7%**
Operating income	20.4	**27.0**	**6.6**	**32.2%**
Ordinary income	21.1	**28.0**	**6.9**	**32.7%**
Net income	11.8	**16.0**	**4.2**	**35.3%**

Q What is your basic policy for profit distribution and dividends?

A We plan to maintain a shareholder return ratio of 30% until the final year of the “3D-I” plan. We distributed annual dividends of ¥10 per share in the fiscal year ended March 2012.

Daicel’s basic dividend policy is to distribute profits in a balanced manner that takes into consideration, from a comprehensive and long-term perspective, stable and sustainable shareholder return that reflects the Company’s consolidated financial results in each fiscal year and maintaining sufficient internal reserves to continue strengthening the earnings base and raising medium- to long-term shareholder value. In addition to dividend payments, the Company will be flexible about conducting treasury stock acquisitions as a supplementary shareholder return measure.

Our “3D-I” medium-term plan sets a target of a 30% shareholder return ratio, measured as dividends plus treasury stock acquired divided by consolidated net income, to be achieved by the plan’s final year.

Although the Company posted declines in consolidated sales and income in the fiscal year ended March 2012, we determined to provide an annual dividend of ¥10 per share for the year to maintain a steady dividend level in line with the above policy. Regarding the acquisition of treasury stock, we repurchased a total of 4 million shares with an aggregate value of approximately ¥1.8 billion during the months of August and September 2011. As a result, the shareholder return ratio for the fiscal year ended March 2012 was 45.2%.

In the fiscal year ending March 2013, we currently plan to distribute an annual dividend of ¥10 per share (including an interim dividend of ¥5 per share) .

SPECIAL FEATURE:

NEW DAICEL BUSINESSES

The Daicel Group, following the directives of the "3D-I" medium-term plan, is endeavoring to create new businesses for the Group by developing functional chemical products and functional films to establish a functional materials business for the electronics market. The Group is also seeking to create new businesses in the medical and healthcare, environment, and energy segments, which the Company has designated as growth fields. This section introduces several products the Group has developed in recent years that hold promise for growth in the environmental and electronics fields in the near future.

Photocatalysts that also Respond to Visible Indoor Light

Wide Range of Application Potential for the Visible-Light Titanium Oxide Photocatalysts

Daicel photocatalysts that can also be used indoors

A photocatalyst is a material that triggers the decomposition of organic compounds, which can cause stains or odors, when exposed to sunlight or other light source. Photocatalysts are gaining global recognition as an environmentally friendly technology. Existing photocatalysts were only capable of reacting to strong light that included ultraviolet light, such as sunlight, which limited their applications to antisoiling of exterior materials, antifogging of glass, and other outdoor conditions.

Daicel's titanium oxide photocatalyst that responds to visible light has the added capability of reacting to weaker light sources, such as indoor fluorescent lighting, enabling a host of new potential applications, including breaking down volatile organic compounds (VOCs) that cause sick building syndrome, eliminating interior odors, and dissolving stains on clothing.

Preparing for Business Growth

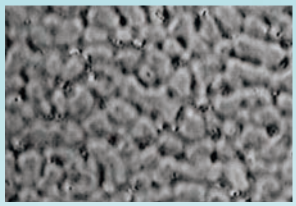
Daicel plans to expand its production capacity for photocatalysts in preparation for expanding sales. From the end of 2012 and through 2013, the plant at the Central Research Center in Himeji, Hyogo Prefecture, will be relocated to the Arai Plant in Myoko, Niigata Prefecture, and measures including raising the operating rate will be implemented to enhance the annual production capacity (3–5% solution basis) to over 100 tons, which will more than triple our current output capacity.

The Group company Daicel FineChem will market the photocatalyst products through its various sales channels in the interior materials, paint, fibers, and other fields. We plan to utilize the strength of Daicel FineChem's broad base of end-product customers to expand sales in a wide range of fields from interior materials to carpets, upholstery fabric for chairs and sofas, and clothing.

Film Preventing Touch Panel Light Interference

Daicel High Durability, High Light Transmittance Anti-Newton Ring Film

Daicel Group High Performance films

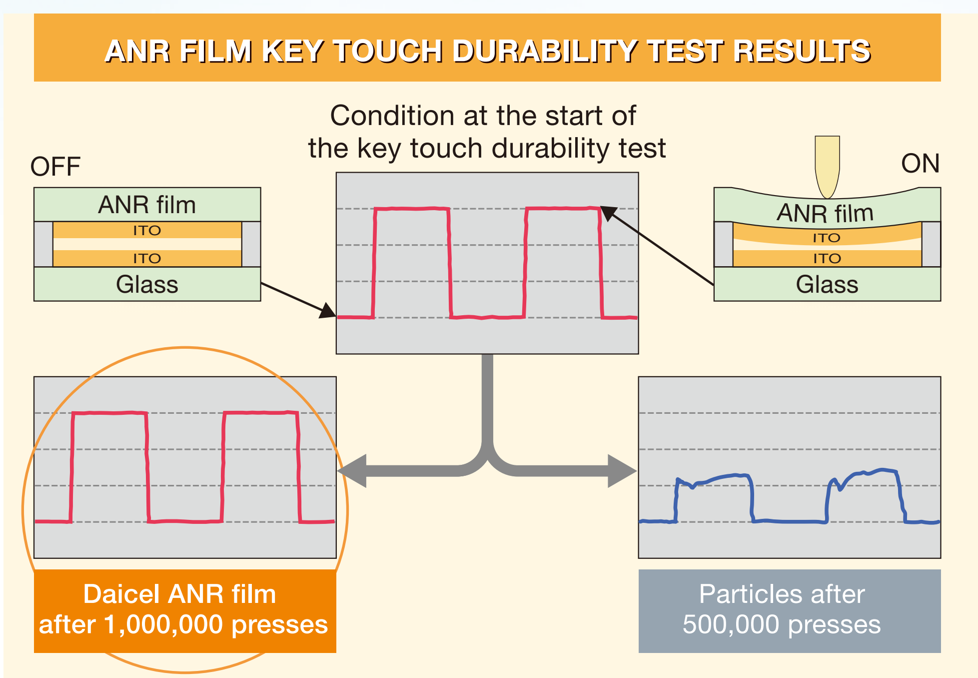


Anti-newton ring film surface

Daicel's high-performance film development combines formula development technology using the resin materials of the Daicel Group with coating technologies cultivated by Daicel Value Coating to create high-performance film for use in a wide variety of electronic devices, including smartphone touch panels. Recent highlights have been the application of Daicel's unique technology for producing textured surface films to develop anti-newton ring (ANR) film enhancing touch panel visibility and durability and surface film reducing glare and preventing finger smudges on high-resolution screens. Advance tests have garnered high praise from our clients, and we plan to begin selling the films this fiscal year.

High-performance film experience leads to technical innovation

ANR film is used for a resistive touch panel to prevent Newton rings, the light interference that can occur when pressing a touch panel. ANR film is joined to a conductive layer of indium tin oxide (ITO) for use as a substrate for the transparent electrode film used in touch panels. The films using particles that have commonly been used to form textured surfaces for ANR film can lose responsiveness with use over time as the particles wear down or fall off. Applying technology Daicel developed for its anti-glare and other optical films, we succeeded in creating a durable ANR film utilizing texture-forming technology that does not use particles. The film provides high light transmittance and keeps low haziness.



DAICEL HIGHLIGHTS OF THE YEAR

Record-high Investment Planned to Expand Polyacetal Production Facilities

In July 2011, Polyplastics Co., Ltd. committed to investing the largest amount in the company's history to expand its production capacity for polyacetal (POM) by 90,000 metric tons per year. Upon completion in 2014, the company's annual POM supply capacity will reach 290,000 metric tons, making it the world's largest supplier of POM with capacity to fulfill about one-third of the worldwide demand for POM.

4 APRIL 5 MAY 6 JUNE 7 JULY 8 AUGUST 9 SEPTEMBER 10 OCTOBER

2011

Stock Repurchase

In August 2011, the Board of Directors decided and implemented a plan to repurchase up to four million of the Company's shares, representing 1.12% of total outstanding shares (excluding treasury stock), at a total value of approximately ¥1.8 billion by September 15. The acquisition was made with the intention of maintaining a balanced distribution of profits and fulfilling the 30% shareholder return ratio set forth in the "3D-I" medium-term plan.

Company Name Change to Daicel Corporation

DAICEL

DAICEL CORPORATION

In October 2011, the Company changed its name from Daicel Chemical Industries, Ltd., to Daicel Corporation. The trade name was changed to demonstrate, both internally and externally, the Company's intention to continue expanding and developing beyond the chemical industry segment by employing the proprietary technologies and unique expertise that evolved from the chemical-based foundation of our business. Daicel accompanied the name change with the unveiling of a new symbol for the Group.

Cigarette Filter Acetate Tow Business to be Strengthened

In October 2011, with the aim of strengthening the Company's acetate tow business, Daicel entered into a letter of intent with Mitsubishi Rayon Co., Ltd. to establish a joint venture to manufacture acetate tow for cigarette filters. Also during the month, the Company decided to increase the production capacities of the Ohtake Plant and the Aboshi Plant at the Himeji Production Sector. The Company's acetate tow production capacity will increase by roughly 10% when the expanded facilities commence commercial operations in July 2013.

Establishment of South Korea Airbag Inflator Production and Sales Base as Daicel's Sixth Worldwide

In November 2011, as part of its global business development plan for automotive airbag inflators (gas-generating devices), the Company established the fully-owned Daicel Safety Systems Korea, Inc. in South Korea, giving the Group six inflator production facilities around the world along with those in Japan, the United States, Thailand, Poland, and China. The new company is expected to commence production and sales by the end of the fiscal year ending March 2013.

11 NOVEMBER > 12 DECEMBER > 1 JANUARY > 2 FEBRUARY > 3 MARCH > 4 APRIL

2012

Acquisition of Special Devices, Inc., U.S. Airbag Initiator Manufacturer

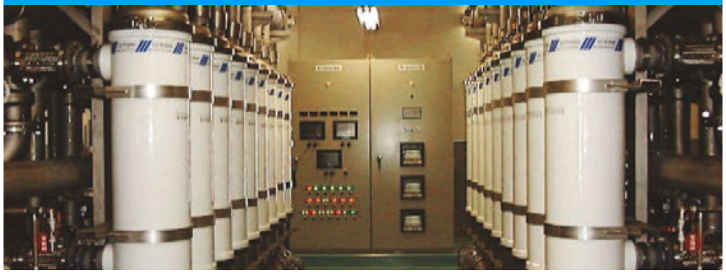
In March 2012, the Company signed a share transfer agreement and in April acquired all outstanding shares of Special Devices, Inc., a U.S. company manufacturing and selling airbag initiators. The acquisition expands the Daicel's initiator production capacity and enables the Company to add initiators to its global marketing of inflators and micro gas generators for seatbelt pretensioners.

Launch of DM Novafoam Joint Venture Establishes Nationwide Sales Network

In April 2012, Daicel subsidiary Daicel Novafoam Ltd. and Mitsui Chemicals, Inc., subsidiary Tohoku Polymer Co., Ltd., merged to form the new company DM Novafoam Ltd. The merger establishes a nationwide sales network for fruit packaging materials while creating synergy effects in non-agricultural fields as well, including expanding sales via mutual access to each Group's sales channels.

REVIEW OF OPERATIONS

AT A GLANCE

Business Segment	Sales	Operating Income
CELLULOSIC DERIVATIVES 	21.1%	26.8%
ORGANIC CHEMICALS 	22.4%	18.5%
PLASTICS AND FILMS 	39.0%	34.0%
PYROTECHNIC DEVICES 	15.6%	17.2%
FUNCTIONAL PRODUCTS AND OTHERS 	1.9%	3.5%

	Major Products	Uses	Market Position
	Cellulose acetate	LCD films, acetate fibers, photographic films, plastics	Overwhelming market share in the manufacture and sale of triacetyl cellulose (TAC) used in films for LCDs Stable supplier of acetate tow for cigarette filters to a number of leading cigarette manufacturers
	Acetate tow	Cigarette filters	
	Carboxymethyl cellulose (CMC) and other water-soluble polymers (WSP)	Foods, pharmaceuticals, cosmetics, adhesives, textiles, mud stabilizers, thickeners	
	Acetate plastics	Frames for glasses, other products	
	Celluloid		
	Acetic acid and its derivatives	Cellulose acetate, vinyl acetate	The leading manufacturer of acetic acid in Asia World's largest manufacturer of chiral columns used for the separation of optical isomers
		Auxiliary dyeing agents, pharmaceuticals	
		Agricultural chemicals, pure terephthalic acid (PTA)	
	Solvents		
	Chiral columns	Separation of optical isomers	
	Other organic and inorganic industrial-use chemicals		
	Polyacetal (POM)	Electric and electronic appliance parts, automobile parts	The top rank in Asia for POM; the top rank in Japan for PBT; the top rank on a global basis for LCP
	Polybutylene terephthalate (PBT)		
	Liquid Crystal Polymer (LCP)	Communications appliance parts, household goods, sundry goods	
	Polyphenylene sulfide (PPS)		
	Cyclic-olefin copolymer (COC)		
	SAN/ABS resins and alloys		
	Polystyrene sheets and plastics products		
	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	

REVIEW OF OPERATIONS

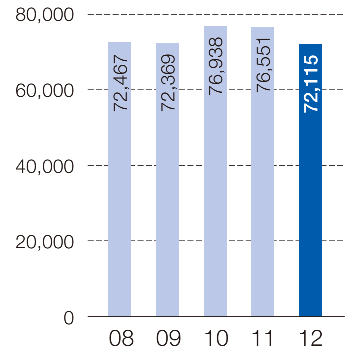
CELLULOSIC DERIVATIVES

OPERATIONS — Years ended March 31

	Millions of yen				
	2008	2009	2010	2011	**2012**
Sales to external customers	¥ 72,467	¥ 72,369	¥ 76,938	¥ 76,551	**¥ 72,115**
Intersegment sales	2,852	2,901	2,680	2,782	**2,629**
Total sales	75,319	75,270	79,618	79,333	**74,744**
Operating income	¥ 8,263	¥ 2,203	¥ 12,053	¥ 12,069	**¥ 7,764**
Total assets	¥ 126,435	¥ 107,953	¥ 96,558	¥ 87,712	**¥ 80,657**
Depreciation	7,855	16,554	15,509	12,755	**9,963**
Capital investments	23,357	7,169	4,729	908	**3,053**

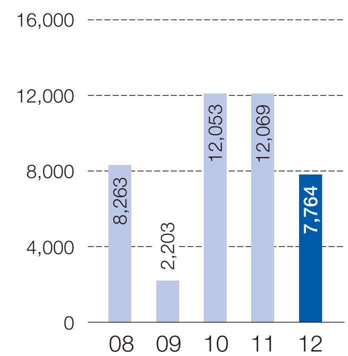
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



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 its integrated production capabilities for acetic acid, cellulose acetate, and acetate tow.

Performance

In the fiscal year ended March 2012, sales to external customers amounted to ¥72,115 million, down 5.8% year on year.

Sales of cellulose acetate declined due mainly to a drop in demand for LCD film applications resulting from sluggish flat-screen TV sales.

Sales of acetate tow for cigarette filters also fell due to the strong yen despite strong overseas sales.

Operating income in this segment declined 35.7% year on year to ¥7,764 million, due primarily to the strong yen and the surge in raw materials and fuel prices.

