



Annual Report 2014

For the year ended March 31, 2014



DAIKEN CORPORATION

Company Profile

Since the founding of the company in September 1945, the core focus of our business has been the development and provision of materials for residential housing and construction. Daiken's corporate activities cover a broad and diverse range, including the manufacturing and sales of materials for residential housing and construction as well as materials for industrial use. These activities have led Daiken to grow into one of the world's foremost comprehensive manufacturers of building materials.

Through its highly-motivated research and development, Daiken is continuously working with the latest materials, concepts and technologies. With a core of technological and material-supply capabilities for building materials, the very basis for the housing field in which Daiken specializes, Daiken shall continue to provide its customers with new generations of technologies and products.



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Financial Highlights

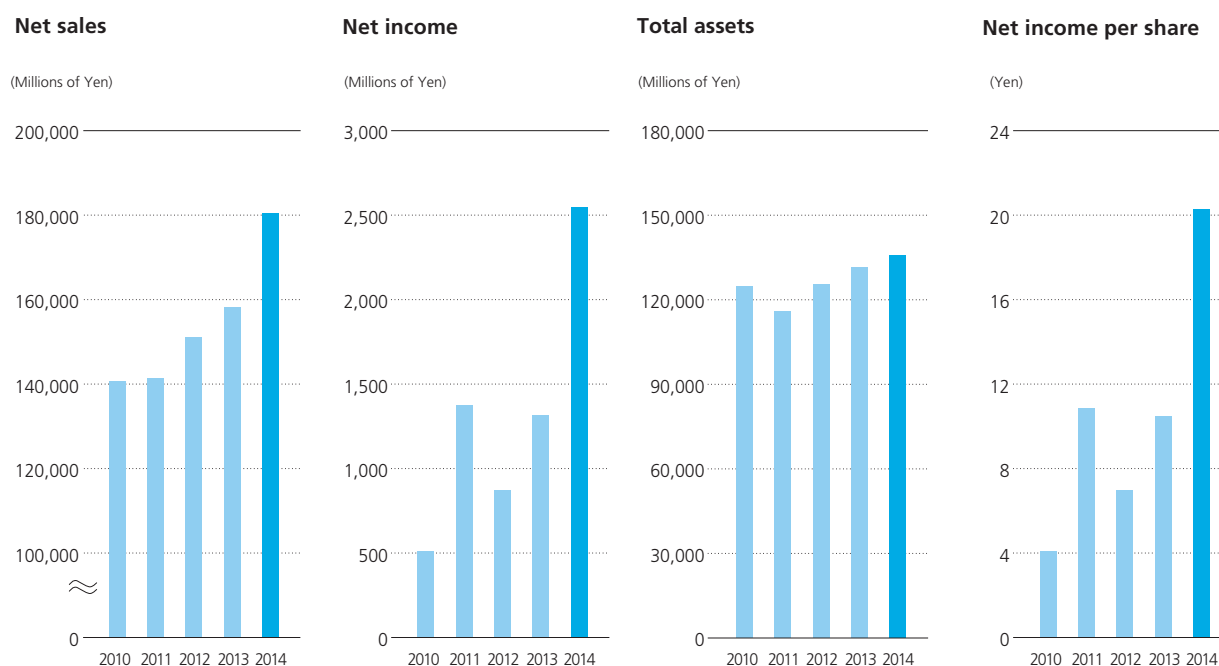
Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2014, 2013, 2012, 2011 and 2010

	<i>Millions of Yen and Thousands of U.S. Dollars</i>					
	2010	2011	2012	2013	2014	2014
Net sales	¥ 140,936	¥ 141,506	¥ 151,209	¥ 158,153	¥ 180,392	\$ 1,753,421
Operating income	3,010	4,349	4,542	4,703	3,577	34,768
Ordinary income	2,819	4,373	4,600	5,669	5,025	48,843
Net income	511	1,375	874	1,318	2,546	24,747
Net assets	36,663	36,839	36,949	39,870	41,419	402,595
Total assets	123,862	115,969	125,469	131,618	135,860	1,320,567

	<i>Yen and U.S. Dollars</i>					
	2010	2011	2012	2013	2014	2014
Net income per share	¥ 4.01	¥ 10.88	¥ 6.97	¥ 10.51	¥ 20.29	\$ 0.20

Note: The translations into U.S. dollars are based on \$1= ¥102.88, the approximate exchange rate on March 31, 2014

Note: Net income per share is computed based upon the weighted average number of shares of common stock outstanding during each fiscal year.



A Message from the President

We herein present our shareholders and persons concerned a report on the consolidated business results for the Daiken Corporation Group in fiscal year 2013 (April 1, 2013 to March 31, 2014).

