Daiken Group Report

DAIKEN GROUP REPORT 2018

Toward the future going beyond the functions of yesterday
Group Corporate Philosophy

Company mission
[Our Mission]
We will create a wonderful future with our technology, ideas, and passion.

Company vision
[Vision]
As a company respected by everyone, we will give the highest priority to harmonizing an affluent society with the environment by offering new value that exceeds people's expectations.

Company values
[Our Values]
We pledge the following:
• Ensure harmony between the environment, society, and people.
• Be careful of safety, security, health, and comfort.
• Courageously accept the challenges of new ideas.
• Promptly respond to changes and opportunities.
• Be sincere at all times.
Message to stakeholders

The year 2017 was the first year of the mission in which the previous management philosophy evolved and where we established the new group corporate mission that responds to globalization and the diversification of human resources. We are now expecting a dramatic change in the management environment. All employees in the group have pledged and are determined to work together to become “a company loved by everybody” by gathering our technology, ideas, and passion to contribute to a future filled with smiles.

In this report, we will introduce the essence of the past, present, and future of Daiken so that you—the stakeholders—can understand the efforts of our group. We hope you will enjoy reading this report and will continue to support us in the future.

Representative director
President and executive officer

Editorial Policy

In this third integrated report, we will introduce our advantages through the long history, our efforts for solving social problems through business activities, and medium- to long-term growth strategies as a series of value creation stories. Also, we tried to make the report showing real Daiken by improving the pages about governance such as expanded top interview, a message from a new outside audit, and a face-to-face meeting with outside directors.

We hope this report would help a wide range of stakeholders such as shareholders and investors understand corporate values and growth potential of Daiken. Please visit our website for details of ESG information on environmental data.

About cover design

Three arrows on the cover mean Daiken’s three core businesses (industrial materials, building materials, engineering), priority three markets in the medium-term management plan (public and commercial buildings, global markets, home renovation market), and three-stage medium-term management plan toward the achievement of the long-term vision. Through these efforts, we will deploy our business from houses to non-houses and from Japan to overseas. The cover design shows our growth to an all-embracing company for building materials and the future vision reflected in our corporate message toward the future going beyond the functions of yesterday.
Historical Development of Value Creation

Ever since foundation, The Daiken Group has been developing a wide variety of products to help customer’s daily life though our technological innovations which always meets social issues and needs.

The Group effectively uses all the strengths acquired in our history and aims to grow into a housing material manufacturer that becomes an all-embracing company for building materials and thus creates new value.
**Vision and Strategy of Value Creation**

**Data Foundation of Value Creation**

**ESG Information**

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**Historical Development of Value Creation**

1994
- Established Daiken Sarawak Sdn Bhd. in Malaysia for MDF manufacture

1995
- Great Hanshin earthquake

2000
- Withdrawal from roof materials business
- Withdrawal from housing equipment business

2004
- Transferred the insulation board business from Nichiha Corporation

2005
- Purchased MDF manufacturer in Malaysia and established Daiken Min Sdn Bhd.

2006
- Expanded insulation board business
- Purchased Kekomu Board Co., Ltd.

2007
- Transferred the insulation board business from Nichiha Corporation

2009
- Purchased MDF plant in New Zealand and established Daiken New Zealand Limited

2010
- Alliances with Panasonic Electric Works (currently, Panasonic Corporation) in production and procurement

2011
- The Great East Japan earthquake

2012
- Business and capital alliance with Hokushin Co., Ltd., for MDF production and supply

2014
- Consumption tax increase (5% to 8%)}

2015
- Established interior doors manufacturing company PT. Daiken Dharma Indonesia in Indonesia

2016
- Purchased an apartment renovation company, Pac System Co., Ltd.

2018
- Implemented the production line for Dai-Lite deeply embossed non-combustible wall material at the Okayama plant

**Selection and Concentration**

**New Challenge**

**To achieve the GP25 long-term vision**

Fiscal 2018
- Net sales ¥170.5 billion
- Operating profit ¥7.5 billion

GP25
- 3rd Stage Medium-Term Management Plan Fiscal 2023 to 2026
- 2nd Stage Medium-Term Management Plan Fiscal 2020 to 2022
- 1st Stage Medium-Term Management Plan Fiscal 2017 to 2019

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**A housing material manufacturer becomes an all-embracing company for building materials**

(Fiscal 2007) 1.285 M houses
(Fiscal 2008) 1.046 M houses
(Fiscal 2010) 0.775 M houses
(Fiscal 2018) 0.946 M houses (forecast)
(Fiscal 2026) 0.6 M houses (forecast)

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**[Daiken’s strengths]**

- Capabilities to develop unique industrial materials
- Capability to develop building materials with high added value and capability to propose total plans for interior spaces
- Capabilities to perform installation work by making use of the functions of building materials

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**[Historical Events]**

- 2004 Transferred the insulation board business from Nichiha Corporation
- 2007 Expanded insulation board business
- 2012 Business and capital alliance with Hokushin Co., Ltd., for MDF production and supply
- 2018 Implemented the production line for Dai-Lite deeply embossed non-combustible wall material at the Okayama plant

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**[Material Innovations]**

- WPC flooring with durability to overcome the weakness of wood
- MDF using residual wood off-cuts as the main raw material
- Tapati facing with superior maintenance using machine-made Japanese Washi paper
- Dai-Lite, an inorganic material incorporating the unused resource Shirasu (volcanic ash) and rock wool
- Interior materials, including a door that anyone can use safely with security for health and comfort

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**[Financial Milestones]**

- Fiscal 1997: 1.63 M houses
- Fiscal 1999: 1.179 M houses
- Fiscal 2007: 1.285 M houses
- Fiscal 2009: 1.046 M houses
- Fiscal 2010: 0.775 M houses
- Fiscal 2013: 0.946 M houses (forecast)
- Fiscal 2026: 0.6 M houses (forecast)

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**[Competitive Advantages]**

- Capabilities to develop unique industrial materials
- Capability to develop building materials with high added value and capability to propose total plans for interior spaces
- Capabilities to perform installation work by making use of the functions of building materials

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**[Footnotes]**

- "Dai-Lite, an inorganic material incorporating the unused resource Shirasu (volcanic ash) and rock wool"
- "Interior materials, including a door that anyone can use safely with security for health and comfort"
The Daiken Group cultivated its technologies throughout our seventy-year history and continues to offer products that are valuable for society and customers.

Our diverse product lineup, with its excellent features, is used in a wide range of scenarios in houses and public and commercial facilities.

### Industrial Materials Business

*Developing and offering highly functional industrial materials*

The Daiken Group offers various functional industrial materials having non-combustibility, anti-seismic thermal insulation, sound insulation, humidity conditioning, and various other features required in our daily lives by making full use of wood and mineral resources from a sustainable perspective.

#### Effective use of wood materials

<table>
<thead>
<tr>
<th>Insulation board</th>
<th>MDF</th>
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<tbody>
<tr>
<td>Wooden fiberboard using none-used wooden waste for main raw material</td>
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</table>

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<tr>
<th>Tatami facing</th>
<th>MDF</th>
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<tbody>
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<td>Tatami mat surface made from straw twisted Japanese &quot;Washi&quot; paper and resin coating</td>
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</tr>
</tbody>
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<tr>
<th>Effective use of mineral materials</th>
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<td>MDF</td>
</tr>
<tr>
<td>Wooden fiberboard using cut-off materials from saw mills</td>
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</tbody>
</table>

#### Major applications

- **Insulation board**
  - Heat insulation
  - Moisture conditioning
  - Cushioning properties
  - Lightweight

- **MDF**
  - Dimensional stability
  - Surface smoothness
  - Workability
  - Water resistance

- **Tatami facing**
  - Water resistance
  - Water repellent
  - Moisture conditioning
  - Color variations

- **Dai-Lotone**
  - Non-combustibility
  - Lightweight
  - Sound absorbing
  - Workability
  - Insect repellent
  - Antiseptic

- **Dai-Lite**
  - Non-combustibility
  - Lightweight
  - High strength
  - Dimensional stability
  - Workability
  - Surface smoothness
  - Moisture permeability

#### Overview

- **Features and functions**
  - Heat insulation
  - Moisture conditioning
  - Cushioning properties
  - Lightweight

- **Industrial Materials Business**
  - Developing and offering highly functional industrial materials
  - The Daiken Group offers various functional industrial materials having non-combustibility, anti-seismic thermal insulation, sound insulation, humidity conditioning, and various other features required in our daily lives by making full use of wood and mineral resources from a sustainable perspective.

#### Capabilities to develop unique industrial materials

- **Insulation board**
  - Wooden fiberboard using none-used wooden waste for main raw material

- **MDF**
  - Wooden fiberboard using cut-off materials from saw mills

- **Tatami facing**
  - Tatami mat surface made from straw twisted Japanese "Washi" paper and resin coating

- **Dai-Lotone**
  - Mineral fiberboard using slag wool which is by product of steel production

- **Dai-Lite**
  - An inorganic material molded into a board using an untapped resource, Shirasu (volcanic ash), and rock wool
Building Materials Business

Developing and providing building materials best suited for the interior of various buildings

The Daiken Group offers high-performance building materials, that form spaces focusing on safety, peace of mind, health, and comfort to be used for housing, public spaces, and commercial facilities.