* For further information, please see the article "Cigarette Filter Acetate Tow Business Strengthened" in the Daicel Highlights of the Year section on pages 13-14.

REVIEW OF OPERATIONS

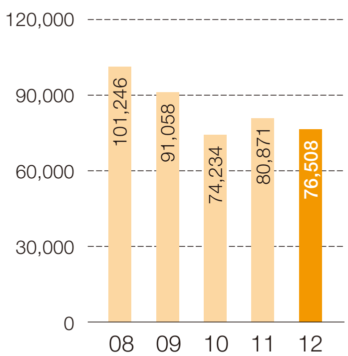
ORGANIC CHEMICALS

OPERATIONS — Years ended March 31

	Millions of yen				
	2008	2009	2010	2011	**2012**
Sales to external customers	¥101,246	¥ 91,058	¥74,234	¥80,871	**¥ 76,508**
Intersegment sales	16,948	15,989	10,953	14,384	**15,054**
Total sales	118,194	107,047	85,187	95,255	**91,562**
Operating income	¥ 11,661	¥ 4,703	¥ 5,858	¥ 6,923	**¥ 5,352**
Total assets	¥ 91,035	¥ 76,041	¥74,404	¥69,095	**¥ 66,499**
Depreciation	7,590	8,362	8,493	8,099	**6,950**
Impairment loss on fixed assets	114	—	857	245	**375**
Capital investments	9,936	6,246	5,637	2,627	**4,553**

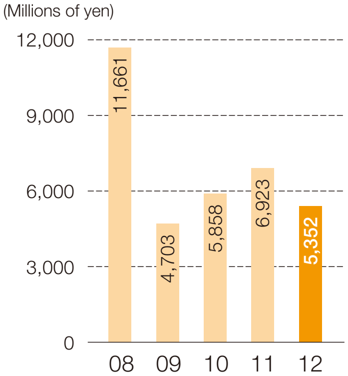
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



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) CPI (chiral pharmaceutical ingredients), including chiral chemicals.

Acetic acid is one of Daicel's mainstay products, and Daicel is a leading manufacturer of this product in Asia. As the top 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 the fiscal year ended March 2012, sales to external customers amounted to ¥76,508 million, down 5.4% year on year.

Sales of acetic acid, the segment's principal product, decreased adversely and were affected by stagnant demand mainly for pure terephthalic acid (PTA), its primary application and had been healthy until last autumn, coupled with the biennial periodical repairs performed at our Himeji Production Sector's Aboshi Plant.

As for general-use products, such as acetic acid derivatives and solvents, sales dropped due to the flagging domestic and overseas economies and the appreciation of the yen, despite solid ethyl acetate sales.

Functional products such as caprolactone derivatives and epoxy compounds posted a decline in sales due to a plunge in demand for electronics materials in both Japan and overseas and the strong yen.

Operating income in this segment declined 22.7% year on year to ¥5,352 million, due primarily to the strong yen and the surge in raw materials and fuel prices.

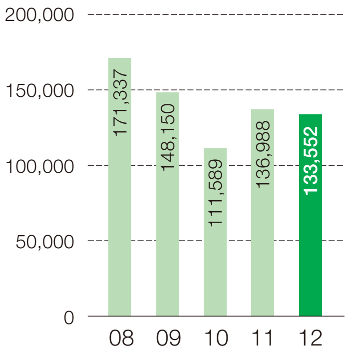
REVIEW OF OPERATIONS

PLASTICS AND FILMS

OPERATIONS					Years ended March 31
	Millions of yen				
	2008	2009	2010	2011	**2012**
Sales to external customers	¥171,337	¥148,150	¥111,589	¥136,988	**¥133,552**
Intersegment sales	22	4	5	10	**12**
Total sales	171,359	148,154	111,594	136,998	**133,564**
Operating income	¥ 14,312	¥ 7,983	¥ 5,283	¥ 14,576	**¥ 9,870**
Total assets	¥150,113	¥132,823	¥123,300	¥124,173	**¥120,239**
Depreciation	7,009	7,430	7,215	6,459	**6,550**
Impairment loss on fixed assets	100	—	—	74	**—**
Capital investments	6,777	6,431	2,732	3,430	**6,498**

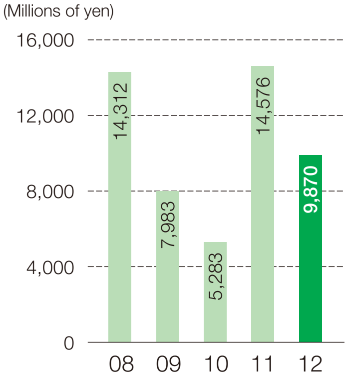
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



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. Polyplastics is a leading manufacturer and marketer of engineering plastics commanding the top share for LCP worldwide, and the top share for POM and PBT in Asia. The company supplies products for a wide range of applications, mainly in the electronics and automobile industries, as well as for precision machinery, construction materials, and household consumer appliances, with a focus on 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 that combine the advantages of two types of resin and reinforced grade and are 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, Guangzhou, Singapore, and Thailand.

Performance

In the fiscal year ended March 2012, sales to external customers amounted to ¥133,552 million, down 2.5% year on year.

The engineering plastics business, such as POM, PBT, and LCP, is operated mainly by Polyplastics Co., Ltd., our consolidated subsidiary whose closing month is December, and its subsidiary companies. During the consolidated fiscal year ended March 2012, sales declined because of the aftermath of the Great East Japan Earthquake and the plunge in demand for electronics materials.

Sales growth was posted in the resin compound business centering on AS, ABS, and engineering plastics alloys driven by restoration demand for some products, although automobile and other applications were affected by the Great East Japan Earthquake.

Sales of the plastic products business, encompassing sheets, molded vessels and films, remained flat. Sluggish demand in the Japanese food industry was covered by a rise in demand following the Great East Japan Earthquake for some film products.

Operating income in this segment declined 32.3% year on year to ¥9,870 million, due primarily to the strong yen and the surge in raw materials and fuel prices.

* For further information, please see the article "Record-high Investment Planned to Expand Polyacetal Production Facilities" in Daicel Highlights of the Year on pages 13-14.

REVIEW OF OPERATIONS

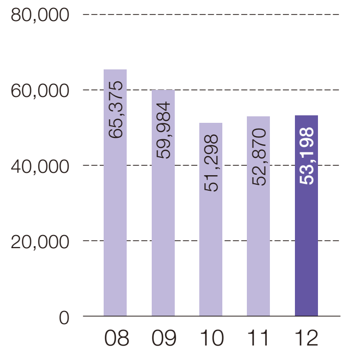
PYROTECHNIC DEVICES

OPERATIONS — Years ended March 31

	Millions of yen				
	2008	2009	2010	2011	**2012**
Sales to external customers	¥ 65,375	¥ 59,984	¥ 51,298	¥ 52,870	**¥ 53,198**
Total sales	65,375	59,984	51,298	52,870	**53,198**
Operating income	¥ 5,627	¥ 2,663	¥ 4,826	¥ 5,864	**¥ 5,003**
Total assets	¥ 67,789	¥ 50,594	¥ 52,140	¥ 48,459	**¥ 58,736**
Depreciation	5,087	5,159	4,613	4,632	**3,998**
Capital investments	9,331	3,751	3,005	2,067	**3,667**

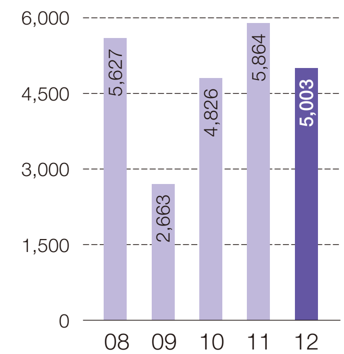
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Overview

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

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

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

Performance

In the fiscal year ended March 2012, sales to external customers amounted to ¥53,198 million, a slight increase from the previous fiscal year.

Sales of automobile airbag inflators (gas-generating devices) and seat belt PGG devices slightly increased due to a rebound in sales volume along with the recovery of automobile production after the second quarter, despite the influence of the Great East Japan Earthquake and Thai flooding.

Regarding the aerospace & defense businesses, sales of items such as gunpowder, missile components, and pilot emergency escape systems dropped because of a decline in the quantities of some products procured by the Ministry of Defense.

Operating income decreased 14.7% year on year to ¥5,003 million, and was affected by a lower capacity utilization ratio during the first quarter resulting from the Great East Japan Earthquake and the strong yen.

* For further information, please see the article "Acquisition of Special Devices, Inc., U.S. Airbag Initiator Manufacturer" in Daicel Highlights of the Year on pages 13-14.

REVIEW OF OPERATIONS

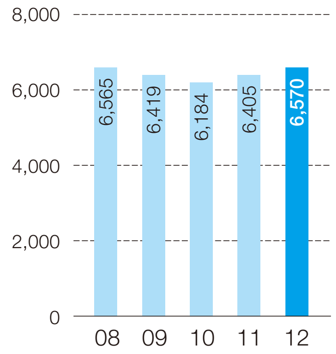
FUNCTIONAL PRODUCTS AND OTHERS

OPERATIONS — Years ended March 31

	Millions of yen				
	2008	2009	2010	2011	**2012**
Sales to external customers	¥ 6,565	¥ 6,419	¥ 6,184	¥ 6,405	**¥ 6,570**
Intersegment sales	12,348	10,980	9,369	10,133	**9,480**
Total sales	18,913	17,399	15,553	16,538	**16,050**
Operating income	¥ 559	¥ 612	¥ 802	¥ 1,300	**¥ 1,020**
Total assets	¥ 7,981	¥ 7,338	¥ 7,297	¥ 7,165	**¥ 7,065**
Depreciation	361	367	313	300	**264**
Capital investments	279	258	109	288	**193**

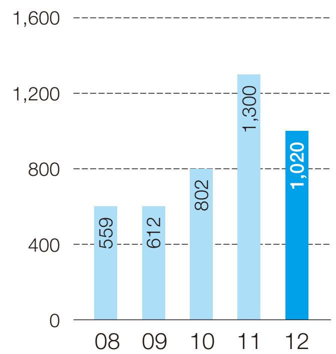
Sales to External Customers

(Millions of yen)



Operating Income

(Millions of yen)



Performance

In the fiscal year ended March 2012, sales to external customers amounted to ¥6,570 million, up 2.6% year on year.

Sales rose in the membrane business, which includes separation membrane modules for water treatment. Dialysis devices and sprinkler systems for the outdoor units of air conditioners and other applications sold well. Meanwhile, the transport, warehousing and other businesses posted sales decreases.

Operating income in this segment increased 21.6% year on year to ¥1,020 million.

TOPICS

KAIZEN THE FIRST IMPROVEMENT CASE STUDY MEETING

In July 2011, teams from six domestic plants participated in the first Improvement Case Study Meeting at the Aboshi Plant. Following the concept of “awareness, thought and action,” the program was designed for members to share improvement cases resulting from initiatives that are being implemented on a daily basis at plants, and aims to foster a sense of integrity throughout the Daicel Group. A total of 85 teams or about 700 employees participated in the Site Improvement Case Study Meetings held at individual plants.

From these, six teams were selected to give presentations on their achievements and insights regarding safety measures, operational visualization, productivity improvement, and other initiatives. The excellent content of the improvement initiatives being implemented at each plant and the team members’ enthusiastic presentations led to lively question and answer sessions. Participants were greatly inspired by the initiatives being implemented at other plants.

Daicel plans to continue holding these meetings, actively sharing anecdotal information about improvement cases as a way of contributing to the further growth of the Daicel Group.

RESEARCH AND DEVELOPMENT

The Importance of R&D in Group Operations

Given Japan's lack of natural resources, to achieve continued profitable growth chemical manufacturers must demonstrate their ability to deliver to the market a continuous stream of creative, highly distinctive products, embodying proprietary technologies. The Daicel Group recognizes that research and development is a key factor to this ability. For this reason, we consider R&D to be one of our most important management priorities.

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

R&D Activities for this Fiscal Year

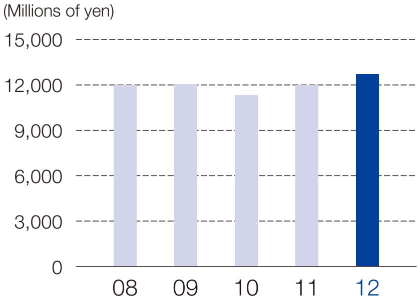
The Daicel Group engages in the development of high-performance, high-value-added products that goes beyond the conventions of ordinary chemistry while reinforcing its basic technologies. On April 1, 2011, we established the Green Product Development Center on the Arai Plant campus with the aim of creating new businesses in the environmental and healthcare fields.

In our existing businesses as well, we are conducting R&D focused on creating a high-profit earnings structure and energy-saving technologies via research in areas including quality improvement, cost cutting, and environmental load-reducing process. To strengthen the product development structure of the cellulosic derivatives business, on July 1, 2011, the Cellulose Development Center and Filter Development Center were eliminated from the R&D Planning Office of the Cellulose Company and the Specialty Material R&D Center, specializing in new development themes, was established. The Process Development Center, which engages in development themes other than functional materials, was established under the Cellulose Company's Production Management Office.

Consolidated R&D expenses amounted to ¥12,730 million in the fiscal year ending March 2012. The Group has 971 employees, representing 12.0% of the Group's total employees, engaged in R&D activities.

Research and Development Expenses

(Millions of yen)



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 ¥13,000 million in R&D in the fiscal year ending March 2013.

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	¥749 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; conversion of processes to run on biomass-derived materials rather than petroleum-derived materials	¥2,389 million
Plastics & Films	Quality enhancement and environmental responsiveness of engineering plastics; development of high-performance resins and polymer alloys; development of styrene products	¥4,040 million
Pyrotechnic Devices	Research into the development of new gas-generating agents and new inflators for car airbags; development of propellants	¥2,154 million
Functional Products & Others	Development of membrane separation systems	¥125 million
Company-wide R&D	R&D for the creation of new businesses; basic research that cannot be allocated to any specific segment	¥3,272 million

CORPORATE SOCIAL RESPONSIBILITY

25 ENVIRONMENT
26 RESPONSIBLE CARE
30 CORPORATE GOVERNANCE
32 CORPORATE ETHICS

ENVIRONMENT

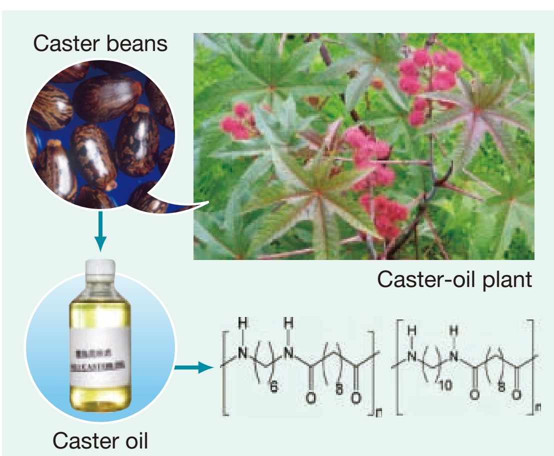
Every company of Daicel Group develops products and technologies that contribute to a healthier environment, and provides customers with environmentally friendly products and safety.