Business Progress and Results

In regard to the consolidated business results for the year in review, we achieved net sales totaling ¥180,392 million (an increase of 14.1% compared with the previous year), operating income of ¥3,577 million (a decrease of 24.0% compared with the previous year), ordinary income of ¥5,025 million (a decrease of 11.4% compared with the previous year) and a net income of ¥2,546 million (an increase of 93.1% compared with the previous year).

The outlook for the Japanese economy this fiscal year is positive, due to several different types of policies implemented by the government and the Bank of Japan, and the expectation of what these policies might bring has resulted in rising share prices, as well as improving corporate profits and consumer spending. The general sentiment is that the economy is making a gradual recovery.

With regard to the housing market, the number of new housing starts during the period under review significantly outstripped the number recorded for the previous fiscal year, due to the number of people seriously considering buying a new home, who foresee the coming increases in interest rates and consumption tax, as well as the improving economic situation.

Under these business conditions, the Daiken Group has been working hard to ensure steady supply of our products to meet positive domestic demand that has outstripped expectations. As a result our sales have also shown steady growth. Furthermore, we are moving forward with our approach to secure a share of markets that we have targeted for growth as part of our mid-term management plan, namely the remodeling

market, markets overseas and the industrial materials market, as well as the engineering market.

In terms of profit, we have made efforts to secure our gross profit by making progress to reduce costs in order to counter the effect of rising prices for both imported products and raw materials. On the other hand, with regard to selling, general and administrative expenses, we saw an increase in these costs during the period under review due in part to repair work that we had to undertake on some secondary decorative board products that were found to be defective.

Issues and Policies for the Future

Looking to the future, fluctuations in the financial markets and the downward swing of the global economy as a whole means that we have to pay attention to sudden fluctuations in exchange rates and the rising cost of raw materials due to the high price of crude oil. Furthermore, the first half of fiscal year 2014 saw a rise in the rate of consumption tax, which we expect to cause a dip in demand to follow the last-minute demand prior to the increased rate taking effect. In this regard the direction of the domestic economy is a cause for concern.

With regard to market for new housing, even though demand for new homes is rising in the face of anticipated rises in interest rates, material and construction costs as well as a further rise in consumption tax, in addition to a series of government policies, it is expected that this situation will inevitably lead to a reduction in the number of new housing starts going forward. On the other hand, looking at the remodeling market, we do not expect any major shrinkage in this sector due to government policies that incentivize remodeling as well as the increase in the volume of housing stock that is reaching an age where remodeling work becomes appropriate.

Based on our mid-term management plan, the

奥田正則

Masanori Okuda
Representative Director, President
Chief Executive Officer



Daiken Group will further commit management resources to actively match expanding and growing markets, as we strive to reinforce our management systems going forward. In the remodeling market, we plan to expand our sales through developing our business by catching the eye of the consumer through our showrooms, as well as reinforcing our order-receiving systems that we use for our construction materials and works. Overseas, we are moving forward with increasing our sales in the ASEAN region. In the field of industrial materials, we will further strengthen our supply of our eco-friendly materials, centering on MDF, to ensure stability, as well as looking for new uses for these products, in addition to developing new materials.

Looking at our engineering business, we are looking to expand the scope of our business operations from our core work in ceilings and interiors as a way of growing this business going forward.

Moreover, as part of reinforcing our systems, we will carry out further reforms of our logistics and distribution system as well as a full review of our procurement costs, all with the aim of maximizing profits.

We sincerely hope that we may continue to look forward to the support and encouragement of all of our shareholders and persons concerned.

August 2014

Housing Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥93,552 million (an increase of 12.5% compared with the previous year) and an ordinary income of ¥5,314 million (an increase of 82.3% compared with the previous year).

With regard to the interior materials business field, where our focus is on flooring materials, we have seen an increase in the adoption of our products in the condominium, rental and detached house markets, as well as an increase

in sales centering on our highly-functional flooring materials for the remodeling market.

With regard to our home furnishings and equipment business, which focuses mainly on interior doors, storage and home fixtures and fittings, we have registered increased sales due to the healthy number of new housing starts as well as the remodeling market.

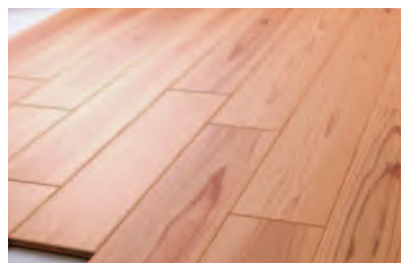
Our new 'hapia Series' of products that aim to provide high-quality living spaces together with 'Shiko' – our highest-grade flooring product,

part of our 'Japanese Wood Series', which uses domestically-sourced timber to provide decorative surface materials, both went on sale during the period under review, as we move to reinforce the products we can offer to our more discerning customers.