### For houses

**Flooring**
- A flooring of ultimate beauty
  - A complete line up with particularly sophisticated design, high functionality and performance, also having high quality surface texture, scratch resistance, and long-lasting beauty

**Door**
- Great range of design and variations
  - Interior door which is functionally and easy to use, and can be coordinated flexibly

**Cabinets**
- Storage improvement
  - A complete line up of cabinets equipped with abundant storage capacity, space-saving and other features to fit for individual spaces

**Sound products**
- Space for enjoying sound
  - A complete line up to meet the sound quality needs of a variety of venues, including home theaters, musical instrument practice rooms, and audio rooms

### For public spaces and commercial facilities

**Flooring**
- A floor that secures your steps
  - A complete line up of light and heavy traffic flooring, including decorative natural wood with scratch resistance, and sound-proof and shock absorbing flooring

**Door**
- Feature of door fitting specific situation
  - Interior doors with particular functionality for the nursing homes, kindergartens, childcare facilities, and stores

**Cabinets**
- Cabinets inspired by consideration to users
  - Cabinets mitigate the various risks to users for comfortable use

**Sound products**
- Creating comfortable sound environment
  - A complete line up suitable for sound-proofing and other specific purpose

Engineering Business

Total support for the creation of spaces from supply of building materials through installation work

The Daiken Group’s major projects are interior construction for public spaces and commercial facilities, including schools, event venues, office buildings, and apartment buildings, to create spaces that optimize the performance of industrial and building materials.

< Our project >

Kansai University  Nippon Seinenkan, Japan Sport Council Head Office  Recital Hall at Nagano City Arts Center
Process of Creating Value

The Daiken Group businesses utilize our unique strengths for building a sustainable society and creating new value for society with our contributions in solving issues such as Sustainable Development Goals (SDGs).

The Group also united CSR activities based on Environment, Social, and Governance (ESG) to make our businesses robust.
Creating shared value (CSV) by Daiken businesses

- Promoting the use of domestically produced wood
- Creating a safe, secure, healthy, and comfortable space
- Promotion of earthquake-resistance
- Effective utilization of untapped resources
- Recycling of wood resources
- Reduction of CO₂ emissions
- Reduction of construction work

- Reduction of greenhouse gas
- Use of renewable energy
- Proper management of water resources
- Reduction of waste
- Proper management of chemical substances

- Ensuring the quality and safety of products
- Practice of fair trading
- Activities of diverse human resources
- Promotion of work-life balance
- Fostering the next generation of human resources
- Maintaining a safe working environment
- Communication with local community

- Thorough compliance
- Development of trust with shareholders and investors

**Contribution to the SDGs**

Sustainable Development Goals (SDGs) are global goals adopted by the United Nations in 2015 to create the future we want in 2030. Seventeen goals and 169 targets are set as common goals for international societies to achieve a sustainable world. The Daiken Group will contribute to solve these issues through our business activities.

SDGs

1. No poverty
2. Zero hunger
3. Good health and well-being
4. Quality education
5. Gender equality
6. Clean water and sanitation
7. Affordable and clean energy
8. Decent work and economic growth
9. Industry, innovation and infrastructure
10. Reduced inequalities
11. Sustainable cities and communities
12. Responsible consumption and production
13. Climate action
14. Life below water
15. Life on land
16. Peace, justice and strong institutions
17. Partnerships for the goals

**Achieve the long-term vision**

Achieve the visions of the group corporate philosophy
Value Creation by Businesses

The Daiken Group delivers value to society by operating businesses that utilize our unique industrial materials and technologies to respond to a variety of social issues and needs.

**01 Promotion of the use of domestic wood**

Japan is one of the world’s most forested countries with about two-thirds of the land covered in forest. Therefore, domestic wood should be more actively used in order to foster healthy forests that fulfill various needs such as absorbing CO₂ and prevention of landslide disasters. The Japanese government is aiming to increase wood self-sufficiency to 50% by 2025.

*Daiken’s strengths and value creation*

Daiken developed flooring base materials using our expertise as the world’s largest manufacturer of flooring materials and Daiken’s own MDF technologies that give rise to excellent water resistance and surface smoothness. After the development, we made many improvements in materials, and it increased the utilization of domestic wood to about 30% in fiscal 2018 from about 4% in fiscal 2015. We continue to develop products to bring out the charms of domestic wood in order to promote further leverage.

**Utilization of domestic wood for flooring materials**

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Approx. %</th>
</tr>
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<tbody>
<tr>
<td>Fiscal 2015</td>
<td>4%</td>
</tr>
<tr>
<td>Fiscal 2018</td>
<td>30%</td>
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</tbody>
</table>

**02 Creating a safe space to live together with the elderly**

Japanese society is more rapidly aging than other developed countries and becoming a super-aging society with one in four people aged 65 or over. It is expected that the elderly population will reach about 40% in 2060. There is also concern about social problems with old people providing care for old people. So, the living environment of the future must be safe, secure, healthy, and comfortable.

*Daiken’s strengths and value creation*

Daiken is committed to manufacturing from the perspective of all users, including elderly people, their families, and caregivers. We developed more products based on our ideas and technologies proven through our work and in accordance with universal designs. We have comprehensive product lines for residential homes that are considerate of nursing needs and home care. Daiken pursues the creation of excellent and pleasant spaces using products that are safe, secure, and functional for peoples’ lives.

Approx. 30,000 items
03 Upgrading Japan’s earthquake protection

Japan has been devastated by earthquakes many times, including the Great Hanshin-Awaji Earthquake and the Great East Japan Earthquake. Large earthquakes, such as the Tokyo Metropolitan earthquake and the Nankai trough earthquake, are predicted with high probability to occur in the near future, and the Japanese government has set a target for earthquake resistance ratios and promotes the upgrading of houses and buildings.

Daiken’s strengths and value creation

Daiken developed Dai-Lite, the world’s first new industrial material using an untapped resource, Shirasu (volcanic ash) as the major raw material. It has all of the performance required for an inorganic bearing surface, such as lightweight, high strength, high durability, fireproof, and workability, that could not be realized with conventional inorganic materials. Dai-Lite is being installed more often as it is the best brand of inorganic bearing surface for wood-frame housing. Consequently, it is contributing to the improvement of the anti-seismic performance of Japanese houses. It also strengthens the earthquake resistance of existing houses to promote further upgrading of the housing stock.

Approx. 800,000

04 Reduction of CO₂ emissions by recycling of wood resources

Considering the adoption of two closely linked SDGs and the Paris Climate Agreement, the crucial challenge for the world is to create a recycling-oriented society that effectively uses limited resources and promote measures against the climate change associated with global warming.

Daiken’s strengths and value creation

The Daiken Group manufactures industrial materials that utilize wood resources, including MDF, which uses wood offcuts as raw materials and insulation boards re-using wood discarded or used as fuel. Wood is a valuable resource that would be sustainable if replanted after logging unlike other resources. It can be used as a material for a long period of time by recycling for re-use, and it enables the reduction of waste as well as continuing to fix carbon, which leads to the reduction of CO₂ emissions. We will continue to pursue the possibility of recycling wood resources and contribute to the building of a recycling society as well as the prevention of global warming.

The amount of carbon fixation by MDF and insulation board

749,000 t-CO₂/year
After finishing two years of the plan, we greatly improved profitability by successful streamlining, cost reduction, and the introduction of new products. As a result, we achieved four of the management goals in the medium-term management plan GP25 1st Stage in the first fiscal year, namely sales profit, ordinary profit, net profit, and ROE. I find this to be a great achievement. We are expecting a decrease in the number of new houses in the future.

In addition to achieving the figures in the management goals, it is important to shift our focus to cover this decrease by positioning public and commercial buildings, global markets, and the home renovation market as the three priority markets.

Public and commercial buildings
In terms of public and commercial buildings, we were able to achieve the following four items: (1) proposing domestic flooring wood with enhanced scratch resistance through our original WPC technology, (2) expanding orders for user-friendly, safe doors for nursing homes and kindergartens/nurseries, (3) increasing the sales of tatami mats using machine-made Japanese paper with excellent maintenance for accommodation facilities, and (4) expanding orders for interior projects mainly in the Tokyo metropolitan area.

However, we also found three issues: (1) deciding on the areas of social issues and the needs for which our advantages can be used, (2) an insufficient number of products for proposals, and (3) increasing the areas of installation work.

Public and commercial buildings cover a wide range of work. Product development and proposal methods are totally different depending on the building genre. I find these issues challenging. However, I think we should learn from the themes where we have succeeded so far. Let’s look back and consider previous successful
Toward becoming an all-embracing company for building materials

Achieve the goals of the medium-term management plan GP25 1st Stage and shift to the 2nd Stage for the next period.

Representative director
President and executive officer

projects. We were able to succeed by making proposals that offer new value using our technologies while paying attention to social issues and needs and listening to opinions from the market, such as promoting the use of domestic wood, responding to the super-aging society, countermeasures for the falling birthrate, improving the environment for working women, solving problems of waiting lists for nursery schools, and insufficient accommodation facilities due to an increase in inbound tourists.

We should decide on the areas where we can use our advantages and intensively inject management resources. We want to increase good cooperative activities within the company through the collection of the opinions of designers and owners through the Market Development Division, where staff are working toward the adoption of our products, product development by the Manufacturing Division, effective emphasis and the promotion of value by the Marketing Division, and community-based proposal activities by the Sales Divisions of the nationwide branch offices. Based on these efforts, we need to increase our product items for specific proposals.

Our engineering business is mainly for ceiling work of office buildings, but I think we can further increase business opportunities by expanding the area of the installation work to cope with a variety of different projects.