Ethanol Method Production of Ethyl Acetate

In July 2009, Daicel became the first company in Japan to manufacture ethyl acetate using the ethanol method. Ethyl acetate has wide-ranging applications, including uses in inks, paints, adhesives for electronic materials, and pharmaceutical and agricultural chemicals, and demand is expected to grow as a replacement for toluene and for many other useful applications. The ethanol method's use of natural bioethanol with acetic acid as the raw materials to produce ethyl acetate reduces the amount of CO_2 emissions compared to standard methods. In November 2011, the Company increased its annual production capacity for ethyl acetate from 50,000 tons to 75,000 tons.

The Ohtake Plant Ethyl Acetate Manufacturing Facility

Natural Biopolymer VESTAMID Terra



Daicel-Evonik has launched natural biopolymers "VESTAMID® Terra HS" and "VESTAMID® Terra DS." Both are polyamide resins made from caster oil, which is extracted from nonfood caster-oil plants. Realizing the functionality of conventional polymers with biopolymers has been challenging. Biopolymers have the reputation of being somewhat impractical. However, these two Daicel-Evonik products boast heat resistance on par with existing petrochemical-based polymers, as well as high rigidity and low water absorption. Promoting wider acceptance and use of these advantageous features, we plan to expand the application of these products in various fields.

E-mizu Shower

Daicen Membrane Systems Ltd. sells the "E-mizu Shower" outdoor misting system that sprays a mist of water processed* using reverse osmosis membranes (RO membranes) on air-conditioning units and other outdoor equipment. Spraying processed water on cooling units improves their efficiency and can lower power consumption for air conditioning by as much as 10% with the greatest energy savings in summer when electricity demand is at its highest.

* Processing tap water eliminates hard substances, such as calcium, and prevents scale build-up on aluminum fins and other parts of outdoor equipment, thereby maintaining heat transfer efficiency and protecting against corrosion of the fins.

E-mizu Shower

RESPONSIBLE CARE

We strive to implement the Responsible Care Initiative throughout our operations in order to contribute to a viable sustainable society.

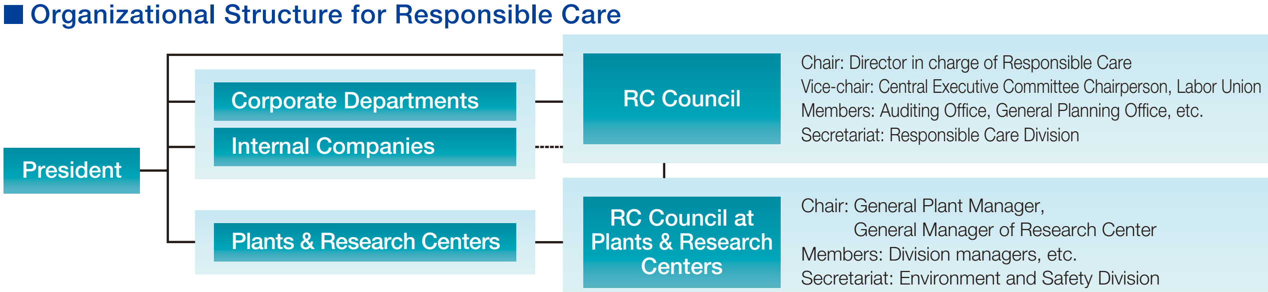
In 1995, Daicel established its Basic Policies for Responsible Care (RC) based on the guiding principles for improvement of environmental, health and safety conditions of the Japan Chemical Industry Association. Daicel is deeply aware of its responsibility as a corporate citizen to protect the environment and ensure the health and safety of all those involved with the Company in whatever capacity and every stage of its operations— from the design of products to their manufacture and disposal. With this in mind, Daicel is promoting across-the-board RC activities.

■ Basic Policies for Responsible Care

In all aspects of its business operations, Daicel is making the utmost efforts to ensure environmental preservation, process safety and disaster prevention, occupational health and safety, chemical and product safety, distribution safety, and dialogue with society in accordance with the Responsible Care Standards of the Japan Chemical Industry Association (JCIA). Daicel is making steady and continuous progress in all of these areas.

While strictly abiding by laws and regulations currently in effect, in its business operations, Daicel will strive to uphold the principles of environmental preservation and attention to safety. All employees will be made aware of policy measures and their assistance will be secured during implementation to ensure sustained effort.	Daicel will research, develop, and introduce technologies and products that are healthier, safer, and more environment-friendly than ever.
Daicel will conduct a thorough assessment of its new products' impact on health, safety, and the environment at every stage—development, manufacture, distribution, use, and disposal—prior to installing facilities for their production and introducing them to the market. Daicel will also strive to produce and offer products that take people's health, safety, and the environment into consideration.	Daicel pledges to strictly abide by regulations in force in the relevant jurisdictions and give due attention to the environmental and safety concerns of the other parties involved when engaging in international transactions involving chemical products, conducting international business, and transferring technologies abroad.
Daicel will collect and maintain a database of information regarding environmental and safety issues that relate to its products and the substances it handles. To ensure their safe handling and use, the Company will provide all necessary information to users and distributors.	Daicel will actively lead and support the environment- and safety-related activities of the Daicel Group companies with the aim of securing a better and safer environment for all.
Daicel will promote raw material-saving and energy-saving initiatives as well as the recycling of waste products and restraints on their production to protect the environment and economize on the use of limited raw materials.	Daicel will participate in and cooperate with environmental preservation activities undertaken by the communities in which it operates and seek to gain the trust and understanding of society as a whole by establishing a dialogue with it on safety and environmental matters.
Daicel will seek to constantly raise safety standards to achieve a no-accident, no-disaster record at the manufacturing stage. The Company will ensure that appropriate emergency response procedures are in place, training is undertaken, and, in the event of an accident, appropriate countermeasures are taken at once.	Daicel will deepen its understanding and awareness of the importance of biodiversity conservation and promote biodiversity-friendly activities so that generations to come will be able to receive the benefits of biodiversity.

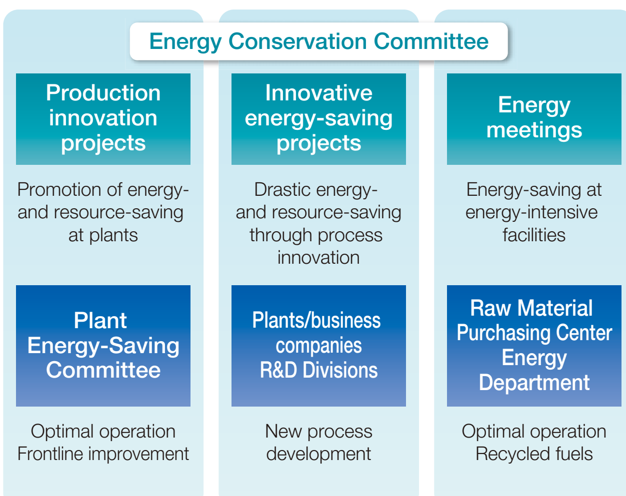
■ Organizational Structure for Responsible Care



ENVIRONMENTAL PRESERVATION

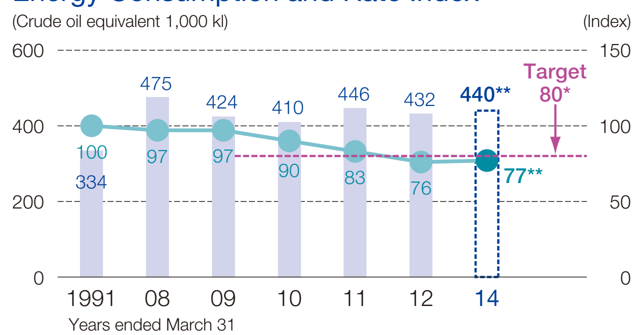
Daicel is a participant in the Nippon Keidanren's Commitment to a Low Carbon Society. At the same time, the Company established the Energy Conservation Committee in the fiscal year ended March 2011. Led by this Committee, Daicel is actively working to reduce its CO_2 emissions to achieve the industry-specific reduction target set under the aforementioned Commitment for the fiscal year ending March 2021.

The Energy Conservation Committee is Daicel's central body promoting and managing Group-wide energy-saving activities. The Committee is responsible for setting targets and managing progress as well as organizing promotion systems and implementing plans for optimizing energy use.



In the fiscal year ended March 2012, Daicel cutback its year-on-year energy consumption by 14,000 kiloliters while improving its energy consumption rate index by seven points compared with the previous fiscal year to 76 with the 1990 level set as 100. This indicator is based on the Company's voluntary action plan for environmental conservation (taking into consideration product composition, the energy consumption rate index grew 1.6%). In addition, Daicel's CO_2 emissions attributable to energy consumption declined around 5%, or 70,000 tons, year on year.

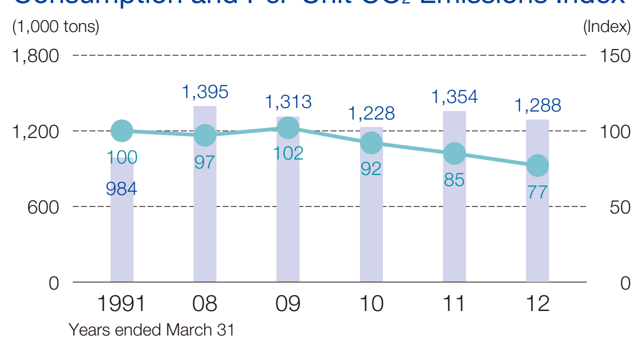
Energy Consumption and Rate Index



Energy consumption (crude oil equivalent 1,000 kl)
Energy consumption rate index

* The Japan Chemical Industry Association (JCIA) has set a target for the average per-unit energy consumption index between 2008 and 2012 at 80 with the 1991 level set as 100.
** Target for the fiscal year ending March 2014, the final year of Daicel's medium-term plan

CO_2 Emissions Attributable to Energy Consumption and Per-Unit CO_2 Emissions Index



CO_2 emissions attributable to energy consumption
Per-unit CO_2 emissions index

CHEMICAL PRODUCT SAFETY

As a corporation involved in the handling of chemical substances, the Daicel Group constantly strives to reduce emissions of volatile organic compounds (VOCs) and pollutant release and transfer register (PRTR) substances.

Reduction of VOC Emissions

In the fiscal year ended March 2012, the Daicel Group continued to promote improvements in processes that use such mainstay VOC substances as acetone and toluene. As a result, the Group achieved the VOC reduction target of 30% from the fiscal year ended March 2001 levels set by the Japan Chemical Industry Association (JCIA).

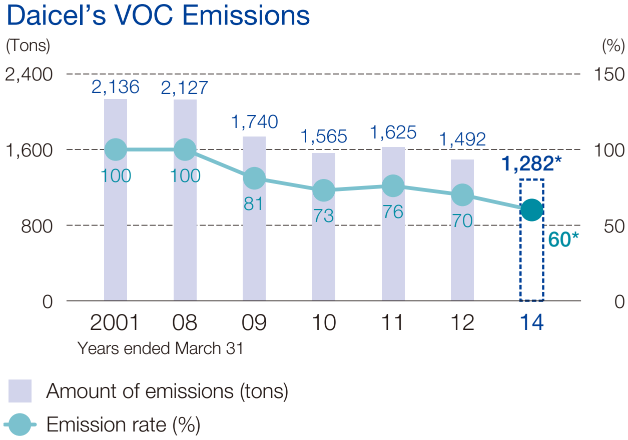
In the future, the Daicel Group will redouble its efforts to achieve the medium-term emission reduction target of 40% from the fiscal year ended March 2001 levels in the fiscal year ending March 2014.

Management of PRTR* Substances' Emissions and Transfers and Reduction of Their Emissions

Daicel voluntarily participates in the PRTR reduction project of the Japan Chemical Industry Association (JCIA) to control emission and transfer volumes of substances subject to the PRTR law. Daicel reduced its PRTR substance emissions by 28 tons compared with the previous fiscal year (32% from the fiscal year ended March 2002 levels) due mainly to improvements in usage rates. The Company will continue to reduce the amounts of emissions and transfers to achieve its medium-term target of 40% from the fiscal year ended March 2002 levels.

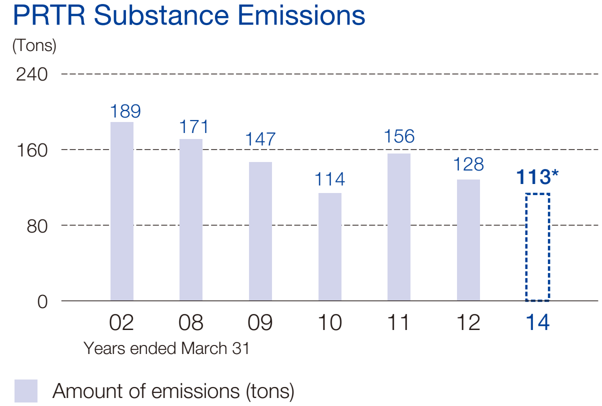
* Pollutant Release and Transfer Register (PRTR): A system to calculate the extent to which the production, use, and storage of chemical substances result in the release and transfer of those substances into the environment.

Daicel's VOC Emissions



* Target (total amount) for the fiscal year ending March 2014, the final year of Daicel's medium-term plan

PRTR Substance Emissions



* Target (total amount) for the fiscal year ending March 2014, the final year of Daicel's medium-term plan

Occupational Health and Safety

At all of its workplaces, Daicel is promoting various activities to upgrade the foundation of production sites—the base of new value creation. These include 3S activities, crisis-identification activities, hazard prediction activities and operational training programs at the Operation Training Center. In order to foster a culture that emphasizes workplace safety, the Company commenced a series of new education programs for staff serving as instructors (assistant managers through to general managers) in the fiscal year ended March 2012. Also, the Company is implementing various measures to prevent the occurrence of labor accidents and the recurrence of similar accidents at all of its workplaces through the Safety Alert Database, which is used by both management and employees.

Thanks to these measures, Daicel reported a labor accident frequency rate of 1.64 in the fiscal year ended March 2012, maintaining a level in excess of the Japan Chemical Industry Association (JCIA) average. The number of labor accidents, on the other hand, increased by three compared with the previous fiscal year with six incidents of accidents attributable to an unsafe action such as a fall.

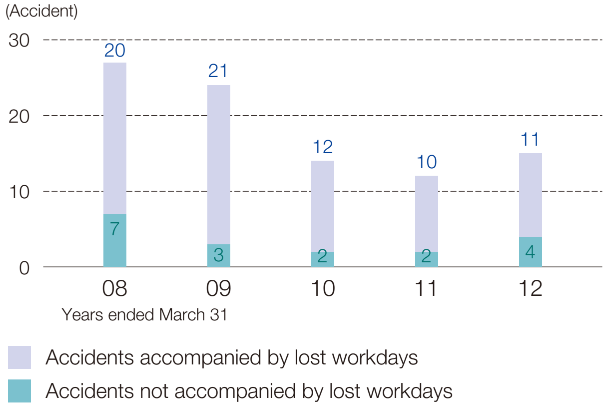
Process Safety and Disaster Prevention

Carrying on from the previous fiscal year, Daicel again achieved zero fire and explosion accidents in the fiscal year ended March 2012. This reflects the Company's efforts to promote a variety of initiatives including a Total Environmental, Health and Safety Assessment System, general operability studies and a full review of potential risks all with the aim of promoting stable plant operations and reducing plant troubles and risks.

In accordance with annual plans, each place of business works in unison with the Company's head office to conduct regular emergency drills. These drills are designed to ensure that all employees are well versed in lifesaving as well as fire extinguishing procedures in the event of an emergency are capable of minimizing any impact on neighboring areas, and consistently engage in appropriate disaster-prevention activities.