Furthermore, we have added to the product line-up of our 'Omoiyari Series' of building materials for housing targeted at elderly customers, which has also contributed to our sales growth in these markets.



Our 'MiSEL' storage can be fitted in a number of configurations, resulting in an elegant and fresh feel to any living space



Our highest-grade flooring product 'Shiko', part of our 'Japanese Wood Series', reproduces the texture of solid wood



Our standard-type 'hapia basis' products offer enriched functionality for doors, storage spaces, flooring and partitions

Eco-Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥60,184 million (an increase of 27.0% compared with the previous year) and an ordinary loss of ¥544 million (compared with an ordinary income of ¥2,596 million for the previous year).

With respect to our eco-business, which is focused on materials, sales have grown steadily over the period under review. Looking at MDF, the market for MDF as a flooring material has grown on the back of increased demand as well as increased adoption of this product as a replacement for plywood.

With regard to Dailite and insulation board, the strength of the new housing starts has driven a rise in demand, and we have pushed forward in securing new customers and new uses for these materials; as a result sales have grown accordingly.

With regard to tatami mat surfaces, we are enjoying positive sales due to the sound reputation and unique characteristics of the raw material, namely machine-made washi Japanese paper, such as peace of mind, safety and durability. We have added to our capabilities on both the sales and manufacturing side, which has helped us register



Demand continues to grow for MDF as a flooring material, and it is increasingly being adopted as a replacement for plywood

'ZIPANG Kokochi Waza' is our tatami mat product for interior spaces



steady sales growth in this sector. On the other hand, with regard to our secondary decorative board, we had to pay out on repairs due to a defect with this product, which impacted negatively on our earnings.

Engineering Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥17,714 million (a decrease of 1.9% compared with the previous year) and an ordinary income of ¥302 million (an increase of 58.4% compared with the previous year)

With regard to the condominium, building and shop market, we are enjoying a period of stable sales even with the completion of large-scale construction projects in the Tokyo metropolitan area as well

as the Kinki district. Moreover, rising costs due to a shortage of construction workers has led us to move from looking to expand our sales to emphasizing profitability by selectively choosing orders for the company, and we are working to improve our management systems at each work site as well as striving to secure skilled manpower, thus working to increase our profits in this sector.



Our Line Type system ceiling product



Our Grid Type system ceiling product

Establishing a construction and sales company in Indonesia through a joint venture with a local business

Daiken has targeted South-East Asia as one of the most promising growth markets in the world, due to its increasing population and ongoing economic development, and the company plans to work towards expanding its supply and sales of housing materials in the area. In January 2014, in response to the rapid growth in housing developments for the affluent and middle-class sections of Indonesian

society, the company moved to establish PT. SUSETA DAIKEN INDONESIA (hereinafter called SDI) as a supplier and constructor of interior building materials.

SDI was formed as a joint venture with Pt. Sumber Setia Abadi, a local company that imports and sells building materials. SDI will provide local companies, major construction companies and developers

originating from Japan with proposals for interior building materials, including fittings, as well as supplying products and construction works. Furthermore, by delivering high-quality construction management that utilizes Daiken's superior technology and know-how, SDI will distinguish itself from local competitors and expand its sales of interior building materials in the Indonesian market.

Daiken secures the No. 1 spot in two categories in the "Adoptable Building Materials and Equipment Manufacturer Rankings 2013"

The "Adoptable Building Materials and Equipment Manufacturer Rankings 2013" were published in the general architectural magazine *Nikkei Architecture* (in the November 25, 2013 issue) and the home builder information magazine *Nikkei Home Builder* (in the December 2013 issue). The ranking is calculated following a survey of building and architecture

professionals. Building materials and fixtures are separated into a number of different categories, and the aforementioned building and architecture professionals are solicited for their opinions with regard to individual manufacturers and products that they themselves would use.

Daiken is proud to acknowledge that the company was chosen as the

No. 1 ranked manufacturer in two categories across both magazines, namely in the Composite Flooring category and in the Inorganic Durable Surface Materials category.

- *Nikkei Architecture* - Ranking Responses were collected from 1701 professionals holding the grade-one architect qualification across 52 categories of building materials and fixtures.

- *Nikkei Home Builder* - Ranking This magazine featured 34 categories that covered its dedicated readership, namely home building. 1603 home building professionals submitted their answers to the survey.



Composite flooring



Exterior wall base material Dailite (durable surface material)

Cooperating with and contributing to promoting the Use of Trees Movement; Receiving a Certificate of Gratitude from the Minister of Agriculture, Forestry and Fisheries

The Use of Trees Movement is a national campaign promoted by the Forestry Agency in order to reduce the amount of CO₂ emissions in line with the Kyoto Protocol. The movement aims to increase the amount of CO₂ captured by trees through active use of domestically-sourced timber, which in turn will invigorate mountain village communities, as well as encouraging the proper maintenance and care of forests.