Global markets

Regarding the industrial material business, sales of the MDF with manufacturing bases in Malaysia and New Zealand show steady performance in the Southeast Asian and North American markets.

For the building material business, the export of highly functional flooring materials for China is increasing. Together with products manufactured in the local factory, we can propose a variety of products ranging from high-grade to ordinary.

In addition, in August 2016, we established a new factory for interior doors in Indonesia to respond to markets with growing demand in emerging countries.

Our future issues are as follows: (1) pursuing the potential of the industrial material business in addition to MDF, and (2) reinforcing
and expanding the basis of the building material business in China and Indonesia. Seeing the development of the industrial material business in global markets, we export some ceiling materials, but our business is currently focused on the MDF. For further expansion, we should comprehensively assess the needs and securement of raw materials by country and region and consider developing another industrial material business.

Regarding the building material business, China is still halfway from the perspective of scale and profitability. We will further strengthen cooperation with agents in each country by operating joint showrooms in major cities and expand the market by providing some products exported from Japan to make the most of the made-in-Japan brand. We initially faced difficulties at a door factory in Indonesia in terms of production capability, but now things are on the right track. We will expand the market by increasing orders from local developers and Japanese companies, as well as by exporting products to other countries from Indonesia.

■Home renovation market
We deploy our business in the home renovation market mainly based on the alliance with TOTO and YKK AP. We have been accelerating the deployment of collaboration showrooms since April 2016 in Kanazawa and Takamatsu, as well as in Sapporo in July 2017. We have completed the eight-base system covering major cities in Japan. In addition, we have been working toward the expansion of easy-to-install, labor-saving products, such as the flooring installed over existing floors and sliding doors installed without damaging existing walls.

A condominium renovation company joined our group in October 2016 for the development of new business. As a building material manufacturer, we now participate in the renovation business. We will develop products that help shorten the work period.

However, when looking at the entire home renovation market, sales of products are growing very slowly except for new renovation projects. I think we should cope with the lack of skilled workers and increase easy-to-install products for renovation, reinforce the cooperation of the TDY alliance, and develop demand for renovation.

Finish in the final year of the medium-term management plan

Q Fiscal 2019 is the final year of the medium-term management plan GP25 1st Stage. We see the factors of increasing costs in a variety of aspects, in addition to a decrease in the number of new house construction projects. How will you finish the final fiscal year?
After finishing the second year of the medium-term management plan, we have prioritized the home renovation market as one of the three main markets and have focused on the positioning of public and commercial buildings globally, targeting specific achievements. We are anticipating a decrease in the number of new house construction projects in the first fiscal year, specifically in sales profit, which will be part of our management goals in the medium-term management plan. We are also mindful of future issues.

**Proposing new value by large-scale introduction of new products**

The most important objective for a manufacturer is to provide new value to customers. As one specific proposal, we introduced new products on a large scale in June 2018. We changed 70% of the products in our previous catalog to new products, increased the product lineup by 30%, and reinforced our capabilities to propose plans for both housing and public and commercial buildings. We plan to increase our market share in the new house construction market mainly with these new products and widen the range of our proposals in terms of public and commercial buildings.

In particular, we introduced Gravio Edge, a deeply embossed non-combustible wall material using the original incombustible material Dai-Lite, as a strategic product to reinforce our proposal capabilities for walls, which have been less of a focus in the interior space before. For houses, we will widen our proposal range as accent walls for entrances, living rooms, and main bedrooms matched with flooring and interior doors in the high-grade space, and for non-residential buildings, we will emphasize our good design that gives the entrance hall a luxurious atmosphere. This product offers not only a good design but also workability. It is light and easy to process because of the features of Dai-Lite. I believe it contributes to saving work skills in the building industry, which is facing a lack of skilled workers.

**Maximizing the synergy effect of acquired New Zealand MDF plant as soon as possible**

We will establish a solid cooperative relationship as a group with the New Zealand MDF plant that we acquired in April 2018. After this acquisition, we established the MDF manufacturing system producing about 800,000 m³ per year, an increase of 30%, through two plants in New Zealand, two plants in Malaysia, and Hokushin, a cooperative factory in Japan. I think we should quickly maximize the synergy effect in the entire group by optimizing the production items while making the most of the characteristics of each plant.

As a result of the acquisition, we took over their sales routes for overseas, so we can expand our sales routes in the global markets. In addition, about a quarter of their products are for the Japanese market; thus, our market share of MDF will be about 50% in Japan, which secures our position as the No.1 MDF manufacturer in Japan, and we were able to enhance the existence of our MDF business. Through these efforts, we have to achieve all five of the management goals of sales profit, ordinary profit, net profit, ROE, and the sales target of 180 billion yen in the medium-term management plan and move on to the medium-term management plan for the next period under the best conditions.

**ESG and CSR**

**Q** The momentum for ESG investment is increasing. Please let us know about efforts for ESG and CSR.

**Environment (E)**

Our company started its history in timber processing, so we have been taking over the DNA of using wood without leaving any waste as precious materials. Based on this idea, we have been dealing in Insulation boards using wood chips processed from wood waste and tree thinning since the 1950s. Today, we make efforts to...
Vision and Strategy of Value Creation

effectively use wood materials by increasing the rate of use of old wood produced at the time of house demolition.

Based on the idea of effectively using limited materials, we developed Dai-Lotone (ceiling material) from a byproduct produced after extracting iron from iron ore and Dai-Lite using the volcanic ash of the Shiras plateau in Kagoshima, which sometimes causes debris flows in the area. We regard these industrial material businesses as some of our core businesses, and we have been seriously working toward environmental issues since our foundation.

We also proactively make efforts to reduce the environmental burden in the process of production. We installed woody biomass boilers to use the unusable chips and wood waste produced in the manufacturing process in our nine group plants in Japan and established a system where about half of the energy for the plants in Japan is covered by renewable energy. Thus, we have been greatly contributing to reducing CO₂ emissions.

Nowadays, water resource issues are attracting attention around the world. We use water mainly in the plants manufacturing insulation boards. We have been making efforts for water resource issues by installing circulation and clarification equipment to prevent contamination, as well as minimizing water usage. We introduced the latest model of clarification equipment in fiscal 2018 to reinforce the system. I think we should make serious efforts for environmental issues, even if they are not directly observable by customers.

Social (S)

Regarding society, we make efforts by establishing priority issues in the medium-term CSR Activity Plan: quality, using human resources, even-handed dealings, coexistence with the community, and human rights.

First, let me talk about quality, the foundation of a manufacturer. We work hard to ensure that we provide high quality, safe products and services to customers. In particular, we focus on workstyle reform to create a workplace where employees can work positively and enthusiastically, and promote diversity where a variety of human resources participate in great activities and contribute to the growth of the company, which is described as the basic policy in the medium-term management plan.

We also think women, our working partners, should be more actively involved in the company. Although the proportion of women in managerial posts, which tends to attract outside attention, is still low, we should not put too much emphasis on increasing this number. That will not bring good results to the company or female workers.

We place a high priority on preparing the basic circumstances where female workers can be more actively involved in the company. We invite external presenters for lecture meetings, organize female worker gatherings, recruit more female new graduates, and provide training courses for female managerial post candidates. It is essential for our human resources to actively participate in the company as sources of intelligence, particularly in the time of reforms. I think, from that perspective, we will emphasize efforts that change awareness by sharing the medium- and long-term plans, which give a specific image of future improvements. At the shareholders meeting in June 2018, we appointed Ms. Yuko Katsu as a female external auditor. I expect that she will make some changes within the company if we actively provide her with opportunities to exchange opinions with our employees.

Governance (G)

Regarding governance, to secure more transparent management, we established the corporate governance committee as an arbitrary advisory committee comprising a majority of independent outside executive officers that include the committee chairperson, as well as the nomination and remuneration committee where our employees actively discuss matters with members from outside organizations. In addition, discussions are not only held in the meetings. There are more opportunities to provide information and exchange opinions. I find these opportunities very effective.

A series of efforts for ESG forms an inseparable basis for supporting business activities. I welcome the tendency where the company values are comprehensively evaluated based not only on financial information but also on the corporate philosophy and non-financial information, such as ESG, because what we have valued is evaluated from a fresh perspective.

Taking the growing momentum for ESG investment and being aware of the fusion of our business activities, ESG, and CSR, we will accelerate our efforts more than before.

Efforts for SDGs

As global social issues, we are asked to respond to SDGs. Please let us know what you think about these issues.

I think the ultimate meaning of the existence of a company is to solve social issues through the business. SDGs are “global standards for social issues to be solved” as established under the leadership of the United Nations. These themes cannot be avoided when we aim at a sustainable society.

At Daiken, we started to figure out how our current business activities are linked to SDGs.

It is important for the board members—including the managerial layer executive officers and me—to recognize the changes occurring globally and what is required of companies.

Then, we need to connect the issues to the surrounding themes or duties of each employee from the manager of a division to an
The most important thing is to finish the 1st Stage completely. I cannot tell you the details of the 2nd Stage because it is currently being prepared. I think the 2nd Stage, the medium-term management plan for the next period, is the stage in which we will be tested as to whether we can achieve GP25, the long-term vision for fiscal 2026.

In the 1st Stage, we developed our business in new markets using existing management resources. However, in the 2nd Stage, in addition to expanding the three existing businesses, industrial materials, building materials, and engineering, we will work toward establishing a new business that will be the fourth pillar for us.