Drawing on the lessons of the Great East Japan Earthquake, the Daicel Group commenced steps to clarify all issues and countermeasures relating to large-scale earthquake, tsunami, liquefaction and other disasters. At the same time, procedures were launched to review the Group's disaster structure and systems, and to undertake a seismic analysis of all buildings and facilities with steps taken to reinforce the Group's property portfolio as required. Complementing each of these measures, the Daicel Group promoted the introduction of an earthquake early warning system as well as an emergency call system to assist in confirming the safety of employees and their families.

Labor Accidents at Daicel (including partner companies on plant premises)



Conducting Earthquake Early Warning Drills

CORPORATE GOVERNANCE

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

Corporate Governance

Daicel has adopted a corporate auditor system. We appoint several external directors and ensure the appropriateness of the management decisions and strengthen the supervisory function of the Board of Directors by soliciting their opinions and advice based on wisdom and experience. We have also adopted an executive officer system in an attempt to separate the management decision-making and supervisory functions from the business execution functions and strengthen the structure for business execution. Further measures to improve corporate governance include the introduction of the 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

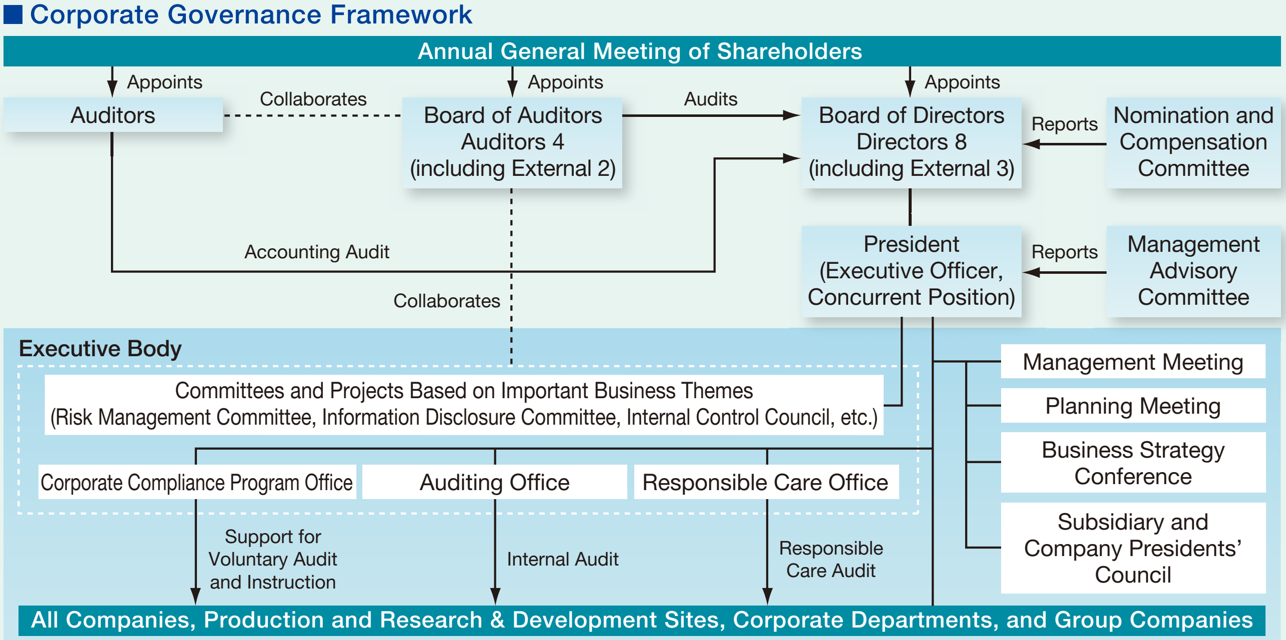
Daicel's Board of Directors consists of eight directors, three of whom have been externally appointed. The Board of Directors meets, in principle, once a month to make decisions concerning important management issues in line with the regulations for the Board of Directors meetings. Furthermore, the Board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

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

Three directors have concurrent positions as executive officers. Their responsibilities as executive officers are limited to those relating to Daicel's president, who provides supervisory functions for all business divisions and corporate departments. This means that their responsibilities have been separated from those of the Company's internal companies, which conduct actual business operations.

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

Corporate Governance Framework



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

(As of June 27, 2012)

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.

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.

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

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

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

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

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

Risk Management

Daicel established the Risk Management Committee in 2006 as an organization to coordinate and promote companywide risk management activities. The Risk Management Committee consists of executive officers in charge of corporate departments. Since its establishment, the Risk Management Committee has guided the entire Company in aggressively conducting risk management activities. In order to further enhance agility, membership of the Risk Management Committee was reconfigured in 2011 with department heads taking up a central role.

Through its annual risk inventory clearance, the Company first identifies risks that can materially affect its business performance and assigns priority levels to examine possible countermeasures. Then, following the Plan-Do-Check-Act (PDCA) cycle, each division promotes activities aimed at preventing those identified risks from materializing or minimizing the impact of those risks when materialized. More than 30 Group companies in Japan and overseas have also promoted similar activities. Through these activities, Daicel and its Group companies are working to enhance the risk-related awareness of all Group employees.

Also, with the aim of improving employees' capabilities to make effective initial responses in case of accidents and natural disasters, Daicel formulated the Emergency Risk Management Guidelines in January 2008. Based on these guidelines, the Company has continually held drills that assume the occurrence of significant risks. In the fiscal year ended March 2012, Groupwide drills were conducted simulating major plant disasters following massive earthquakes that occur on a holiday. Members of the emergency measures headquarters were invited to participate in the introduction of a Groupwide emergency call system. This introduction of this system is designed to further enhance the accuracy and speed of the Group's efforts during a major disaster. Careful consideration is being given to all issues uncovered during each drill with further steps taken to update and improve the Group's guidelines in terms of their practical application.

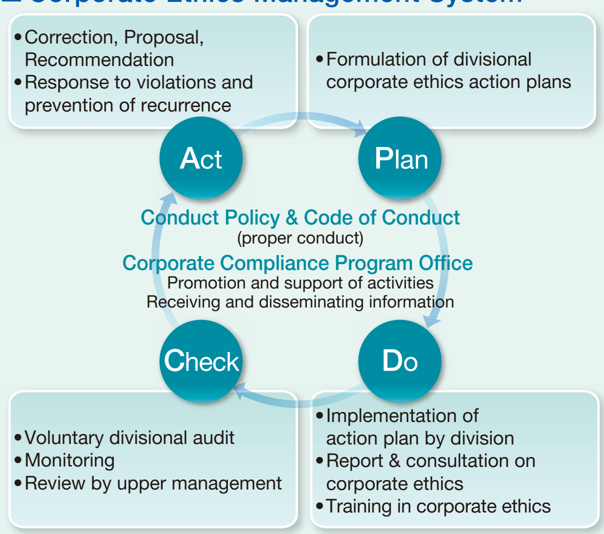
CORPORATE ETHICS

Daicel Group has positioned corporate ethics as an essential component of the systematic efforts of each department and Group company to engage in CSR activities.

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 through 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.

Legal Compliance System

Daicel has established a Legal Compliance System. Under this system, corporate departments are designated as organizations in charge of ensuring compliance with laws and regulations relating to their respective operations. More specifically, designated corporate departments are tasked with obtaining information regarding related laws and regulations and providing that information to other corporate departments that may be affected. There are 13 corporate departments including the Legal Group designated as organizations responsible for compliance. These departments use the intranet to provide employees with information on revisions to laws and regulations as well as guidelines while also providing education materials.

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.

Consultation and Reporting System

With the intent of establishing a system to protect whistleblowers who act in the public interest, Daicel is taking steps to ensure that the employees of each workplace are able to issue reports and hold consultations without difficulty. However, for circumstances where corporate ethics-related issues cannot, for some reason, easily be solved through ordinary reporting to supervisors, we have put in place a Corporate Ethics Help Line—a unique in-house reporting system—to ensure that appropriate advice is available. To further promote use of this initiative, we have also provided an external Corporate Ethics Help Line.

BOARD OF DIRECTORS AND AUDITORS/ EXECUTIVE OFFICERS (As of June 27, 2012)

CHAIRMAN
Daisuke Ogawa

PRESIDENT
Misao Fudaba

DIRECTOR
Masumi Fukuda

BOARD OF DIRECTORS AND CORPORATE AUDITORS

CHAIRMAN

Daisuke Ogawa

PRESIDENT

Misao Fudaba

DIRECTORS

Masumi Fukuda

Yoshimi Ogawa

Noboru Goto
President of Polyplastics Co., Ltd.

Shigetaka Komori
Chairman of FUJIFILM Holdings Corporation

Akishige Okada
Advisor of Sumitomo Mitsui Banking Corporation

Yuichi Miura
Advisor of Tokuyama Corporation

CORPORATE AUDITORS

Hitoshi Oya

Tsuyoshi Kihara

AUDITORS

Kunie Okamoto
Chairman of Nippon Life Insurance Company

Toshio Takano
Lawyer

EXECUTIVE OFFICERS

CHIEF EXECUTIVE OFFICER

Misao Fudaba

SENIOR MANAGING EXECUTIVE OFFICER

Masumi Fukuda
General Manager of Corporate Support Center, Responsible for Corporate Compliance Program and Business Process Innovation, President of Daicel Finance Ltd.

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

MANAGING EXECUTIVE OFFICERS

Masayuki Mune
Responsible for Cellulose Company and Raw Material Purchasing Center

Yuji Iguchi
General Manager of Topas Business Group, Responsible for Corporate Planning

EXECUTIVE OFFICERS

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

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

Hisao Nishimura
General Manager of R&D Management, Responsible for New Business Planning and Intellectual Property Center

Naohide Hakushi
General Manager of Ohtake Plant, President of Daicel Ohtake Sangyo Co., Ltd.

Hidekage Kojima
General Manager of Corporate Planning

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

FINANCIAL SECTION

35 ELEVEN YEAR SUMMARY
37 MANAGEMENT'S DISCUSSION AND ANALYSIS
41 CONSOLIDATED BALANCE SHEETS
43 CONSOLIDATED STATEMENTS OF INCOME
44 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
45 CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
46 CONSOLIDATED STATEMENTS OF CASH FLOWS
47 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
73 INDEPENDENT AUDITORS' REPORT

ELEVEN YEAR SUMMARY

Years ended March 31

	2002	2003	2004	2005
For the year:				
Net sales	¥261,358	¥271,342	¥281,740	¥306,335
Operating income	15,483	20,410	21,207	28,553
Income before income taxes and minority interests	6,841	6,864	8,055	22,380
Net income	3,635	2,029	5,166	10,844
Amounts per common share (yen):				
Net income	¥ 9.86	¥ 5.50	¥ 14.21	¥ 29.82
Cash dividends applicable to the year	6.00	6.00	6.00	8.00
Capital expenditures	¥ 20,082	¥ 16,747	¥ 20,991	¥ 25,377
Depreciation and amortization	26,709	25,413	24,514	22,490
Research and development expenses	11,485	11,747	11,085	11,219
At year-end:				
Total current assets	¥150,862	¥143,280	¥141,233	¥160,541
Total assets	412,008	381,518	381,485	413,493
Total current liabilities	135,303	107,385	105,093	102,779
Total long-term liabilities	95,150	94,934	88,684	110,875
Total equity*1	154,515	151,987	160,479	171,225
Ratios:				
Current ratio (%)	111.5	133.4	134.4	156.2
Shareholders' equity ratio (%)*2	37.5	39.8	42.1	41.4
Return on assets (%)	0.9	0.5	1.4	2.7
Return on equity (%)	2.3	1.3	3.3	6.5
Ratio of net income to net sales (%)	1.4	0.7	1.8	3.5
Assets turnover (times)	0.6	0.7	0.7	0.8
Tangible fixed assets turnover (times)	1.4	1.5	1.7	1.9
Other information:				
Price range of common stock (yen):				
High	¥ 467	¥ 423	¥ 501	¥ 597
Low	290	293	374	441
Exchange rate at year-end (yen per US$1)	¥ 133.00	¥ 120.00	¥ 106.00	¥ 107.00
Number of employees (at year-end)	5,363	5,416	5,604	5,819

*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

2006	2007	2008	2009	2010	2011	**2012**
¥335,520	¥381,423	¥416,990	¥377,980	¥320,243	¥353,685	**¥341,943**
33,570	36,399	32,164	10,590	20,856	32,711	**20,426**
29,386	33,185	27,145	6,272	16,911	29,713	**19,962**
14,221	17,438	13,676	1,297	11,070	16,803	**11,827**
¥ 39.16	¥ 48.19	¥ 37.86	¥ 3.62	¥ 31.10	¥ 47.22	**¥ 33.46**
8.00	8.00	8.00	8.00	10.00	10.00	**10.00**
¥ 59,018	¥ 55,316	¥ 46,930	¥ 25,666	¥ 18,424	¥ 11,753	**¥ 17,394**
22,484	23,774	29,576	39,674	37,782	33,529	**28,849**
11,221	11,717	12,004	12,046	11,317	11,971	**12,731**
¥172,344	¥206,670	¥207,834	¥185,547	¥180,232	¥197,909	**¥197,170**
483,469	547,432	515,618	445,912	428,377	411,071	**398,197**
133,420	152,556	158,230	151,158	102,167	90,746	**101,828**
121,159	152,467	118,240	83,266	97,205	84,988	**61,657**
197,780	242,409	239,148	211,488	229,005	235,337	**234,712**
129.2	135.5	131.3	122.8	176.4	218.1	**193.6**
40.9	39.5	41.4	42.3	48.1	51.6	**54.7**
3.2	3.4	2.6	0.3	2.5	4.0	**2.9**
7.7	8.4	6.4	0.6	5.6	8.0	**5.5**
4.2	4.6	3.3	0.3	3.5	4.8	**3.5**
0.7	0.7	0.8	0.8	0.7	0.9	**0.9**
1.8	1.8	1.9	1.8	1.7	2.2	**2.4**
¥ 1,017	¥ 1,050	¥ 921	¥ 677	¥ 655	¥ 679	**¥ 563**
516	739	488	298	341	363	**391**
¥ 117.00	¥ 118.00	¥ 100.00	¥ 98.00	¥ 93.00	¥ 83.00	**¥ 82.00**
6,248	7,034	7,685	7,803	7,665	7,747	**8,149**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Results

Net Sales

Consolidated net sales amounted to ¥341.9 billion in the fiscal year ended March 2012, representing a decrease of ¥11.7 billion, or 3.3%, from the previous fiscal year.

The decrease was the result of a drop in sales volume due to falling product demand and the strong yen. The yen's appreciation against the U.S. dollar during the term under review had an estimated ¥13.8 billion negative effect on sales.

The main factors behind the decreased sales were the revenue declines in three business areas. First, consolidated sales in the cellulosic derivatives segment were down ¥4.4 billion year on year largely due to a drop in demand for LCD film applications and the strong yen. Second, in the organic chemicals segment, consolidated sales declined ¥4.4 billion year on year primarily owing to a decrease in demand for its core products and the strong yen. Third, in the plastics and films segment, consolidated sales decreased ¥3.4 billion year on year due to a drop in sales volume of engineering plastics by consolidated subsidiaries, centered on Polyplastics Co., Ltd., with December fiscal year-ends from the repercussions of the Great East Japan Earthquake and slowing demand for electronic materials.