Daiken has developed products such as the 'Japanese Wood Series', a concept which

showcases the brand and added value of domestically-sourced wood, as well as the 'ForesHard Series', which is a range of flooring materials made from domestically-sourced plywood. Both of these product lines actively promote the use of domestic timber. Daiken is also actively involved in PR and advertising to spread the message regarding the charm and necessity of using domestically-sourced timber.

In recognition of these efforts, on October 1, 2013 Daiken was presented with a Certificate of Gratitude in the Category of

Promoting the Use of Domestically-Sourced Timber from the Minister of Agriculture, Forestry and Fisheries at the Use of Trees Movement 2013 Awards Ceremony.



Daiken has drawn plaudits for its outstanding initiatives and information disclosure related to its corporate management approach towards sustainability

Daiken is the first company in the building materials industry to receive a positive evaluation from the SMBC Sustainability Evaluation Fund regarding its sound approach to Environmental Social Governance (ESG) and its readiness to disclose information.

Items that received especially positive evaluation

1. The company's environmental conservation activities and



Biomass Boiler (Takahagi Plant)

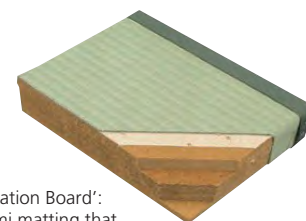
management plan are well integrated in order to promote the effective use of wood or unused resources.

2. Biomass energy has been actively introduced as a measure to reduce the amount of greenhouse gas emissions due to its business activities.
3. A committed approach to the customer that centers on ensuring safety and product quality. The SMBC Sustainability



Biomass Boiler (Okayama Plant)

Evaluation Fund is a set of standards that have been jointly formulated by the Sumitomo Mitsui Banking Corporation and the Japan Research Institute. A company's approach to ESG, specifically in terms of information disclosure and sustainability, are evaluated and based on the findings of this evaluation, funding conditions are then set.



'Insulation Board': Tatami matting that makes use of wood resources

Consolidated Financial Statements

Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries
March 31, 2014 and 2013

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2013	2014	2014
ASSETS			
Current assets	¥ 71,889	¥ 75,652	\$ 735,342
Noncurrent assets:			
Property, plant and equipment	38,549	38,451	373,746
Intangible assets	2,192	2,345	22,793
Investments and other assets	18,853	19,342	188,005
Total noncurrent assets	59,596	60,139	584,554
Deferred assets.....	132	99	962
Total assets.....	¥ 131,618	¥ 135,890	\$ 1,320,859
LIABILITIES			
Current liabilities	64,904	64,978	631,590
Noncurrent liabilities	26,843	29,492	286,664
Total liabilities.....	91,747	94,471	918,263
NET ASSETS			
Shareholders' equity.....	33,894	35,499	345,052
Accumulated other comprehensive income	2,107	1,655	16,086
Minority interests	3,868	4,264	41,446
Total net assets.....	39,870	41,419	402,595
Total liabilities and net assets	¥ 131,618	¥ 135,890	\$ 1,320,859

Consolidated Statements of Income

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Net sales.....	¥ 158,153	¥ 180,392	\$ 1,753,421
Cost of sales.....	119,121	137,693	1,338,384
Gross profit	39,031	42,699	415,036
Selling, general and administrative expenses	34,327	39,121	380,258
Operating income.....	4,703	3,577	34,768
Non-operating income	1,834	2,193	21,316
Non-operating expenses.....	869	745	7,241
Ordinary income.....	5,669	5,025	48,843
Extraordinary income	2,091	106	1,030
Extraordinary loss	5,387	514	4,996
Income before income taxes and minority interests	2,373	4,617	44,877
Total Income taxes	487	1,699	16,514
Income before minority interests	1,885	2,917	28,353
Minority interests in income	566	371	3,606
Net income.....	¥ 1,318	¥ 2,546	\$ 24,747

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Consolidated Statements of Cash Flows

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of Yen		Thousands of U.S. Dollars
	2013	2014	2014
Net cash provided by (used in) operating activities	¥ 2,624	¥ 9,663	\$ 93,924
Net cash provided by (used in) investing activities.....	(2,033)	(5,168)	(50,233)
Net cash provided by (used in) financing activities	224	(1,054)	(10,244)
Effect of exchange rate change on cash and cash equivalents	75	60	583
Net increase (decrease) in cash and cash equivalents.....	891	3,500	34,020
Cash and cash equivalents at beginning of period.....	9,630	10,596	102,993
Increase in cash and cash equivalents from newly consolidated subsidiary.....	74	—	—
Cash and cash equivalents at end of period	¥ 10,596	¥ 14,096	\$ 137,013

DAIKEN CORPORATION

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