To do so, we need to decide on a large-scale investment project in addition to the current management resources.

Therefore, in April 2018 we established the Management Strategy Office, a special organization that strategically works toward new business and M&As. I will stick to the idea that the fourth pillar will have been established by the end of the third year of the 2nd Stage.

What we have to pay attention to financially is how we effectively use and maximize cash flow and decide whether the return on capital costs is appropriate or not.

So, I think we should clarify not only the targets of sales, profit, and ROE, but also the balance sheet and cash use policy in the medium-term management plan for the next period.

We should also have a clear image that expansion of the business as a new pillar will help us understand the social issues and needs and eventually lead to achieving our corporate philosophy and the long-term vision. This will lead to the sustainability of society, as well as our business activities.
Medium-Term Management Plan to Achieve the

In 2015, the year of the 70th anniversary of Daiken Corporation, we established the long-term vision, GP25, describing our ideal situation in 10 years. Fiscal 2018 is the second year of the GP25 1st Stage of the three-year midterm management plan, which will be the first step towards achievement. All employees of the Group are working together to make progress toward gradually achieving the goals.

Basic Policy

The first step toward an all-embracing company for building materials

- Endeavor to further strengthen current businesses and develop the foundations for new businesses as the key to growth
- Proactively develop environmental-related technologies for ecological materials, energy savings, and domestic wood utilization
- Actively introduce management resources to the priority markets of public and commercial buildings and global markets
- Maximize the synergy of manufacturer and engineering to enhance profitability
- Create a work environment where employees can work with enthusiasm and foster the human resources who will play important roles in the future
- Define diversity as one of the management strategies, and the ability delivered by a variety of human resources is to be the engine of growth
- Strengthen governance to enhance corporate value over the medium and long term

Business and market strategies in the 1st Stage

Business strategies

Industrial materials business
- Development of new industrial materials
- Development of new markets and customers from the development of new applications
- Stable procurement of wood chips and comprehensive wood utilization

Building materials business
- Deployment of flooring and wall materials using domestic wood
- Development of new products corresponding to changes of lifestyle
- Development of energy-saving building materials
- Further use of the advantages of construction efficiency and industrial materials

Engineering business
- Expansion of the construction areas and development of a combined order receipt system
- Enhance the remodeling proposal and expansion of the remodeling service area

Medium-Term Management Plan

GP25 1st Stage

Fiscal 2017 to 2019

<table>
<thead>
<tr>
<th>(¥100 million)</th>
<th>Benchmark Fiscal 2016 Results</th>
<th>GP25 1st Stage Final year Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>1,681</td>
<td>1,800</td>
</tr>
<tr>
<td>Operating profit</td>
<td>55</td>
<td>70</td>
</tr>
<tr>
<td>Ordinary profit</td>
<td>52</td>
<td>70</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>39</td>
<td>43</td>
</tr>
<tr>
<td>ROE</td>
<td>9.8%</td>
<td>8% or more</td>
</tr>
</tbody>
</table>

1st year Fiscal 2017 Results

1,688

85 Achieved

2nd year Fiscal 2018 Results

1,705

90 Achieved

3rd year Fiscal 2019 Forecasts

1,800

78

88

59

10.5%
GP25 Long-Term Vision

2nd Stage
Fiscal 2020 to 2022

3rd Stage
Fiscal 2023 to 2026

FY2019

2025
GP25 Long-Term Vision
Grow/Glow Plan 25

Grow
The Group will work to transform into an enterprise that meets the expectations of customers and markets while contributing to a better society.

Glow
The Group will work to become an enterprise that people rate highly for its attractive working environment and as a place where employees can work positively and enthusiastically.

Significance of Existence and Ambitions
1. Contribute to the building of a sustainable society by efficiently using limited resources
2. Enrich peoples’ minds by creating more comfortable and secure spaces

How we should be in 2025:
1. Leading global company for industrial materials, building materials, and engineering
2. Continue to challenge new business areas and grow the fourth pillar
3. Earn a great reputation among professionals for consumer-oriented product development, proposal capabilities, problem-solving skills, and organizational strength
4. Company culture that admires challenges, and system established to support challenges
5. Governance is strengthened to support sustainable growth and improvement of medium-to long-term corporate value

Business domains, markets, and sectors targeting GP25 Long-Term Vision

From the current image as a housing materials manufacturer to the following:
- Supply building materials and industrial materials for building materials as well as construction
- Expand business areas from housing to public and commercial buildings, and industrial materials
- Expand into global markets

**Market strategies**

**Public and commercial buildings**
- Development using technologies for wood and non-combustible products
- Strengthen construction ability and work force

**Global markets**
- Development of industrial and building materials that meet local needs
- Establishment of local manufacturing, sales, and construction systems

**Home renovation market**
- Proposal by TDY* for future living
- Grow in the renovation market

**Industrial materials**
- Expand industrial materials technology making effective use of untapped resources
- Promotion of development for the next step

**New home market**
- New value proposal meeting lifestyle and local community needs

* The three companies TOTO Ltd., Daiken, and YKK AP Inc.

**Business domains**

**Markets and sectors**

- Housing market
- Public and commercial buildings
- Industrial materials
- New markets

All-embracing company for building materials

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Commentary and results for fiscal 2018

Forecasts for fiscal 2019

2018/09/11   17:43

DAIKEN GROUP REPORT 2018

Summary of Business

Vision and Strategy of Value Creation

Industrial Materials Business

Sales breakdown by business sector

Net sales
(Yen million)

2017 2018 (Fiscal year)

Sales breakdown by business sector

Operating profit/Operating profit ratio
(Yen million)

2017 2018 (Fiscal year)

Sharp profit drop caused by decrease in income and increase in costs

Production plants
Okayama plant
Takahagi plant

Subsidiaries part of the Group
Dai-tac Corporation
Aizu Daiken Kako K.K.
C&H Co., Ltd.
Eco Techno Co., Ltd.
Daiken New Zealand Limited (New Zealand)
Daiken Southland Limited (New Zealand)
Daiken Sarawak Sdn Bhd. (Malaysia)
Daiken Mini Sdn Bhd. (Malaysia)

Building Materials Business

Sales breakdown by business sector

Net sales
(Yen million)

2017 2018 (Fiscal year)

Sales breakdown by business sector

Operating profit/Operating profit ratio
(Yen million)

2017 2018 (Fiscal year)

Profit growth by improvements in profitability, a year-on-year decline in sales

Production plants

Mie plant
Inami plant

Subsidiaries part of the Group
Daifit Co., Ltd.
Dai-wood Corporation
Setouchi Kakoh Co., Ltd.
Toyama Juki Co., Ltd.
Daiken Industries (Ningbo) Corporation (China)
Daiken (Shanghai) Corporation (China)
PT. Daiken Dharma Indonesia (Indonesia)

Engineering Business

Sales breakdown by business sector

Net sales
(Yen million)

2017 2018 (Fiscal year)

Sales breakdown by business sector

Operating profit/Operating profit ratio
(Yen million)

2017 2018 (Fiscal year)

Double-digit growth in sales and income due to increase in construction demand

Subsidiaries part of the Group
Daiken Engineering Corporation
Koukou Sangyo Corporation
Sankei Corporation
Daiken Home & Service Corporation
Smile-Up Corporation
Pac System Co., Ltd.

(Note) 1. Other Daiken businesses account for 7.0% in addition to the above.
2. In fiscal 2019, the segments of ecological based business and dwelling space business are included in industrial materials business and building materials business, respectively.
Commentary and results for fiscal 2018

Industrial materials business revenues were increased by the spread of the inorganic bearing surface, Dai-Lite, with a decline in the MDF used for building materials, furniture, and insulation boards used for tatami mats and flooring, which resulted in a decrease in overall sales.

Operating profit declined as a reflection of lower sales and an increase in materials and energy costs.

As a result, in fiscal 2018, net sales amounted to ¥55,354 million (down 1.9% year-on-year), and operating profit amounted to ¥1,955 million (down 41.2% year-on-year).

Forecast for fiscal 2019

For fiscal 2019, the industrial materials business is projected to have net sales of ¥63,100 million, an increase of 14.0% from fiscal 2018. We plan to enhance sales with the effect of consolidation of the New Zealand MDF factory, an acquisition that was completed in April 2018, and customer approaches with the deeply embossed non-combustible wall material Gravio Edge launched in June 2018.

Commentary and results for fiscal 2018

Building materials business revenues increased in the public and commercial buildings fields and the revenues from builders and rental housing increased even in the lower Japanese housing market, but a sharp fall in sales to small and medium sized engineering firms was greater than we expected, resulting in overall sales for this business being lower than the previous fiscal year.

Operating profit remained the same as the previous fiscal year with streamlining and cost reductions due to the increase in self-manufacture and despite the rise in raw material prices.

As a result, in fiscal 2018, net sales amounted to ¥86,853 million (down 0.5% year-on-year), and operating profit amounted to ¥4,598 million (up 2.2% year-on-year).

Forecast for fiscal 2019

For fiscal 2019, the building materials business is projected to have net sales of ¥89,000 million, an increase of 2.5% from fiscal 2018. With the launch of a new product in June 2018, which renewed our flagship series of interior materials to increase the market share in new housing, we will endeavor to expand our building materials business in our prioritized markets in the public and commercial buildings field and in global markets.

Commentary and results for fiscal 2018

Engineering business revenues increased from the higher demand for interior construction of buildings and offices, expanding the scope of construction, and sales of the apartment renovation company, purchased in October 2016, contributed to fiscal 2018.