Gross Profit

Gross profit amounted to ¥70.7 billion, a decrease of ¥13.2 billion, or 15.7%, from the previous fiscal year. The ratio of gross profit to net sales was 20.7%, down 3.0 percentage points from the previous fiscal year. The decrease was largely caused by the strong yen and soaring raw material and fuel prices.

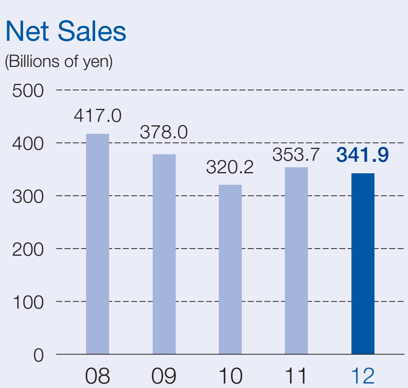
Selling, General and Administrative (SG&A) Expenses

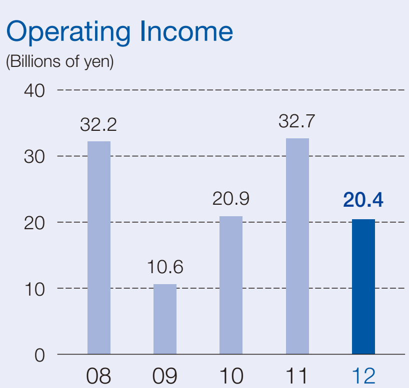
SG&A expenses totaled ¥50.3 billion, down ¥0.9 billion, or 1.7%, from the previous fiscal year. The decrease was primarily due to a decline in direct sales costs associated with the decreased sales volume. The ratio of SG&A expenses to consolidated net sales increased 0.2 percentage point, to 14.7%.

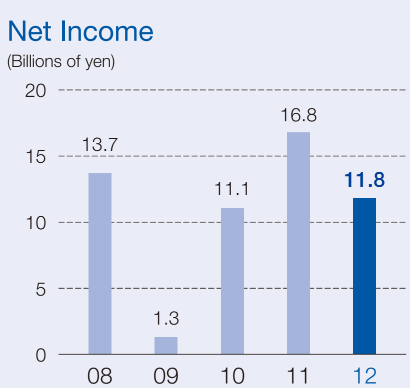
Operating Income

Operating income declined ¥12.3 billion, or 37.6%, from the previous fiscal year to ¥20.4 billion. The operating margin decreased 3.2 percentage points, to 6.0%.The yen's appreciation against the dollar had an estimated ¥3.9 billion negative effect on consolidated operating income compared to the previous fiscal year.

The four main factors caused the decline in the operating income for the year. First, the cellulosic derivatives segment recorded a ¥4.3 billion year on year decline in operating income owing mainly to a drop in demand for LCD film applications, the strong yen, and soaring raw material and fuel prices. Second, the organic chemicals segment posted a ¥1.6 billion year on year decline in operating income primarily owing to a decrease in demand for its core products, the strong yen, and soaring raw material and fuel prices. Third, the plastics and films segment recorded a ¥4.7 billion year on year decline in operating income due to a drop in sales volume for engineering plastics from







the repercussions of the Great East Japan Earthquake and slowing demand for electronic materials as well as the strong yen and soaring raw material and fuel prices. Fourth, the pyrotechnic devices segment recorded a ¥0.9 billion year on year decline in net income due mainly to a lower capacity utilization ratio in the first quarter after the earthquake and the strong yen.

Other Income (Expenses)

Other expenses, net, amounted to ¥0.5 billion, down ¥2.5 billion from the previous fiscal year. This was primarily attributable to improvements in the foreign exchange loss and the financial account balance.

Income before Income Taxes and Minority Interests

Income before income taxes and minority interests decreased ¥9.8 billion, or 32.8%, to ¥20.0 billion.

Income Taxes

The effective tax rate after application of tax-effect accounting increased 6.9 percentage points, to 29.8%.

Minority Interests in Net Income

Minority interests in net income decreased ¥3.9 billion, or 64.0%, to ¥2.2 billion.

Net Income

Net income for the year decreased ¥5.0 billion, or 29.6%, to ¥11.8 billion. Return on equity (ROE) was 5.5%, down 2.5 percentage points from the previous fiscal year.

Per Share Information

Net income per share totaled ¥33.46, a decrease of ¥13.76 from the previous fiscal year.

In the year under review, we distributed annual dividend of ¥10 per share (including a ¥5 per share interim dividend) with the intention of maintaining a consistent level of dividend payments. The Company executed a treasury stock acquisition of four million shares with a value of approximately ¥1.8 billion during the period from August to September 2011. The shareholder return ratio was 45.2% for the fiscal year ended March 2012.

Financial Position

Assets

As of March 31, 2012, total assets stood at ¥398.2 billion, down ¥12.9 billion, or 3.1%, from a year earlier. The decline was mainly due to a decrease in property, plant and equipment.

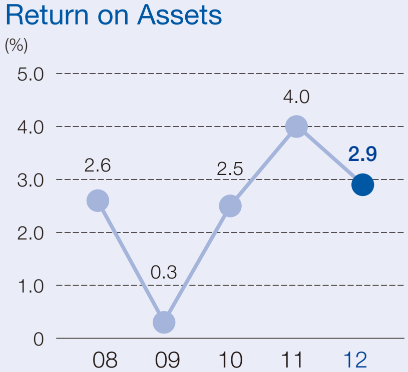
Liabilities

Total liabilities amounted to ¥163.5 billion, a decline of ¥12.2 billion, or 7.0%, from a year earlier. The decrease was mainly due to repayment of long-term debt.

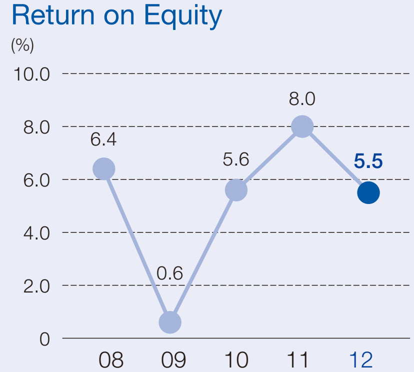
Equity

Total equity at the fiscal year-end came to ¥234.7 billion. Total shareholders' equity (total equity minus minority interests) amounted to ¥217.7 billion. The shareholders' equity ratio was 54.7%.

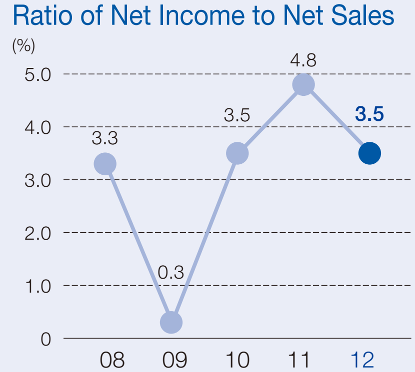
Return on Assets



Return on Equity



Ratio of Net Income to Net Sales



Cash Flows

Cash and cash equivalents at the fiscal year-end stood at ¥33.4 billion, a decrease of ¥0.3 billion or 0.9% from the level at the end of the previous fiscal year.

Cash from Operating Activities

Net cash provided by operating activities amounted to ¥34.0 billion, a decrease of ¥19.4 billion, or 36.4%, from the previous fiscal year. Factors increasing cash flow from operating activities included increases in income before income taxes and minority interests and depreciation and amortization. Factors decreasing cash flow included increases in income taxes-paid and notes and accounts receivable.

Cash from Investing Activities

Net cash used in investing activities totaled ¥9.2 billion, a decrease of ¥11.0 billion, or 54.4%, from the previous fiscal year. Factors increasing cash flow from investing activities included decreases in investment securities and time deposits. Factors decreasing cash flow included an increase in capital expenditures to acquire property, plant and equipment.

Cash from Financing Activities

Net cash used in financing activities amounted to ¥25.0 billion, a decrease of ¥3.1 billion, or 11.1%, from the previous fiscal year. The decrease was primarily attributable to repayment of long-term debt, dividends paid to minority interests, dividends paid, and payment for purchases of treasury stock.

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

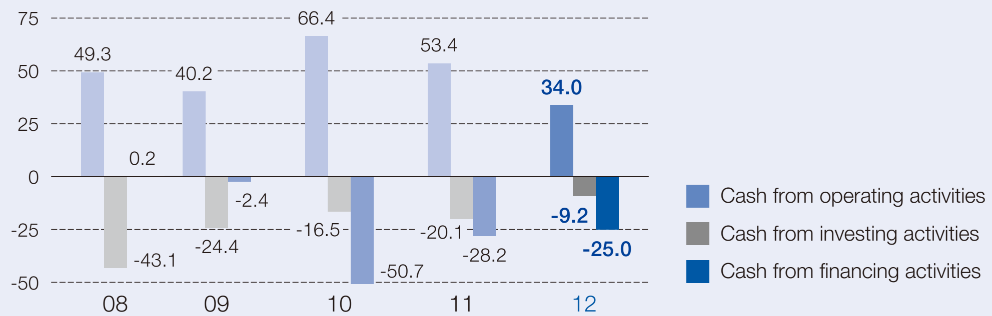
The Company's ratio of overseas sales to consolidated net sales is in a general increasing trend (39.6% in the fiscal year ended March 2012), and the Company's results can be more easily influenced by trends in currency exchange rates. We generally believe that depreciation of the yen has a positive 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

Cash Flows

(Billions of yen)



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 Year Ending March 2013

In the year ending March 2013, we expect the Daicel Group's business performance to reflect our continuing cost cutting efforts and increasing sales volumes for engineering plastics and automobile airbag inflators accompanying a rise in automobile production. The Daicel Group forecasts net sales of ¥365 billion, operating income of ¥27 billion, ordinary income of ¥28 billion, and net income of ¥16 billion for the fiscal year ending March 2013.

CONSOLIDATED BALANCE SHEETS

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	**2012**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	**¥ 33,436**	¥ 33,724	**$ 407,756**
Marketable securities (Notes 3 and 14)	**1,325**	2,768	**16,159**
Receivables (Notes 14 and 16):			
Trade notes	**3,407**	3,431	**41,549**
Trade accounts	**71,839**	66,103	**876,085**
Unconsolidated subsidiaries and associated companies	**4,852**	4,768	**59,171**
Allowance for doubtful receivables	**(61)**	(57)	**(744)**
Inventories (Note 4)	**71,135**	70,503	**867,500**
Deferred tax assets (Note 10)	**2,917**	4,637	**35,573**
Other current assets	**8,320**	12,032	**101,463**
Total current assets	**197,170**	197,909	**2,404,512**
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 17):			
Land	**26,504**	26,544	**323,220**
Buildings and structures	**134,775**	135,230	**1,643,598**
Machinery and equipment	**504,525**	501,758	**6,152,744**
Construction in progress	**11,845**	4,734	**144,451**
Total	**677,649**	668,266	**8,264,013**
Accumulated depreciation	**(538,444)**	(517,577)	**(6,566,391)**
Net property, plant and equipment	**139,205**	150,689	**1,697,622**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 14)	**41,126**	42,607	**501,537**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	**7,133**	7,121	**86,988**
Deferred tax assets (Note 10)	**1,628**	884	**19,854**
Other assets	**11,935**	11,861	**145,548**
Total investments and other assets	**61,822**	62,473	**753,927**
TOTAL	**¥ 398,197**	¥ 411,071	**$ 4,856,061**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 14)	¥ 12,020	¥ 9,815	$ 146,585
Current portion of long-term debt (Notes 6, 13, 14 and 16)	23,498	12,835	286,561
Payables (Note 14):			
Trade notes	147	242	1,793
Trade accounts	44,246	42,972	539,585
Construction	4,287	2,968	52,280
Unconsolidated subsidiaries and associated companies	1,878	2,074	22,902
Income taxes payable (Notes 10 and 14)	1,515	3,710	18,476
Other current liabilities	14,237	16,130	173,623
Total current liabilities	101,828	90,746	1,241,805
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6, 13, 14 and 16)	47,732	71,607	582,098
Liability for retirement benefits (Note 7)	10,557	9,482	128,744
Asset retirement obligations (Note 8)	1,030	1,040	12,561
Deferred tax liabilities (Note 10)	486	1,951	5,927
Other long-term liabilities	1,852	908	22,585
Total long-term liabilities	61,657	84,988	751,915
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13, 15 and 18)			
EQUITY (Notes 9 and 20):			
Common stock, — authorized, 1,450,000,000 shares; issued, 364,942,682 shares in 2012 and 2011	36,275	36,275	442,378
Capital surplus	31,579	31,579	385,110
Retained earnings	152,859	143,814	1,864,134
Treasury stock, — at cost 13,202,440 shares in 2012 and 9,185,807 shares in 2011	(6,012)	(4,195)	(73,317)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	11,508	12,517	140,341
Deferred gain (loss) on derivatives under hedge accounting	(115)	(154)	(1,402)
Foreign currency translation adjustments	(8,388)	(7,783)	(102,293)
Total	217,706	212,053	2,654,951
Minority interests	17,006	23,284	207,390
Total equity	234,712	235,337	2,862,341
TOTAL	¥398,197	¥ 411,071	$ 4,856,061

CONSOLIDATED STATEMENTS OF INCOME

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2012, 2011 and 2010

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2011	2010	**2012**
NET SALES (Note 16)	**¥341,943**	¥353,685	¥320,243	**$ 4,170,037**
COST OF SALES (Note 11)	**271,201**	269,791	250,951	**3,307,329**
Gross profit	**70,742**	83,894	69,292	**862,708**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	**50,316**	51,183	48,436	**613,610**
Operating income	**20,426**	32,711	20,856	**249,098**
OTHER INCOME (EXPENSES):				
Interest and dividend income	**1,571**	1,095	989	**19,159**
Gain on sales of securities		93	153	
Gain on sales of subsidiaries and associated companies' stock	**240**	382		**2,927**
Gain on liquidation of a subsidiary	**822**			**10,024**
Subsidies from municipal governments (Note 17)	**1,000**			**12,195**
Equity in earnings of unconsolidated subsidiaries and associated companies	**1,358**	1,362	1,256	**16,561**
Interest expense (Note 16)	**(1,478)**	(1,784)	(2,331)	**(18,024)**
Foreign exchange gain (loss)	**(321)**	(1,187)	(299)	**(3,915)**
Loss on dispositions of property, plant and equipment	**(1,497)**	(480)	(2,000)	**(18,256)**
Impairment loss on fixed assets	**(375)**	(319)	(857)	**(4,573)**
Reduction of cost of property, plant and equipment (Note 17)	**(912)**			**(11,122)**
Legal settlement			(399)	
Loss from a natural disaster	**(435)**	(343)		**(5,305)**
Effect of application of accounting standard for asset retirement obligations (Note 2.j)		(831)		
Other - net	**(437)**	(986)	(457)	**(5,330)**
Other income (expenses) - net	**(464)**	(2,998)	(3,945)	**(5,659)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**19,962**	29,713	16,911	**243,439**
INCOME TAXES (Note 10):				
Current	**4,607**	7,144	6,046	**56,183**
Prior periods		1,540		
Deferred	**1,332**	(1,870)	(819)	**16,244**
Total income taxes	**5,939**	6,814	5,227	**72,427**
NET INCOME BEFORE MINORITY INTERESTS	**14,023**	22,899	11,684	**171,012**
MINORITY INTERESTS IN NET INCOME	**2,196**	6,096	614	**26,780**
NET INCOME	**¥ 11,827**	¥ 16,803	¥ 11,070	**$ 144,232**