Operating profit increased from recruiting skilled workers and strengthening the management structure for each worksite in spite of surging personnel costs due to the shortage of skilled workers.

As a result, in fiscal 2018, net sales were ¥16,458 million (up 20.9% year-on-year), and operating profit was ¥528 million (up 23.6% year-on-year).

Forecast for fiscal 2019

For fiscal 2019, the engineering business is projected to have net sales of ¥17,000 million, an increase of 3.3% from fiscal 2018. We will expand our interior work of office buildings in the latter half of the fiscal year and continuously strengthen the development toward the condominium renovation business.
Social situation and market environment

The new housing market in Japan, which we saw as the major market for manufacturers of residential building materials, is dramatically affected by the declining birth rate and aging population and the decrease in population and the number of households. As a risk scenario for the long-term vision, we assume that the number of new housing starts will decrease from the current 0.9 million houses to 0.6 million houses by 2025.

Changes in number of housing starts

To be the most selected company with strengthened product quality and proposal capabilities to increase market share

Initiatives in 3 Priority Markets

In order to accomplish further growth in such a market environment, we focus on three priority areas that we should continuously expand, the public and commercial buildings market, global markets, and home renovation market, during the GP25 1st Stage of the medium-term management plan (fiscal 2017 to 2019) as a first step toward realizing the long-term vision. Economic growth in Japan is expected to increase demand for robust construction related to the Tokyo Olympic and Paralympic Games and inbound growth, as well as renovation demand based on the stock-oriented housing policy. Abroad, economic growth in ASEAN member countries is expected. The Daiken Group will continue to capitalize on its unique strengths and promote initiatives to expand sales for the needs of these markets.

Opportunities and demands in 3 Priority Markets

- Public and commercial buildings
  - Tokyo Olympics and Paralympic Games
  - Growth in inbound and tourism fields
  - Regional revitalization, compact city
  - Childcare shortage issues
  - Super-aged society

- Global markets
  - Economic development in emerging countries in Asia
  - Growing needs for improved living environment
  - Advancement of Japanese companies
  - Sustainable materials and construction materials

- Home renovation market
  - Stock-oriented housing policy
  - Preparation for home care
  - Development of various ways of living
  - Unoccupied property solutions
  - Expansion of the market for secondhand houses
Vision and Strategy of Value Creation

Data

Foundation of Value Creation

ESG Information

Initiatives in 3 Priority Markets

Public and Commercial Buildings

Market environment and business strategies

The construction demands for public spaces and commercial facilities are expected to remain robust; the Tokyo Olympic and Paralympic Games, metropolitan area re-development projects, increased construction of accommodation facilities for inbound growth, increased demand for nursing facilities due to the advent of the super-aging society, redevelopment of medical and educational facilities associated with regional revitalization or compact cities, and increased construction of childcare facilities to solve the childcare shortage issues mainly in the Tokyo metropolitan area. In addition, the Act on the Promotion of the Utilization of Wood in Public Buildings was established by the Japanese government and is boosting the use of timber materials for buildings. In consideration of these market environments, we continue to expand sales using our proposal capabilities based on our unique materials and the technologies that we have built as a housing material manufacturer, such as safe, secure, healthy, and comfortable living environments, non-combustible materials, domestic wood, and tatami mats with superior maintenance using machine-made Japanese Washi paper. We also utilize our capabilities to perform installation work for office building interior construction in our engineering business.

Daiken’s strengths

- Non-combustible wall materials and anti-seismic ceilings required by public spaces and commercial facilities
- Tatami mats with durability and superior maintenance using Daiken-specific machine-made Japanese Washi paper
- WPC flooring processing technology to enhance scratch resistance and durability to overcome the weakness of domestic wood (e.g., cedar, cypress), which is soft and easily scratched
- Capabilities to develop new materials meeting the requirements of nursing homes, kindergartens, and childcare facilities
- Make-to-order manufacturing system for custom order minimum of just one door
- Capabilities to perform installation work by Daiken’s engineering business with a proven track record providing interior finishing work for office buildings and public and commercial facilities
- Acoustics consultancy to make comfortable acoustic environments in meeting rooms and halls

Results for fiscal 2018

In fiscal 2018, the revenues in the public and commercial buildings market were ¥19,849 million (up 18.1 % year-on-year). The revenues of the industrial materials business increased by ¥425 million because of the growth of the market for our unique tatami mats with superior maintenance for accommodation and commercial facilities. The revenues of the building materials business increased by ¥820 million because of an increase in orders for flooring suitable for shoes for public facilities, including schools and libraries, commercial facilities, including shops and hotels, and orders of doors for nursing homes, kindergartens, and childcare facilities. Furthermore, the revenues of the engineering business significantly increased by ¥1,992 million because of an increase in interior construction orders for office buildings. Sales in the public and commercial buildings market were growing in all three business segments.

Changes in net sales in public and commercial buildings

Forecast for fiscal 2019

For fiscal 2019, the public and commercial buildings market is projected to have net sales of ¥22,000 million, which is an increase of 10.8% from fiscal 2018. In addition to the initiatives that we implemented in fiscal 2018, we will promote customer approaches with our new products, including the deeply embossed non-combustible wall material Gravio Edge, using DaiLite as the base material, launched in June 2018. In particular, we aim to increase sales by proposing our functional building materials that can meet the requirements of nursing homes, medical service facilities, kindergartens, childcare facilities, and accommodations.

Deeply embossed non-combustible wall material, Gravio Edge
Market environment and business strategies

For the industrial materials business, we will strengthen global sales of the MDF manufactured in plants located in New Zealand and Malaysia while the need for sustainable materials is rising because of global warming and the depletion of tropical timber resources. For the building materials business, the quality of the living environment is improving in China where there is a huge market. The expansion of housing demand is expected to continue in ASEAN member countries. We will continue to provide our products, manufactured in plants located in China and Indonesia, which meet local needs using our development skills and technologies that we have cultivated as a Japanese housing material manufacturer.

Daiken’s strengths

- Four manufacturing plants in Malaysia and New Zealand produce the MDF with different species and performance
- Establishment of plantation projects in Malaysia and tree utilization technology
- Global distributor network for export sales of ceiling material, Dai-Lotone
- High-performance building materials used in the Japanese housing markets and the technological capabilities to produce them
- Production sites in China and Indonesia using Japanese quality production and construction technologies

Daiken Group Global Network

Results for fiscal 2018

In fiscal 2018, the revenues in the global markets were ¥12,278 million (up 11.9% year-on-year). The revenues of the industrial materials business increased by ¥91 million because of global sales of MDF remaining strong in North America and Southeast Asia. The revenues of the building materials business increased by ¥429 million with the contribution of the growth of floor materials exports to China and other countries. For other global markets, the revenues increased by ¥781 million because of the increasing inquiries about distribution of our industrial materials through new sales channels having an understanding of local needs.

Forecast for fiscal 2019

For fiscal 2019, the global markets are projected to have net sales of ¥18,000 million, which is an increase of 46.6% from fiscal 2018. For the industrial materials business, we aim for early maximization of the synergies with the MDF plant in New Zealand, Daiken Southland Limited, which joined the Daiken Group in April 2018. We expect the global sales channels for their MDF will expand by our taking over the commercial rights. Although, we have already established the largest market share in Japan, we will enhance our presence in the global markets for MDF. For the building materials business, we plan to enhance sales by strengthening sales in China and by expanding the export of flooring materials from Japan.
Initiatives in 3 Priority Markets

Home Renovation Market

Market environment and business strategies

In Japan, the birth rate is declining, and population aging is continuing, so the number of households is expected to peak in 2023. In contrast, the stock of dwellings is expected to exceed the number of households and cause unoccupied property issues. Based on these changes in the demographic and social environments, the Japanese government has changed the housing policy from building new housing to more effectively use existing dwelling stocks. In addition, the Basic Act for Housing, which was prescribed by the Ministry of Land, Infrastructure and Transport, states that revitalization of existing housing and renovation are key measures. Also, the act established the target for the expansion of the home renovation market from ¥6.8 trillion in fiscal 2017 to ¥12 trillion in fiscal 2026 and introduced a government subsidy system to support renovation projects. In these market environments, the Daiken Group will introduce the excellence of renovation and creation of new value and create new demands with our comprehensive product lines of interior materials for floors, walls, and doors, and the TDY alliance partnership. We will also grow the sales for housing and apartment renovation by exerting the synergies of our engineering business.

Daiken’s strengths

- Product lines and the proposal capabilities to offer total coordination of interior materials
- Comprehensive alliance with TOTO and YKK AP for remodeling
- TDY collaboration showroom deployed in eight major cities in Japan to offer a one-stop service for new space creation
- Short construction period suitable for renovation, product development capabilities with reduced construction work
- Make-to-order manufacturing system for custom order minimum of just one door
- Make-to-order manufacturing system for materials and construction by collaboration with group companies working on renovation

Results for fiscal 2018

In fiscal 2018, the revenues in the home renovation market were ¥28,975 million (up 0.6% year-on-year). The entire Group struggled to grow our sales in the severity of this market and the new housing market. The revenues of the industrial materials business decreased by ¥557 million because of declining demand for tatami mats and the revenues of the building materials business decreased by ¥647 million because of the overall slowing down of sales of interior building materials such as flooring and doors, etc. On the other hand, the revenues of the engineering business increased by ¥1,184 million. The apartment renovation sales made by Pac System Co., Ltd., having joined the Daiken Group in October 2016, contributed to fiscal 2018. As a result, we could maintain the overall revenues in the home renovation market at the same level as the previous year.

Forecast for fiscal 2019

For fiscal 2019, the home renovation market is projected to have net sales of ¥30,100 million an increase of 3.9% from fiscal 2018. The Daiken Group will promote the introduction of our renovation products, including the new product launched in June 2018, and we will introduce the excellence of renovation and creation of new value for our customers, and stimulate new demand given the opportunities at the large-scale exhibition, TDY Remodeling Collection 2018, jointly held by our partners TOTO and YKK AP in May 2018.

Changes in net sales in home renovation market
Daiken’s CSR

**CSR Basic Policy**

**Vision**
Contribute to the realization of a sustainable society by creating values shared with society through activities for **ecology** and **improvements in the quality of space**

**Policy**

1. With CSR and CSV* as the key axes, we will improve our corporate value and enhance our competitiveness to realize GP25.

2. Using CSR as an activity to enhance our ability to respond to and earn the trust of society, we will systematically pursue CSR with our responses to the environment, society, and governance as key axes.

3. Positioning CSV* as one of our management strategies, we encourage activities voluntarily and actively through the whole business process.

* Daiken’s CSV is defined as finding solutions to social issues through the provision of common values capitalizing on Daiken’s uniqueness.

**CSV Theme**

1. Building a sustainable society
2. Providing secure, safe, and comfortable spaces
3. Comprehensive use of wood building materials—encouraging the use of cascading

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**CSR Activity Promotion System**

**CSR Committee**
Determines and approves the policy

**CSR Activity Promotion**
Promotes the medium-term CSR activity plan
Submits reports to the CSR Committee (Disseminates information group-wide)

**CSR promotion departments**

Chairperson:
Representative director, president, and executive officer

CSR promotion departments:
Audit Department, General Affairs and Personnel Department, Public Relations Department, Legal Affairs Department, Quality Assurance Department, Comprehensive Research and Development Center, Marketing Department, Domestic Operation Planning Department, Domestic Sales Planning Department, and Overseas Operation Planning Department

Secretarial affairs division:
Management Planning Department

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Daiken Group
<table>
<thead>
<tr>
<th>Management area</th>
<th>Key items</th>
<th>Business results for fiscal 2018</th>
<th>Self-assessment</th>
</tr>
</thead>
</table>
| Governance              | CSR management • Promote company-wide CSR activities under the leadership of the CSR Committee.  
|                         | Risk management • Develop, update, and manage BCPs (business continuity plans).  
|                         | Governance • Establish optimal corporate governance.  
|                         | Compliance • Reinforce the compliance system.  
|                         |  
|                          | Improving product quality and ensuring product safety • Reinforce the quality management system based on quality ISO standards.  
|                          |  
|                          | Providing products and services that give high customer satisfaction • Reinforce our ability to collect information by strengthening contact points with consumers.  
|                          |  
|                          | Enhancing communication with customers • Enhance face-to-face communication with customers in the showrooms and at exhibitions.  
|                          |  
|                          | Protecting personal information • Ensure strict management of personal information.  
|                          |  
|                          | Fair operating practices Ensuring fair competition and transactions • Ban all transactions with antisocial forces.  
|                          |  
|                          | Protecting intellectual property • Continue to provide education on intellectual property.  
|                          |  
|                          | Promoting CSR procurement • Develop and implement CSR procurement rules.  
|                          |  
|                          | Social Labor practices Promoting life-work balance • Encourage employees to reduce overwork and cut long working hours.  
|                          |  
|                          | Promoting diversity • Implement human resources development programs intended to promote the empowerment of female employees and develop a working environment that meets this purpose.  
|                          |  
|                          | Reinforcing human resources development • Develop global human resources.  
|                          |  
|                          | Improving the safety and health system • Encourage and strengthen efforts to create a safer working environment.  
|                          |  
|                          | Respect for human rights Raising awareness of human rights • Continue education to raise awareness of human rights.  
|                          |  
|                          | Community involvement and development Community contribution • Participate in local communities.  
|                          |  
|                          | Social contribution • Continue tree planting activities in Malaysia.  
|                          |  

Please refer to the medium-term environment plan (p. 40) for our environmental efforts.

○ The level significantly exceeded the target  ○ Achieved the target  △ Did not achieve the target  × The level significantly below the target

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**Governance**

*Basic Approach*

In pursuit of optimal corporate governance that will result in sustainable improvements in our corporate value

Under the Group Corporate Philosophy, the Daiken Group is committed to sustainable improvements in corporate value for all shareholders and stakeholders. In order to achieve efficient, sound, and transparent management, we take the basic approach that always seeks to optimize corporate governance, and we constantly work to improve it. Based on the Basic Policy on Corporate Governance established in 2015, we are making constant improvements to respond to the ever-changing business environment surrounding the group in the ceaseless pursuit of the optimal corporate governance system.

**Key Initiatives for the Reinforcement of Corporate Governance**

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>Made the shift to the chief executive officer system.</td>
</tr>
<tr>
<td>2003</td>
<td>The Compliance Committee was established.</td>
</tr>
<tr>
<td>2008</td>
<td>Reorganized to the Risk &amp; Compliance Management Committee for reinforcement.</td>
</tr>
<tr>
<td>2010</td>
<td>Reduced the number of directors from 11 to 9.</td>
</tr>
<tr>
<td>2011</td>
<td>Outside directors are selected.</td>
</tr>
<tr>
<td>2012</td>
<td>The term for directors was reduced from two years to one year.</td>
</tr>
<tr>
<td>2015</td>
<td>Outside directors increased from one to two.</td>
</tr>
<tr>
<td>2016</td>
<td>The Basic Policy on Corporate Governance was established. The Nomination and Remuneration Committee and the Corporate Governance Committee were established.</td>
</tr>
<tr>
<td>2018</td>
<td>The effectiveness evaluation of the Board was started. A female outside Audit &amp; Supervisory Board Member was selected.</td>
</tr>
</tbody>
</table>

**Quick Reference of Corporate Governance Organization**

<table>
<thead>
<tr>
<th>Main Items</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Design of the organization</td>
<td>Company with board of company audit &amp; supervisory board members</td>
</tr>
<tr>
<td>No. of Directors (outside directors)</td>
<td>9 (2)</td>
</tr>
<tr>
<td>No. of Audit &amp; Supervisory Board Members (outside Audit &amp; Supervisory Board Members)</td>
<td>4 (2)</td>
</tr>
<tr>
<td>Number of the board convened (fiscal 2018)</td>
<td>12 times (Average attendance rate of outside directors) (95%)</td>
</tr>
<tr>
<td>Number of audit &amp; supervisory board convened (fiscal 2018)</td>
<td>13 times (Average attendance rate of outside Audit &amp; Supervisory Board Members) (100%)</td>
</tr>
<tr>
<td>The term for directors</td>
<td>1 year</td>
</tr>
<tr>
<td>The executive officer system</td>
<td>Adopted</td>
</tr>
</tbody>
</table>
| Voluntary committee of the Board | *Nomination and Remuneration Committee: Deliberate on human affairs and the remuneration of directors and executive officers*  
*Corporate Governance Committee: Evaluate the effectiveness of the Board and deliberate the matters related to establishment of the governance system* |
| Auditors | Gyosei & Co. |

**Corporate Governance Framework**

<table>
<thead>
<tr>
<th>Shareholders (General meeting of shareholders)</th>
<th>Selection dismissal</th>
<th>Selection dismissal</th>
<th>Audit &amp; Supervisory Board Members</th>
<th>Audit &amp; Supervisory Board Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>Nine directors</td>
<td>Nomination and remuneration committee</td>
<td>Four Audit &amp; Supervisory Board Members</td>
<td>Proposal for selection dismissal</td>
</tr>
<tr>
<td></td>
<td>(including two outside directors)</td>
<td>(majority of members are independent directors)</td>
<td>(including two outside Audit &amp; Supervisory Board Members)</td>
<td>Reporting</td>
</tr>
<tr>
<td>Representative director</td>
<td>Consultation</td>
<td>Corporate governance committee</td>
<td>Audit</td>
<td>Reporting</td>
</tr>
<tr>
<td></td>
<td>Disclosure and dialog</td>
<td>(majority of the members are independent directors)</td>
<td>Accounting audit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Selection dismissal</td>
<td>Executive Director Committee</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Approval and instruction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supervision, selection/dismissal, and instruction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reporting</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Monitoring, supervising, and important decision-making**
- **Auditing**
- **Business execution and decision-making**
- **Business execution**
Assessment Results for the Effectiveness of the Board

To increase the effectiveness of the Board and to improve corporate value, the Daiken Group implemented the analysis and assessment of the effectiveness of the Board in March 2018.