	Yen			U.S. Dollars
PER SHARE INFORMATION (Notes 2.q and 12):				
Basic net income	**¥ 33.46**	¥ 47.22	¥ 31.10	**$ 0.41**
Cash dividends applicable to the year	**10.00**	10.00	10.00	**0.12**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2012 and 2011

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	**2012**
NET INCOME BEFORE MINORITY INTERESTS	**¥14,023**	¥22,899	**$171,012**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized gain (loss) on available-for-sale securities	**(1,058)**	(4,400)	**(12,902)**
Deferred gain (loss) on derivatives under hedge accounting	**39**	33	**476**
Foreign currency translation adjustments	**(1,705)**	(3,277)	**(20,794)**
Share of other comprehensive income (loss) in associates	**(1)**	(330)	**(12)**
Total other comprehensive income (loss)	**(2,725)**	(7,974)	**(33,232)**
COMPREHENSIVE INCOME (Note 19)	**¥11,298**	¥14,925	**$137,780**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):			
Owners of the parent	**¥ 9,832**	¥ 9,566	**$119,902**
Minority interests	**1,466**	5,359	**17,878**

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2012, 2011 and 2010

		Millions of Yen									
						Accumulated Other Comprehensive Income					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2009	355,955,215	¥ 36,275	¥ 31,576	¥ 122,348	¥ (4,077)	¥ 9,150	¥ (193)	¥ (6,271)	¥ 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	(4,102)	16,903	(171)	(4,916)	206,136	22,869	229,005
Net income				16,803					16,803		16,803
Cash dividends, ¥10.00 per share				(3,559)					(3,559)		(3,559)
Repurchase of treasury stock	(169,683)				(101)				(101)		(101)
Disposal of treasury stock	16,738		2		8				10		10
Net change in the year						(4,386)	17	(2,867)	(7,236)	415	(6,821)
BALANCE, MARCH 31, 2011	355,756,875	36,275	31,579	143,814	(4,195)	12,517	(154)	(7,783)	212,053	23,284	235,337
Net income				11,827					11,827		11,827
Cash dividends, ¥10.00 per share				(3,893)					(3,893)		(3,893)
Repurchase of treasury stock	(4,018,398)				(1,818)				(1,818)		(1,818)
Disposal of treasury stock	1,765				1				1		1
Effect of change in closing period of certain consolidated subsidiaries				1,093					1,093		1,093
Effect of initial inclusion of certain subsidiaries in consolidation				18					18		18
Net change in the year						(1,009)	39	(605)	(1,575)	(6,278)	(7,853)
BALANCE, MARCH 31, 2012	351,740,242	¥ 36,275	¥ 31,579	¥ 152,859	¥ (6,012)	¥ 11,508	¥ (115)	¥ (8,388)	¥ 217,706	¥ 17,006	¥ 234,712

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2011	$ 442,378	$ 385,110	$ 1,753,829	$ (51,158)	$ 152,646	$ (1,878)	$ (94,915)	$ 2,586,012	$ 283,951	$ 2,869,963
Net income			144,232					144,232		144,232
Cash dividends, $0.12 per share			(47,476)					(47,476)		(47,476)
Repurchase of treasury stock				(22,171)				(22,171)		(22,171)
Disposal of treasury stock				12				12		12
Effect of change in closing period of certain consolidated subsidiaries			13,329					13,329		13,329
Effect of initial inclusion of certain subsidiaries in consolidation			220					220		220
Net change in the year					(12,305)	476	(7,378)	(19,207)	(76,561)	(95,768)
BALANCE, MARCH 31, 2012	$ 442,378	$ 385,110	$ 1,864,134	$ (73,317)	$ 140,341	$ (1,402)	$ (102,293)	$ 2,654,951	$ 207,390	$ 2,862,341

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2012, 2011 and 2010

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2012	2011	2010	**2012**
OPERATING ACTIVITIES:				
Income before income taxes and minority interests	**¥ 19,962**	¥ 29,713	¥ 16,911	**$ 243,439**
Adjustments for:				
Income taxes - paid	**(8,249)**	(9,763)	(2,947)	**(100,597)**
Income taxes - refunded			2,024	
Depreciation and amortization	**28,849**	33,529	37,782	**351,817**
Impairment loss on fixed assets	**375**	319	857	**4,573**
Loss on dispositions of property, plant and equipment	**1,497**	480	2,000	**18,256**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(1,358)**	(1,362)	(1,256)	**(16,561)**
Reduction of cost of property, plant and equipment	**912**			**11,122**
Gain on liquidation of a subsidiary	**(822)**			**(10,024)**
Subsidies from municipal governments	**(1,000)**			**(12,195)**
Changes in assets and liabilities:				
Notes and accounts receivable	**(6,410)**	1,092	(13,203)	**(78,171)**
Inventories	**(1,131)**	(9,022)	13,824	**(13,793)**
Notes and accounts payable	**1,329**	3,935	8,798	**16,207**
Other - net	**47**	4,507	1,655	**573**
Net cash provided by operating activities	**34,001**	53,428	66,445	**414,646**
INVESTING ACTIVITIES:				
Net decrease (increase) in time deposits	**2,520**	(2,629)	(756)	**30,732**
Net decrease (increase) in short-term investment securities	**5,479**	(6,497)		**66,817**
Capital expenditures	**(17,394)**	(11,753)	(18,424)	**(212,122)**
Payment for purchases of investment securities	**(1,751)**	(1,921)	(20)	**(21,354)**
Proceeds from sales and redemption of investment securities	**527**	1,580	1,788	**6,427**
Proceeds from sales of property, plant and equipment	**10**	14	137	**122**
Increase in finance receivables	**(32)**	(33)	(613)	**(390)**
Collection of finance receivables	**508**	1,079	2,198	**6,195**
Decrease (increase) in investments in and advances to unconsolidated subsidiaries and associated companies		782		
Payment for moving expense for expropriation			(478)	
Subsidies from municipal governments	**1,000**			**12,195**
Proceeds from liquidation of a subsidiary	**1,237**			**15,085**
Other	**(1,294)**	(763)	(304)	**(15,780)**
Net cash used in investing activities	**(9,190)**	(20,141)	(16,472)	**(112,073)**
FINANCING ACTIVITIES:				
Net change in short-term bank loans	**1,399**	(938)	(45,043)	**17,061**
Proceeds from issuance of long-term debt		5,163	35,576	
Repayments of long-term debt	**(12,970)**	(24,154)	(37,550)	**(158,171)**
Dividends paid	**(3,893)**	(3,559)	(2,848)	**(47,476)**
Dividends paid to minority interests	**(7,792)**	(4,592)	(846)	**(95,024)**
Payment for purchases of treasury stock	**(1,817)**	(101)	(26)	**(22,159)**
Other	**29**	10	2	**354**
Net cash used in financing activities	**(25,044)**	(28,171)	(50,735)	**(305,415)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(28)**	(1,521)	383	**(341)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(261)**	3,595	(379)	**(3,183)**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	**157**			**1,915**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CHANGE IN CLOSING PERIOD OF CONSOLIDATED SUBSIDIARIES	**(184)**			**(2,244)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**33,724**	30,129	30,508	**411,268**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 33,436**	¥ 33,724	¥ 30,129	**$ 407,756**

See notes to consolidated financial statements.

PROFILE
GROUP SYMBOL & BASIC PHILOSOPHY
CONSOLIDATED FINANCIAL HIGHLIGHTS
MESSAGE FROM THE PRESIDENT
INTERVIEW WITH THE PRESIDENT
SPECIAL FEATURE
DAICEL HIGHLIGHTS OF THE YEAR
REVIEW OF OPERATIONS
RESEARCH & DEVELOPMENT
CORPORATE SOCIAL RESPONSIBILITY
BOARD OF DIRECTORS AND AUDITORS/ EXECUTIVE OFFICERS
FINANCIAL SECTION
PRINCIPAL SUBSIDIARIES & AFFILIATES
CORPORATE DATA & STOCK INFORMATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and Consolidated Subsidiaries

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daicel Corporation (formerly, 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 ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 19.

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 2011 consolidated financial statements to conform to the classifications used in 2012.

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 ¥82 to $1, the approximate rate of exchange at March 31, 2012. 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, 2012 include the accounts of the Company and its 50 significant (46 in 2011 and 2010) subsidiaries (collectively, the "Companies").

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

During the year ended March 31, 2012, three newly established subsidiaries were included in consolidation. One existing subsidiary was included as a result of an increase of its operations.

Investments in one (one in 2011 and 2010) unconsolidated subsidiary and six (six in 2011, eight in 2010) associated companies are accounted for by the equity method. During the year ended March 31, 2011, two associated companies were excluded from equity method accounting as a result of their sale. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

b. **Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements -** In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (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: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development cost of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. **Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method -**In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (5) exclusion of minority interests from net income, if contained in net income.

The Company applied this accounting standard effective April 1, 2010.

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

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

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

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

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

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

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

h. **Long-Lived Assets -**The Companies review their long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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.

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

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

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

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

j. **Asset Retirement Obligations -**In March 2008, the ASBJ published ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Companies applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥31 million and income before income taxes and minority interests by ¥862 million.

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

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

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

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

m.Leases -In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standards for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

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

All other leases are accounted for as operating leases.

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

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

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

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

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

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

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

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

r. Accounting Changes and Error Corrections -In December 2009, the 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, the 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 Presentations - 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 the guidance are applicable to accounting changes and corrections of prior-period errors that are made from the beginning of the fiscal year that begins on or after April 1, 2011.

s. New Accounting Pronouncement

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

Major changes are as follows:

(a) Treatment in the balance sheet

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

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

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

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

This accounting standard and the guidance are effective for the end of fiscal years beginning on or after April 1, 2013 with earlier application being permitted from the beginning of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the fiscal year beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

Accounting Pronouncements Not Yet Applied - On February 14, 2012, the JICPA revised JICPA Statement No. 81, "Immediate Auditing Treatment for Depreciation," in response to Tax Reform 2011. In Tax Reform 2011, depreciation rates of declining-balance method were reviewed, so new item "V Auditing Treatments for Tax Reform 2011" was added to the statement. The Company and certain domestic subsidiaries expect to apply the revised treatment from the fiscal year beginning on April 1, 2012.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Current:			
Government and corporate bonds	**¥ 1,325**	¥ 2,768	**$ 16,159**
Non-current:			
Equity securities	**¥ 40,192**	¥ 41,843	**$ 490,147**
Government and corporate bonds	**930**	266	**11,341**
Other	**4**	498	**49**
Total	**¥ 41,126**	¥ 42,607	**$ 501,537**

The costs and aggregate fair values of marketable and investment securities at March 31, 2012 and 2011 were as follows:

	Millions of Yen			
	2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**¥ 21,238**	**¥ 18,192**	**¥ 609**	**¥ 38,821**
Debt securities	**2,001**		**12**	**1,989**

	Millions of Yen			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 20,125	¥ 20,914	¥ 436	¥ 40,603
Debt securities	2,747		6	2,741
Other	500		6	494

	Thousands of U.S. Dollars			
	2012			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	**$ 259,000**	**$ 221,854**	**$ 7,427**	**$ 473,427**
Debt securities	**24,402**		**146**	**24,256**

Securities whose fair values are not readily determinable as of March 31, 2012 and 2011 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Available-for-sale:			
Equity securities	**¥ 1,371**	¥ 1,240	**$ 16,720**
Debt securities	**266**	292	**3,244**
Other	**4**	5	**49**
Total	**¥ 1,641**	¥ 1,537	**$ 20,013**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2012, 2011 and 2010 were ¥2,762 million ($33,683 thousand), ¥1,580 million and ¥1,788 million, respectively. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥0 million ($0 thousand) and ¥0 million ($0 thousand), respectively, for the year ended March 31, 2012, and ¥118 million and ¥25 million, respectively, for the year ended March 31, 2011, and ¥244 million and ¥91 million, respectively, for the year ended March 31, 2010.

4. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Finished products	**¥ 32,461**	¥ 33,641	**$ 395,866**
Semi-finished products and work in process	**12,967**	12,084	**158,134**
Raw materials and supplies	**25,707**	24,778	**313,500**
Total	**¥ 71,135**	¥ 70,503	**$ 867,500**

5. INVESTMENT PROPERTY

The Companies own certain 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, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
¥ 3,883	¥ (112)	**¥ 3,771**	**¥ 13,983**

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2010	Increase/Decrease	March 31, 2011	March 31, 2011
¥ 3,805	¥ 78	¥ 3,883	¥ 14,358

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2011	Increase/Decrease	March 31, 2012	March 31, 2012
$ 47,354	$ (1,366)	**$ 45,988**	**$ 170,524**

Notes:
1) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair value of properties as of March 31, 2012 is measured by the Companies in accordance with 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, 2012 and 2011 were 1.13% and 1.31%, respectively.

Long-term debt at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
1.60% bonds due 2013	¥ 10,000	¥ 10,000	$ 121,951
0.84% bonds due 2015	10,000	10,000	121,951
1.69% bonds due 2020	10,000	10,000	121,951
Unsecured loans from banks and other financial institutions, due through 2019, with interest rates ranging from 0.55% to 6.19% for 2012 (from 0.55% to 7.20% for 2011)	41,214	54,399	502,611
Lease obligations	16	43	195
Total	71,230	84,442	868,659
Less current portion	(23,498)	(12,835)	(286,561)
Long-term debt, less current portion	¥ 47,732	¥ 71,607	$ 582,098

At March 31, 2012, annual maturities of long-term debt, excluding finance leases (see Note 13) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year Ending March 31	2012	2012
2013	¥ 23,483	$ 286,378
2014	10,720	130,732
2015	15,651	190,866
2016	8,280	100,976
2017	1,750	21,341
2018 and thereafter	11,330	138,171
Total	¥ 71,214	$ 868,464

The unsecured long-term bank debt of ¥5,786 million ($70,561 thousand) includes the following financial restriction agreement during its payment period. The agreement provides that the amount of shareholder's equity must be maintained at or above ¥137,300 million ($1,674,390 thousand) at every fiscal year-end and semi-annual interim period.

7. RETIREMENT AND PENSION PLANS

During the year ended March 31, 2012, one domestic consolidated subsidiary partially transferred from a defined benefit plan to a defined contribution plan. Accordingly, the Companies recorded ¥103 million ($1,256 thousand) of loss on transition from a defined benefit plan to a defined contribution plan as other expense.