| Assessment procedure | The questionnaire about the effectiveness of the Board was distributed to nine directors (including two outside directors) and four auditors (including two outside auditors), and the responses were collected. The responses of directors and audit & supervisory board members were analyzed by the Board, and future issues were discussed. Also, the evaluation results were discussed by the corporate governance committee where the majority of members are outside directors and audit & supervisory board members. |
| Large categories of the questionnaire | a. Roles and responsibilities of the Board  
b. The composition of the Board  
c. Deliberation of the Board  
d. System for promoting dialog with shareholders  
e. Overall governance system |
| A summary of the analysis and assessment results | The results confirmed that each director and audit & supervisory board member of the Board are committed to presenting and deliberating their opinions actively while ensuring fairness and transparency from diverse perspectives and four independent outside directors. The Board maintains the effectiveness of important decision-making in management and supervision of business execution thoroughly. In particular, regarding decision-making of important matters, including acquisitions, the independent outside directors and audit & supervisory board members were provided with opportunities where information was given to help them to understand effects, risks, and issues, and the discussions were carried out several times by the Board. Thus, they were effectively involved in the decision-making process. At the same time, future issues were found, such as involvement of the PDCA process in management strategies, including a medium-term management plan, improvement in the quality of discussions at the Board, and discussions about how the Board should be in the future. |
| Future issues and response based on the analysis and evaluation results | Based on the analysis and evaluation results, we particularly focus on and work toward the following issues.  
(1) Among the PDCA process in the management strategies, strengthen the involvement of the Board particularly regarding CA processes (analysis, sorting out issues and implementing measures, implementing improvement measures)  
(2) Review the approving authority, delegate part of resolution matters concerning decision-making to the management, and improve the supervising function of the Board  
(3) Improve the system to promote constructive dialog and provide useful information with stakeholders including shareholders |

Outside Directors and Audit & Supervisory Board Members

<table>
<thead>
<tr>
<th>Name</th>
<th>Reason for selection</th>
<th>Attendance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The Board</td>
</tr>
<tr>
<td>Koji Mizuno</td>
<td>He actively provides advice and suggestions supported by the high expertise as a professor and contributes to securing appropriate decisions by the Board. Also, his affluent knowledge about corporate management is considered essential for the improvement of governance of the company.</td>
<td>12/12 (100%)</td>
</tr>
<tr>
<td>Kiyoshi Furube</td>
<td>He has been involved in the management of TOTO as a director for a long period of time and actively provides advice and suggestions based on his rich experience. Also, his affluent experience and wide range of knowledge about corporate management is considered to contribute to improving our corporate value. We have concluded the comprehensive business alliance with TOTO and have a business relationship with TOTO including sales; however, it is general business for both companies.</td>
<td>8/9 (88%)</td>
</tr>
<tr>
<td>Akio Hasunuma</td>
<td>He is considered to use his rich experience and wide range of knowledge from a long career as a chief executive officer in the audits of the company. We have concluded a comprehensive business alliance with TOTO, and have business relationship with TOTO including sale; however, it is general business for both companies.</td>
<td>12/12 (100%)</td>
</tr>
<tr>
<td>Masafumi Inoue</td>
<td>He is considered to use his high expertise as a professor, experience and wide range of knowledge as an examiner of the Cabinet Office and a research officer of the Ministry of Education, Culture, Sports, Science and Technology in the audits of our company.</td>
<td>12/12 (100%)</td>
</tr>
</tbody>
</table>

* All outside directors and audit & supervisory board members have no conflicts of interest with our general shareholders with regard to personal relationships, capital relationships, business relationships, and other interests with us, and they meet the Judgment Criteria for Independence as stipulated by Daiken.
ESG Information

Executive Remuneration
We revised the remuneration policy in June 2018 so that shareholders and investors can further understand executive remuneration.

Policy of Executive Remuneration

1. The remuneration system shall be based on the practice of the group corporate philosophy.
2. The remuneration system shall be designed reflecting the long vision (GP25) and the medium-term management plan, prevent too great an emphasis on short-term inclinations, and motivate the improvement of medium- to long-term corporate value.
3. The standards and system of remuneration shall be effective enough to secure excellent human resources to whom we can entrust our future.
4. The procedure for determining remuneration shall be transparent, fair, and objective to achieve the responsibilities of explanations to all stakeholders including shareholders, investors, and employees.

Procedure
Regarding executive remuneration, the total frame of remuneration is determined at the general shareholders’ meeting. The executive remuneration is composed of mission remuneration as determined by the post, performance remuneration as determined by the performance of the company and the achievement and results made in the responsible area, and stock-based compensation. The detailed regulations of the procedure related to the remuneration are stipulated by the Board.

The remuneration of executive officers consists of mission remuneration as determined by the post, performance remuneration as determined by the performance of the company and the achievement and results made in the responsible area, and stock-based compensation.

Regarding the remuneration of directors and executive officers, the proposal for consideration made by the representative board is deliberated and recommend by the nomination and remuneration committee comprising a majority of independent directors, and the remuneration is decided based on the results.

Composition
In order to link the company’s performance with the executive remuneration, we set up the performance remuneration that reflects the performance of a sole financial year and stock-based compensation that reflects the medium- to long-term performance and improvement in corporate value. Also, regarding mission remuneration, the breakdown (representative compensation, supervisor compensation, and executive compensation) is provided for each post to clarify the background of the amount.
The corporate governance code was revised in June this year, which is expected to accelerate changes in corporate governance in Japan. Daiken has already established the nomination and remuneration committee and the corporate governance committee, which comprise a majority of independent directors. It is said that Daiken maintains a certain standard in terms of corporate governance. However, the newly revised guidelines stipulate objectivity in the selection and dismissal of top management and the understanding capital costs, which we need to respond to as soon as possible. Furthermore, with the background of the existence of the ESG investment, which is said to occupy 30% of the world’s outstanding assets under management, we are required to respond to many aspects, including presenting clear management policies and investment strategies, as well as reviewing cross-shareholdings. In addition to consideration toward investors, we have to carefully take care of other stakeholders, such as considering employees who are the source of the organization’s energy, coexistence with the community where we operate our plants, and paying close attention to our business partners. We should recognize the roles of our company as a member of society and choose the appropriate corporate behavior.

I am an expert in financial accounting, have been studying income concepts as my specialty, and I have been involved in establishing the accounting standards.

I was involved in preparing the concept framework at the Accounting Standards Board of Japan (ASBJ) and in preparing the introduction guidelines of the International Financial Reporting Standards (IFRS) at the Business Accounting Council of the Financial Services Agency. As a member of the advisory committee on economics, I was involved in deliberating the approval of establishing departments of universities at the Ministry of Education, Culture, Sports, Science and Technology. I also prepared accounting examination subjects as a member of the real estate appraiser examination board at the Ministry of Land, Infrastructure, Transport and Tourism, and assessed the performance of the Organization for Small & Medium Enterprises and Regional Innovation as a member (acting chairman) of the Evaluation Committee for Incorporated Administrative Agencies at the Ministry of Finance. At Gakushuin University, I was responsible for PR strategies and risk management for the entire university as a vice president.

I strongly hope that with my accumulated knowledge and experience, I will be able to contribute to establishing a governance system that enables Daiken to achieve well-balanced, sustainable growth. I will do my best for Daiken’s development as a company that continues to be brilliant in the next stage.

Reasons for selection
In addition to her advanced expertise as a professor, it is felt she will use her rich experience and wide range of knowledge acquired through working as a committee member at the Ministry of Finance and Financial Services Agency. Furthermore, she has no conflicts of interest with our general shareholders in terms of personal relationships, capital relationships, business relationships, and other interests with us, and meets the Judgment Criteria for Independence as stipulated by Daiken.
**Mizuno:** Basically, many active opinions are expressed at Board meetings. They also provide us, the outside directors, with plenty of opportunities to ask questions and express our opinions. I find the management organization very open, and I evaluate the organization highly. Furthermore, because of the recent tendency for corporate governance innovation, Daiken is trying hard to make further improvements. I expect that we will be able to have freer and more vigorous discussions in the future.

**Furube:** I was appointed as outside director in June 2017. When I saw the active discussions of the Board, I had the impression that Daiken had a very open management organization. Since management has the attitude of accepting various opinions, an open atmosphere is created. When the discussions become heated, the agenda sometimes gets delayed, but this shows that Board meetings are not carried out according to a scenario but function as a place of discussion.

**Mizuno:** They have very active discussions at the nomination and remuneration committee and the corporate governance committee (“CG committee”). As the chairman of both committees, I frequently exchange information with the department of the office before the committee meetings. We sometimes have such opportunities three times or more a month. I sometimes ask them to come to the university and discuss various issues for a few hours. I think the discussions at the committee are active due to such careful preparations.

**Furube:** The fact that the chairman is an outside director means that we have an open Board. The attitude of adopting opinions from outside the company is an excellent aspect of Daiken’s corporate culture.

**Mizuno:** Another characteristic of Daiken is that many opinions are expressed in the evaluation of the effectiveness of the Board. Regarding the questionnaire on effectiveness, it is commonly thought that a number of items are required to be evaluated multilaterally. However, we dared not increase the items, but rather improved the free answer sections. This is because we can expect various opinions in Daiken, even if we do not increase the items. Based on the opinions, we have active discussions at the aforementioned CG committee and evaluate the effectiveness of the Board. Accordingly, I can say the efforts for the evaluation of effectiveness is one step ahead of other companies.
Furube: I was appointed at the time when the evaluation of effectiveness for fiscal 2017 was performed, and the issues were extracted. It was the time to decide about the acquisition of an MDF plant in New Zealand. I remember that the discussions became heated. I was impressed that they tried to make a decision as a company after having thorough discussions. This is one of the effects brought about by the introduction of the effectiveness evaluation.

Mizuno: Regarding the information aspect, in fiscal 2016 before the evaluation of effectiveness, there was a primitive issue that materials for the Board were distributed too late. Many members complained that they could not prepare in advance because the materials were distributed just before the meeting. Based on this opinion, in fiscal 2017, the materials were distributed one week before the meeting. In fiscal 2018, information was provided to more places, and important matters were explained carefully at a separate opportunity. Over the last two years, the speed, quality, and volume of information were greatly improved.