The liability for retirement benefits at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥ 32,831	¥ 33,553	$ 400,378
Fair value of plan assets	(17,286)	(19,655)	(210,805)
Unrecognized actuarial loss	(6,011)	(5,024)	(73,305)
Unrecognized prior service cost	(355)	(591)	(4,329)
Net liability	9,179	8,283	111,939
Prepaid benefit costs	1,378	1,199	16,805
Liability for retirement benefit	¥ 10,557	¥ 9,482	$ 128,744

The components of net periodic benefit costs for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2012	2011	2010	**2012**
Service cost	**¥ 1,741**	¥ 1,742	¥ 1,790	**$ 21,232**
Interest cost	**599**	586	600	**7,305**
Expected return on plan assets	**(237)**	(258)	(197)	**(2,890)**
Recognized actuarial loss	**943**	553	993	**11,500**
Amortization of prior service cost	**237**	237	237	**2,890**
Loss on transition from a defined benefit plan to a defined contribution plan	**103**			**1,256**
Net periodic benefit costs	**¥ 3,386**	¥ 2,860	¥ 3,423	**$ 41,293**

Assumptions used for the years ended March 31, 2012, 2011 and 2010 were set forth as follows:

	2012	2011	2010
Discount rate	**2.0%**	2.0%	2.0%
Expected rate of return on plan assets	**1.0%**	1.0%	1.0%
Amortization period of prior service cost	**5years**	5years	5years
Recognition period of actuarial gain/loss	**10years**	10years	10years

Retirement allowances for directors and corporate auditors are included in "Liability for retirement benefits" in the consolidated balance sheets. The amounts were ¥59 million ($720 thousand) and ¥54 million at March 31, 2012 and 2011, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	**2012**
Balance at beginning of year	**¥ 1,040**	¥ 1,062	**$ 12,683**
Reconciliation associated with passage of time	**7**	7	**85**
Reduction associated with settlement of asset retirement obligations	**(5)**	(7)	**(61)**
Other	**(10)**	(22)	**(122)**
Balance at end of year	**¥ 1,032**	¥ 1,040	**$ 12,585**

9. EQUITY

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

(a) Dividends

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

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

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the 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.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2012, 2011 and 2010. 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, 2012, 2011 and 2010 and the actual effective tax rate reflected in the accompanying consolidated statements of income was as follows:

	2012	2011	2010
Normal effective statutory tax rate	41%	41%	41%
Tax effect on retained earnings of foreign subsidiaries		(12)	
Increase or decrease of valuation allowance		(1)	(1)
Tax difference of foreign countries	(9)	(7)	(4)
Equity in earnings of associated companies	(3)	(2)	(3)
Tax credit primarily for research and development costs	(2)	(2)	(6)
Income taxes for prior periods		5	
Effect of tax rate reduction	3		
Other - net		1	4
Actual effective tax rate	30%	23%	31%

Due to the revised corporate tax law of 2009, a domestic consolidated subsidiary with a fiscal year ended December 31, reversed part of deferred income taxes on undistributed earnings of its foreign consolidated subsidiaries. As a result, deferred tax liabilities decreased by ¥3,554 million at March 31, 2011.

Income taxes for prior periods are due to adjustments based on transfer pricing taxation for the five fiscal years ended March 31, 2009.

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 36% afterwards. The effect of this change was to increase deferred tax assets in the consolidated balance sheet as of March 31, 2012 by ¥41 million ($500 thousand), to increase unrealized gain on available-for-sale securities in the consolidated balance sheet as of March 31, 2012 by ¥678 million ($8,268 thousand), to decrease deferred gain (loss) on derivatives under hedge accounting in the consolidated balance sheet as of March 31, 2012 by ¥6 million ($73 thousand) and to increase income taxes - deferred in the consolidated statement of income for the year then ended by ¥631 million ($7,695 thousand).

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Accrued enterprise taxes	¥ 204	¥ 403	$ 2,488
Accrued bonuses	1,371	1,574	16,720
Liabilities for retirement benefits	7,158	7,941	87,293
Investment securities	277	255	3,378
Tax loss carryforwards	2,959	2,946	36,085
Intercompany profits	4,417	4,561	53,866
Other	4,130	5,608	50,366
Less valuation allowance	(3,982)	(4,291)	(48,562)
Deferred tax assets	¥ 16,534	¥ 18,997	$ 201,634
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 5,959	¥ 7,791	$ 72,671
Tax purpose reserves regulated by Japanese tax law	621	743	7,573
Undistributed earnings of foreign subsidiaries	1,462	1,528	17,829
Securities contributed to employees' retirement benefit trust	3,645	4,363	44,451
Other	791	1,002	9,647
Deferred tax liabilities	¥ 12,478	¥ 15,427	$ 152,171
Net deferred tax assets (liabilities)	¥ 4,056	¥ 3,570	$ 49,463

At March 31, 2012, certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,307 million ($101,305 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
2014	¥ 13	$ 159
2015	392	4,780
2016	2,173	26,500
2017 and thereafter	5,729	69,866
Total	¥ 8,307	$ 101,305

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥12,731 million ($155,256 thousand), ¥11,971 million and ¥11,317 million for the years ended March 31, 2012, 2011 and 2010, respectively.

12. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted average number of shares outstanding. The average number of common shares in the computation was 353,480,467, 355,817,902 and 355,930,738 for the years ended March 31, 2012, 2011 and 2010, respectively.

13. 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, 2012, 2011 and 2010 were ¥29 million ($354 thousand), ¥47 million and ¥88 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	
	2012		2012	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 12	¥445	$146	$ 5,427
Due after one year	7	471	85	5,744
Total	¥ 19	¥916	$231	$11,171

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

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

	Millions of Yen		Thousands of U.S. Dollars	
As of March 31, 2012	Machinery and Equipment	Total	Machinery and Equipment	Total
Acquisition cost	¥103	¥103	$1,256	$1,256
Accumulated depreciation	84	84	1,024	1,024
Net leased property	¥ 19	¥ 19	$ 232	$ 232

	Millions of Yen		
As of March 31, 2011	Buildings and Structures	Machinery and Equipment	Total
Acquisition cost	¥187	¥142	¥329
Accumulated depreciation	180	100	280
Net leased property	¥ 7	¥ 42	¥ 49

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

Obligations under finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 12	¥ 29	$ 147
Due after one year	7	19	85
Total	¥ 19	¥ 48	$ 232

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 ¥29 million ($354 thousand), ¥47 million and ¥88 million for the years ended March 31, 2012, 2011 and 2010, respectively.

There was no impairment loss allocated to leased assets for the years ended March 31, 2012, 2011 and 2010, respectively.

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

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

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

Maturities of bank loans and bonds are less than seven 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 15 for more detail about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

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

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2012.

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

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

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

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

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

Liquidity risk management

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

(4) Fair Values of Financial Instruments

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

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 33,436	¥ 33,436	
Marketable securities	1,325	1,325	
Receivables	80,098	80,098	
Investment securities	39,485	39,485	
Total	¥154,344	¥154,344	¥
Short-term bank loans	¥ 12,020	¥ 12,020	
Payables	50,558	50,558	
Income taxes payable	1,515	1,515	
Long-term debt	71,230	72,198	¥(968)
Total	¥135,323	¥136,291	¥(968)

	Millions of Yen		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 33,724	¥ 33,724	
Marketable securities	2,768	2,768	
Receivables	74,302	74,302	
Investment securities	41,070	41,070	
Total	¥151,864	¥151,864	¥
Short-term bank loans	¥ 9,815	¥ 9,815	
Payables	48,256	48,256	
Income taxes payable	3,710	3,710	
Long-term debt	84,442	85,411	¥(969)
Total	¥146,223	¥147,192	¥(969)

March 31, 2012	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 407,756	$ 407,756	
Marketable securities	16,159	16,159	
Receivables	976,805	976,805	
Investment securities	481,524	481,524	
Total	$ 1,882,244	$ 1,882,244	$
Short-term bank loans	$ 146,585	$ 146,585	
Payables	616,560	616,560	
Income taxes payable	18,476	18,476	
Long-term debt	868,659	880,464	$ (11,805)
Total	$ 1,650,280	$ 1,662,085	$ (11,805)

Cash and Cash Equivalents

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

Marketable and Investment Securities

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

Receivables, Payables and Income Taxes Payable

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

Short-Term Bank Loans

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

Long-Term Debt

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

Derivatives

Fair value information for derivatives is included in Note 15.

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

March 31, 2012	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	¥ 4,724	$ 57,610

March 31, 2011	Carrying Amount
	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 4,758

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

	Millions of Yen			
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 33,436			
Receivables	80,098			
Marketable securities and investment securities:				
Government bonds	27	¥213	¥126	¥
Corporate bonds	1,000	100		
Other	300	500		
Total	¥114,861	¥813	¥126	¥

	Millions of Yen			
March 31, 2011	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 33,724			
Receivables	74,302			
Marketable securities and investment securities:				
Government bonds	27	¥111	¥145	¥ 9
Corporate bonds	2,735			
Other		500		
Other	4,250			
Total	¥115,038	¥611	¥145	¥ 9

	Thousands of U.S. Dollars			
March 31, 2012	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 407,756			
Receivables	976,805			
Marketable securities and investment securities:				
Government bonds	329	$2,598	$1,537	$
Corporate bonds	12,195	1,220		
Other	3,659	6,098		
Total	$1,400,744	$9,916	$1,537	$

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

15. DERIVATIVES

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2012	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥17,142		¥(309)	¥(309)
Selling Euro	897		(38)	(38)
Buying U.S.$	1,534		16	16
Buying Japanese yen	31			
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	1,877	¥1,331	(31)	(31)
Receiving Japanese yen, paying Euro	156		48	48
Receiving U.S.$, paying THB	156		(6)	(6)

	Millions of Yen			
March 31, 2011	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	¥8,280		¥ 20	¥ 20
Selling Euro	448		(22)	(22)
Selling THB	475		(2)	(2)
Buying U.S.$	2,019		3	3
Buying Japanese yen	20		1	1
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	584	¥195	125	125
Receiving Japanese yen, paying Euro	312	156	83	83
Receiving U.S.$, paying THB	632	316	(36)	(36)

	Thousands of U.S. Dollars			
March 31, 2012	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:				
Selling U.S.$	$209,049		$(3,768)	$(3,768)
Selling Euro	10,939		(463)	(463)
Buying U.S.$	18,707		195	195
Buying Japanese yen	378			
Foreign currency swaps:				
Receiving Japanese yen, paying U.S.$	22,890	$16,232	(378)	(378)
Receiving Japanese yen, paying Euro	1,902		585	585
Receiving U.S.$, paying THB	1,902		(73)	(73)

Derivative Transactions to Which Hedge Accounting Is Applied

	Millions of Yen			
March 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	¥11,799	¥7,700	¥(157)

	Millions of Yen			
March 31, 2011	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	¥15,966	¥11,886	¥(231)

	Thousands of U.S. Dollars			
March 31, 2012	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	$143,890	$93,902	$(1,915)

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 Companies' exposure to credit or market risk.

16. RELATED PARTY DISCLOSURES

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

The sales to FUJIFILM Corporation for the years ended March 31, 2012, 2011 and 2010 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2012	2011	2010	2012
Sales	¥20,920	¥25,224	¥28,235	$255,122

These balances due from and to FUJIFILM Corporation at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Notes and accounts receivable	¥4,300	¥3,634	$52,439

The Company and its consolidated domestic subsidiary had unsecured loans from Nippon Life Insurance Company, whose chairman has served as one of the Company's statutory auditors since June 2010.

The balances due to Nippon Life Insurance Company at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Long-term debt	¥ 6,500	¥ 8,198	$ 79,268
Current portion of long-term debt	1,699	2,230	20,720
Interest expense payable	17	23	207

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

17. MUNICIPAL GOVERNMENT SUBSIDIES

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

18. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2012 for loans guaranteed amounted to ¥1,198 million ($14,610 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

19. COMPREHENSIVE INCOME

(1) The components of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Unrealized gain (loss) on available-for-sale securities:		
Gains arising during the year	¥(2,898)	$ (35,341)
Reclassification adjustments to profit or loss	4	49
Amount before income tax effect	(2,894)	(35,292)
Income tax effect	1,836	22,390
Total	¥(1,058)	$ (12,902)
Deferred gain (loss) on derivatives under hedge accounting:		
Gains arising during the year	¥ (42)	$ (512)
Reclassification adjustments to profit or loss	114	1,390
Amount before income tax effect	72	878
Income tax effect	(33)	(402)
Total	¥ 39	$ 476
Foreign currency translation adjustments -		
Adjustments arising during the year	¥(1,705)	$ (20,794)
Share of other comprehensive income in associates -		
Gains arising during the year	¥ (1)	$ (12)
Total other comprehensive income	¥(2,725)	$ (33,232)

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

(2) Total comprehensive income (loss) for the year ended March 31, 2010 was the following:

	Millions of Yen
Total comprehensive income (loss) attributable to:	
Owners of the parent	¥ 20,200
Minority interests	1,082
Total comprehensive income (loss)	¥ 21,282

Other comprehensive income (loss) for the year ended March 31, 2010 consisted of the following:

	Millions of Yen
Other comprehensive income (loss):	
Unrealized gain (loss) on available-for-sale securities	¥ 7,845
Deferred gain (loss) on derivatives under hedge accounting	(47)
Foreign currency translation adjustments	1,712
Share of other comprehensive income (loss) in associates	88
Total other comprehensive income (loss)	¥ 9,598

20. SUBSEQUENT EVENTS

(1) Acquisition of Shares of Special Devices, Inc.

On April 16, 2012, the Company's wholly owned subsidiary, Daicel (U.S.A.), Inc. acquired all shares of Special Devices, Inc. which manufactures and markets initiators (igniters of inflators) in the U.S.A.

(a) Purpose of the Acquisition

The Companies manufacture and sell inflators (gas-generating devices) for automobile airbags and micro gas generators ("PGGs") for seatbelt pretensioners.

The Companies manufacture and sell them at the six manufacturing bases (Japan, America, Thailand, Poland, China and South Korea), so that the Companies expand the tye domain of inflator business positively in the global market, and the Companies intend to start pyrotechnic business other than the inflators.

The Companies manufacture the initiators (igniters of the inflators) in Japan and Thailand. With this acquisition, the Companies can expand the manufacturing capacity for them and can sell them in the world in addition to inflators and PGGs. In addition, we will continue to contribute to both customers and market using synergies with Special Devices, Inc., such as to improve production efficiency, to promote the development of new products, and to expand sales channels globally.

(b) Shareholders of the company acquired

Wayzata Opportunities Fund, LLC and Wayzata Opportunities Fund Offshore, L.P.

(c) Outline of the company acquired

Name: Special Devices, Inc.
Location of head office: Moorpark, California, U.S.A.
Location of manufacturing base: Mesa, Arizona, U.S.A., Saraburi Province, Thailand
President: Christopher Hunter
Capital stock: $7 thousand
Major business: Manufacturing and selling initiators and PGGs

(d) Acquisition date

April 16, 2012

(e) Summary of the acquired shares

Number of shares acquired: 682,676 shares
Value of shares acquired: $110 million
Ownership after acquisition: 100%
However, this amount may be subject to adjustments of net assets at acquisition date.

(f) Payment

Cash

(2) Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2012 was approved at the Shareholders' General Meeting of the Company held on June 27, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥5 ($0.06) per share	¥1,759	$ 21,451

21. SEGMENT INFORMATION

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

Segment information disclosure under the previous ASBJ Statement No. 17 for the year ended March 31, 2010 is presented. In addition, segment information disclosure under the revised ASBJ Statement No. 17 for the year ended March 31, 2010 is also presented for comparison purposes.

Segment information under the revised ASBJ Statement No. 17 for the years ended March 31, 2012, 2011 and 2010

1. Description of Reportable Segments

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

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

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

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

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

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2011	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	¥ 76,551	¥ 80,871	¥136,988	¥ 52,870	¥347,280	¥ 6,405	¥353,685		¥353,685
Intersegment sales or transfers	2,782	14,384	10		17,176	10,133	27,309	¥ (27,309)	
Total sales	¥ 79,333	¥ 95,255	¥136,998	¥ 52,870	¥364,456	¥ 16,538	¥380,994	¥ (27,309)	¥353,685
Segment profit	¥ 12,069	¥ 6,923	¥ 14,576	¥ 5,864	¥ 39,432	¥1,300	¥ 40,732	¥ (8,021)	¥ 32,711
Segment assets	87,712	69,095	124,173	48,459	329,439	7,165	336,604	74,467	411,071
Depreciation	12,755	8,099	6,459	4,632	31,945	300	32,245	542	32,787
Investments in associated companies	3,373	138	2,113		5,624		5,624		5,624
Impairment loss on fixed assets		245	74		319		319		319
Increase in property, plant and equipment	908	2,627	3,430	2,067	9,032	288	9,320	592	9,912

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2010	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	¥ 76,938	¥ 74,234	¥111,589	¥ 51,298	¥314,059	¥ 6,184	¥320,243		¥320,243
Intersegment sales or transfers	2,680	10,953	5		13,638	9,369	23,007	¥ (23,007)	
Total sales	¥ 79,618	¥ 85,187	¥111,594	¥ 51,298	¥327,697	¥ 15,553	¥343,250	¥ (23,007)	¥320,243
Segment profit	¥ 12,053	¥ 5,858	¥ 5,283	¥ 4,826	¥ 28,020	¥ 802	¥ 28,822	¥ (7,966)	¥ 20,856
Segment assets	96,558	74,404	123,300	52,140	346,402	7,297	353,699	74,678	428,377
Depreciation	15,509	8,493	7,215	4,613	35,830	313	36,143	551	36,694
Investments in associated companies	3,318	397	2,512		6,227		6,227		6,227
Impairment loss on fixed assets		857			857		857		857
Increase in property, plant and equipment	4,729	5,637	2,732	3,005	16,103	109	16,212	269	16,481

	Thousands of U.S. Dollars								
	Reportable Segment								
Year Ended March 31, 2012	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Total	Other	Total	Reconciliations	Consolidated
Sales to external customers	$ 879,451	$ 933,024	$1,628,683	$ 648,756	$4,089,914	$ 80,123	$4,170,037		$4,170,037
Intersegment sales or transfers	32,061	183,586	146		215,793	115,609	331,402	$ (331,402)	
Total sales	$ 911,512	$1,116,610	$1,628,829	$ 648,756	$4,305,707	$ 195,732	$4,501,439	$ (331,402)	$4,170,037
Segment profit	$ 94,683	$ 65,268	$ 120,366	$ 61,012	$ 341,329	$ 12,439	$ 353,768	$ (104,670)	$ 249,098
Segment assets	983,622	810,963	1,466,329	716,293	3,977,207	86,159	4,063,366	792,695	4,856,061
Depreciation	121,500	84,756	79,878	48,756	334,890	3,220	338,110	7,207	345,317
Investments in associated companies	45,098	1,695	29,134		75,927		75,927		75,927
Impairment loss on fixed assets		4,573			4,573		4,573		4,573
Increase in property, plant and equipment	37,232	55,524	79,244	44,720	216,720	2,353	219,073	9,464	228,537

(Notes)

1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥8,583 million ($104,670 thousand), ¥8,021 million and ¥7,966 million for the years ended March 31, 2012, 2011 and 2010, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.

(2) The unallocated corporate assets included in "Reconciliations" amounted to ¥67,595 million ($824,329 thousand), ¥78,603 million and ¥77,694 million for the years ended March 31, 2012, 2011 and 2010, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥2,594 million ($31,634 thousand), ¥4,136 million and ¥3,016 million for the years ended March 31, 2012, 2011 and 2010, respectively.

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

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

Related Information

For the years ended March 31, 2012 and 2011

1. Information about Products and Services

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

	Millions of Yen					
	2011					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	¥76,551	¥80,871	¥136,988	¥52,870	¥6,405	¥353,685

	Thousands of U.S. Dollars					
	2012					
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Total
Sales to external customers	**$879,451**	**$933,024**	**$ 1,628,683**	**$648,756**	**$80,123**	**$ 4,170,037**

2. Information about Geographical Areas

(1) Sales

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

Millions of Yen				
2011				
Japan	Asia		Other	Total
	China	Other		
¥213,781	¥42,991	¥55,291	¥41,622	¥353,685

Thousands of U.S. Dollars				
2012				
Japan	Asia		Other	Total
	China	Other		
$ 2,518,512	$ 489,634	$ 632,220	$ 529,671	$ 4,170,037

Note: Sales are classified in countries or regions based on location of customers.

(2) Property, Plant and Equipment

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

Millions of Yen			
2011			
Japan	Asia	Other	Total
¥ 123,101	¥ 20,681	¥ 6,907	¥ 150,689

Thousands of U.S. Dollars			
2012			
Japan	Asia	Other	Total
$ 1,342,963	$ 274,244	$ 80,415	$ 1,697,622

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

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

	Millions of Yen						
	2011						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		¥ 245	¥ 74				¥ 319

	Thousands of U.S. Dollars						
	2012						
	Cellulosic Derivatives	Organic Chemicals	Plastics and Films	Pyrotechnic Devices	Other	Elimination/ Corporate	Total
Impairment losses of assets		$ 4,573					$ 4,573

Segment information under the previous ASBJ Statement No. 17 for the year ended March 31, 2010

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

I Operations in Industry Segments

	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	¥ 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

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 year ended March 31, 2010 included unallocated corporate costs of ¥7,966 million. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2010 included ¥77,694 million of corporate assets, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

II Geographical Segments

	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

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 year ended March 31, 2010 included unallocated corporate costs of ¥7,966 million. The unallocated corporate costs consisted primarily of research and development costs and headquarters administration costs.

Assets of Corporate and Eliminations at March 31, 2010 included ¥77,694 million of corporate assets, consisting primary of cash and cash equivalents, investment in securities, research and development-related equipment and headquarters administration-related assets.

III Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2010 amounted to ¥117,420 million.

INDEPENDENT AUDITORS' REPORT

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

We have audited the accompanying consolidated balance sheets of Daicel Corporation (formerly, Daicel Chemical Industries, Ltd.) and consolidated subsidiaries as of March 31, 2012 and 2011, and the related consolidated statements of income for each of the three years in the period ended March 31, 2012, the consolidated statements of comprehensive income for the years ended March 31, 2012 and 2011, and the consolidated statements of changes in equity, and cash flows for each of the three years in the period ended March 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Daicel Corporation and consolidated subsidiaries as of March 31, 2012 and 2011, and the consolidated results of their operations and their cash flows for the three years in the period ended March 31, 2012, in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in 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 27, 2012

Member of
Deloitte Touche Tohmatsu Limited

PRINCIPAL SUBSIDIARIES AND AFFILIATES

Domestic Operations

	Paid-in capital (Millions of Yen)	The Company's equity ownership (%)	Principal business
Kyodo Sakusan Co., Ltd.	3,000	69	Manufacture and sale of acetic acid Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; JNC Corporation; and KH Neochem Co., Ltd.
Dainichi Chemical Corp.	270	100	Manufacture and sale of industrial-use coating resins, non-tin anti-stain compounds, and fine chemicals
Daicel-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 and PEEK resin Joint-venture company with Evonik Degussa Japan Co., Ltd.
Daicel Pack Systems, Ltd.	50	100	Manufacture and sale of vacuum- and pressure-molded plastics, industrial and food packaging, and paper and plastic buffers
Daicel Value Coating Ltd.	40	100	Manufacture and sale of barrier films Custom coating business
DM Novafoam Ltd.	98	65	Manufacture and sale of foamed plastics Joint-venture company with Mitsui Chemicals, Inc.
Daicel Safety Systems Inc.	80	100	Manufacture of inflators for automobile airbags
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 Joint-venture company with Central Filter Industries Co., Ltd.; Daicen Maintenance Ltd.
Daicel FineChem Ltd.	70	100	Sale of water-soluble polymers, synthetic resins, and other industrial products, and manufacture, processing, and sale of resin-based construction materials as well as floor coverings and exterior furnishings Manufacture and sale of celluloid, acetate plastics products, and household products

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

International Operations

	Paid-in capital	The Company's equity ownership (%)	Principal business
Ningbo Da-An Chemical Industries Co., Ltd.*2	RMB 271 mil	30	Manufacture and sale of cellulose acetate and acetic anhydride
Xi'an Huida Chemical Industries Co., Ltd.*2	RMB 248 mil	30	Manufacture and sale of acetate tow for cigarette filters
Chiral Technologies, Inc.	US$ 100	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Chiral Technologies Europe S.A.S.	€ 2.1 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Chiral Technologies (China) Co., Ltd.*3	RMB 10 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Chiral Technologies (India) Private Ltd.	INR 4 mil	100	Sale of chiral separation columns and provision of technical services related to optical active compounds
Daicel Nanning Food Ingredients Co., Ltd.*3	RMB 194.025 mil	100	Manufacture and sale of sorbic acid and potassium sorbate
Polyplastics Taiwan Co., Ltd.*4	NT$ 1,590 mil	41	Manufacture and sale of engineering plastics
Polyplastics Asia Pacific Sdn. Bhd.*5	RM 158 mil	55	Manufacture and sale of engineering plastics
PTM Engineering Plastics (Nantong) Co., Ltd.*6	RMB 386 mil	39	Manufacture and sale of engineering plastics Joint-venture company with Mitsubishi Gas Chemical Co., Inc.; Korea Engineering Plastics Co., Ltd.; and Ticona Limited Liability Company
Shanghai Daicel Polymers, Ltd.*7	RMB 75.72 mil	100	Sale and compounding of plastics
Daicel Polymer (Hong Kong) Ltd.*8	HK$ 1.0 mil	100	Manufacture and sale of SAN resin, ABS resin, high-performance polymer alloy, and polystyrene sheet
Daicel Polymer (Thailand) Co., Ltd.*8	THB 20 mil	100	Sale of compound resin
Daicel Trading (Shanghai) Ltd.*9	RMB 21.683 mil	100	Sale of compound resin, polystyrene sheet and other chemical products
Topas Advanced Polymers GmbH*10	€ 0.1 mil	80	Manufacture, sale and research of cyclic olefin copolymer
Topas Advanced Polymers, Inc.*11	US$ 0.01 mil	80	Sale of cyclic olefin copolymer
Daicel Safety Systems America, LLC*12	US$ 30 mil	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.	PLN 5 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Jiangsu) Co.,Ltd.*3	RMB 231 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems (Thailand) Co., Ltd.	THB 270 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Systems Korea, Inc	KRW 4,400 mil	100	Manufacture and sale of inflators for automobile airbags
Daicel Safety Technologies America, Inc.	US$ 8.5 mil	100	Manufacture of inflator components for automobile airbags
Daicel Safety Technologies (Thailand) Co., Ltd.	THB 800 mil	100	Manufacture of inflator components for automobile airbags
Special Devices, Inc.*13	US$ 0.007 mil	100	Manufacture and sale of inflator components for automobile airbags
Daicel (China) Investment Co., Ltd.	RMB 386 mil	100	Management of manufacturing and marketing operations in China
Daicel (Asia) Pte. Ltd.	S$ 9.59 mil	100	Management of marketing operations in Southeast Asia
Daicel (U.S.A.), Inc.	US$ 0.1 mil	100	Management of marketing operations in North America
Daicel (Europa) GmbH	€ 0.15 mil	100	Management of marketing operations in Europe

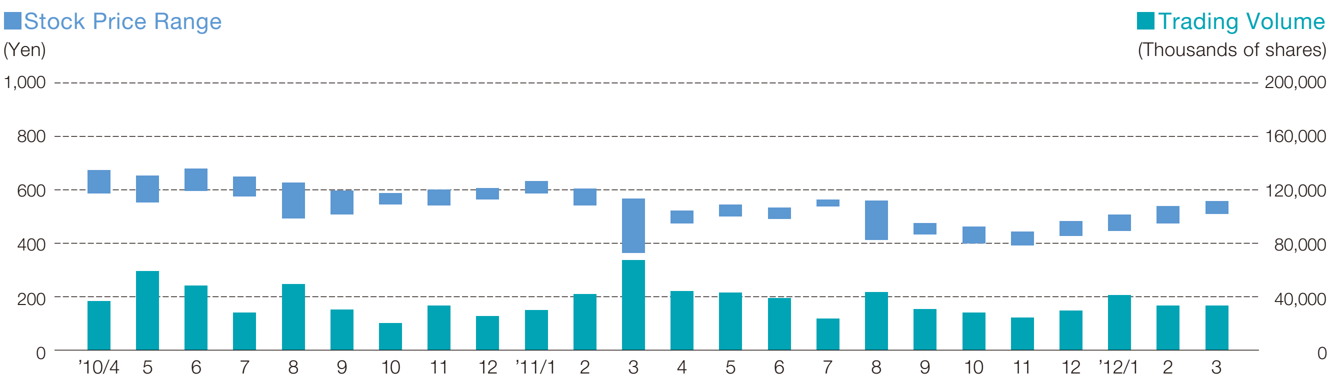
*2 30% owned by Daicel (China) Investment Co., Ltd.
*3 100% owned by Daicel (China) Investment Co., Ltd.
*4 75% owned by Polyplastics Co., Ltd.
*5 100% owned by Polyplastics Co., Ltd.
*6 70% owned by Polyplastics Co., Ltd.
*7 90% owned by Daicel Corporation and 10% owned by Daicel (China) Investment Co., Ltd.
*8 100% owned by Daicel Polymer Ltd.
*9 90% owned by Daicel (China) Investment Co.,Ltd. and 10% owned by Shanghai Daicel Polymers, Ltd.
*10 55% owned by Daicel Corporation and 45% owned by Polyplastics Co., Ltd.
*11 100% owned by Topas Advanced Polymers GmbH
*12 83% owned by Daicel (U.S.A.), Inc.
*13 100% owned by Daicel (U.S.A.), Inc.

CORPORATE DATA (As of March 31, 2012)

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:	Sumitomo Mitsui Trust Bank, Limited 1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan
Number of Shareholders	18,420
Independent Auditor	Deloitte Touche Tohmatsu LLC
Osaka Head Office	Mainichi Intecio, 3-4-5, Umeda, Kita-ku, Osaka 530-0001, Japan Tel: +81-6-6342-6111 Fax: +81-6-6342-6118
Tokyo Head Office	JR Shinagawa East Bldg., 2-18-1, Konan, Minato-ku, Tokyo 108-8230, Japan Tel: +81-3-6711-8111 Fax: +81-3-6711-8100

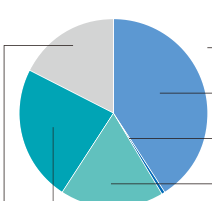
STOCK INFORMATION (As of March 31, 2012)

Stock Price Range & Trading Volume



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

Composition of Shareholders



	Thousands of shares	%
Financial institutions	149,187	40.9
Securities companies	2,033	0.6
Other domestic corporations	64,666	17.7
Foreign investors	85,076	23.3
Individual & other investor	63,978	17.5

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)	31,007	8.81
The Master Trust Bank of Japan, Ltd. (Trust Account)	21,467	6.10
Nippon Life Insurance Company	18,813	5.34
FUJIFILM Corporation	17,271	4.91
Japan Trustee Services Bank, Ltd. (Trust Account 9)	15,688	4.46
Toyota Motor Corporation	15,000	4.26
Mitsui Sumitomo Insurance Co., Ltd.	9,003	2.55
Mitsui & Co., Ltd.	7,560	2.14
Sumitomo Mitsui Banking Corporation	7,096	2.01
Bank of Tokyo-Mitsubishi UFJ	6,503	1.84

DAICEL CORPORATION

The report was printed with attention to minimizing environmental impact by using a waterless printing method, ink manufactured from vegetable oil, and paper certified by the Forest Stewardship Council™.
The cover and contents of this annual report are printed using ink that contains less than 1% of Volatile Organic Compounds (VOCs).