Mizuno: One newly extracted issue is to promote constructive dialog and improve the organization to distribute useful information to stakeholders including shareholders. We started our discussions with “What information is useful for stakeholders?” Also regarding the PDCA cycle of the management strategies, we think Plan and Do were successfully conducted, but there is some room for improvement in terms of Check and Act. In particular, when we discuss the medium-term management plan for the next period, we have to thoroughly evaluate and analyze what we achieved and what we failed to achieve in the current medium-term management plan and make a plan with better effectiveness. I do not want Daiken to be satisfied with simply clearing items and figures that are generally required but to aim to achieve corporate governance at a higher level and eventually improve corporate value.

Furube: I think the dissemination of the group corporate philosophy is important. To make the philosophy the flesh and blood of the company, each employee needs to understand it. One year has passed since its establishment, and I had a report about the dissemination survey. We need to think of a specific process to disseminate it further, such as setting up the schedule. Unlike the management plan, the philosophy is universal for the company. When it is disseminated to all employees in the entire group, it becomes a true philosophy. To achieve this, I will pay attention to the leadership of the Board.

Mizuno: Our questions are also the questions of stakeholders. I think our role as outside directors is to actively express opinions as the spokespersons of stakeholders. Furthermore, as is mentioned in the contents of the revised corporate governance code, I think it is important to develop director candidates of the next generation in each division in a well-balanced manner. At Board meetings, everybody can speak up. I think that the spirit of President Okuda, “Speak up freely,” is well understood by the directors. This good atmosphere should be spreading further, and I want the managers who connect sites and directors to speak up. Increasing opportunities for employees to speak up on sites will be effective for the development of human resources.

Furube: The most important thing for an outside director is to have the eyes of an outsider. I keep it in mind that I should always make efforts to learn the conventional wisdom of the world and what is required by the world from the perspective of an outsider. Inside directors tend to use in-house jargon or make decisions based on in-house conventions. The place of discussion or decision-making is not affected by in-house logic, and objectivity is maintained if there are outside directors. The role of outside directors is to give a feeling of tension to inside directors, and our attendance should improve the Board. Speech that outsiders can understand is required when making explanations to various stakeholders, including shareholders and investors. So, I ask questions without hesitation and make counterarguments. If they can make us understand, then they can make the people around the world understand. I try not to be too involved inside, and I keep some distance as an outsider and continue discussions to improve Daiken.

Mizuno: I want Daiken to go one step ahead of the global standards. To achieve this goal, I will reinforce the monitoring of overseas where Daiken is aiming to expand its business in the future and supervising quality issues that have recently had a negative impact on other companies. I have repeated my terms as an outside director. I am not worth being in the post if I do not achieve my expected duties. To lead Daiken to the place where it should be, I will do my duties with a sense of mission.
ESG Information

Directors and Audit & Supervisory Board Members
(as of 22 June, 2018)

Masanori Okuda
Representative Director, President, and Executive Officer
April 1974 Joined Daiken
April 2007 Executive officer
April 2008 Senior executive officer
June 2008 Director and senior executive officer
April 2009 Director and managing executive officer
April 2010 General manager of Jukken Sales
June 2011 General manager of sales, manager of new development sales, and general manager of the Tokyo office
April 2012 Director and senior managing executive officer
General manager of the Tokyo office
June 2013 Representative director (present)
Senior managing director and senior managing executive officer
October 2013 General manager of procurement innovation and general manager of the Tokyo office
April 2014 Representative president and chief executive officer
June 2018 Director, president, and executive officer (present)

Takashi Terubayashi
Representative Director, Senior Managing Executive Officer
April 1980 Joined Daiken
April 2005 Manager of Hokkaido sales
April 2008 Manager of marketing department
April 2010 Manager of general affairs and HR
April 2011 Executive officer
April 2012 Senior executive officer
Manager of general affairs and HR and manager of the secretarial office
April 2013 Managing executive officer
Manager of management planning department and manager of the secretarial office
June 2013 Director and managing executive officer
April 2014 Manager of management planning department, manager of the new business development office, and manager of the secretarial office
April 2015 Manager of finance and accounting
April 2017 Director and senior managing executive officer
June 2017 Representative director (present)
Senior managing director and senior managing executive officer
April 2018 Responsible for Japanese business (manufacturing) (present)
June 2018 Director and senior managing executive officer (present)

Tadahiro Kiyosu
Director
April 1988 Joined Daiken
April 1996 Chip 1st section, Chip department (Itochu)
October 2000 Acting chief of Asia and Pacific area, Chip department (Itochu)
April 2001 Itochu Australia (stationed in Sydney)
May 2004 Itochu Corporation Section chief of chip, Paper chip department
April 2008 Operation department (Itochu)
April 2011 Itochu Singapore (stationed in Singapore)
Itochu Corporation ASEAN, southeast Asia
Chief of Living IT/Information group (stationed in Singapore) and Itochu Singapore
April 2016 Acting manager of Forest Products & General Merchandise Department No. 1 (Itochu)
April 2017 Manager of Forest Products & General Merchandise Department No. 3 (Itochu)
April 2018 Manager of Forest Products & General Merchandise Department No. 1 (Itochu) (present)
June 2018 Representative director (present)

Kikuo Imamura
Audit & Supervisory Board Member
March 1971 Joined Daiken
April 2005 Manager of accounting
April 2008 Executive officer
April 2010 Senior executive officer
April 2011 Managing executive officer
June 2013 Director and managing executive officer
June 2015 Audit & Supervisory Board Member (present)

Toshibo Fuyuki
Audit & Supervisory Board Member
April 1980 Joined Daiken
April 2000 Manager of Dai-Lite product development, Dai-Lite business department
April 2003 Manager of R&D center
April 2010 Executive officer
Manager of Sekia eco business, eco business department and president of Otagawara Daiken
April 2011 Senior executive officer
General manager of eco business and manager of Sekia eco business
April 2013 Managing executive officer
October 2013 Manager of development planning
April 2014 Manager of general R&D center
April 2015 Manager of quality assurance
June 2017 Audit & Supervisory Board Member (present)
Takashi Aihara
Representative Director, Senior Managing Executive Officer

April 2001: Joined Daiken

April 2004: Manager of Kyoko sales

April 2009: Assistant general manager of Sales

April 2010: General manager of Sales

April 2011: Executive officer

April 2012: Manager of Sales

April 2013: Managing executive officer

October 2013: General manager of Business

April 2015: General manager of Sales

June 2016: Director and managing executive officer

October 2017: General manager of Special Demand Sales

June 2018: Director and managing executive officer

Koji Mizuno
Outside Director

April 1991: Joined Nanto Bank Co., Ltd.

March 2006: Resigned Nanto Bank

April 2006: Full-time instructor, Faculty of Management, Otemon Gakuin University

April 2010: Assistant professor, same university

April 2011: Advisor of the Organization for Small & Medium Enterprises and Regional Innovation

June 2011: Assistant professor, Graduate School of Business Administration, Faculty of Management, Otemon Gakuin University

April 2014: Professor, Graduate School of Business Administration, Faculty of Management, Otemon Gakuin University

June 2015: Outside representative director of Daiken

June 2016: Professor, Graduate School of Business Administration, Faculty of Management, Otemon Gakuin University

November 2006: General manager of the Venture Business Study Center of the same university (present)

Dean and professor, Faculty of Management, Otemon Gakuin University (present)

Tetsu Harima
Director, Senior Managing Executive Officer

April 1991: Joined Daiken

April 2004: Manager of Kyoko sales

April 2009: Assistant general manager of Sales

April 2010: General manager of Sales

April 2011: Executive officer

April 2012: Manager of Sales

April 2013: Managing executive officer

October 2013: General manager of Business

April 2015: General manager of Sales

June 2016: Director and managing executive officer

October 2017: General manager of Special Demand Sales

June 2018: Director and managing executive officer

Yukio Katsuo
Outside Audit & Supervisory Board Member

April 2000: Full-time instructor, Faculty of Economics, Gakushuin University

February 2002: Member of performance report project, Accounting Standards Board of Japan

April 2003: Assistant professor, Faculty of Economics, Gakushuin University

April 2008: Professor, Faculty of Economics, Gakushuin University

February 2010: Member of the Evaluation Committee for Incorporated Administrative Agency (independent administrative institution)

February 2012: Temporary member of the Business Accounting Council, The Financial Services Agency

February 2012: Temporary member of the Advisory Committee for the Evaluation of University and Institution Establishment and Accreditation Evaluation

April 2014: Member of the University Council of Education and Regional Innovation

June 2014: Outside Audit & Supervisory Board Member of Daiken
Customers

Initiatives for Product Safety

The Daiken Group has established the Basic Policy on Product Safety to ensure that all employees are thoroughly committed to product safety and are actively engaged in providing products to customers for safe use.

Basic Policy on Product Safety
Daiken Corporation and the companies in the Daiken Group must understand that ensuring product safety is as much a social responsibility as a corporate responsibility and position it as a crucial management issue. We are working on the provision of products with safety features that can be used with confidence after the establishment of the Basic Policy on Product Safety below. In addition, we strive to honestly and sincerely fulfill our accountability to customers and to respond to accidents involving products.

- Providing products that are safe, secure, and useful to society
- Establishment and strengthening of the internal organization (restructuring organization, development of documentation, etc.)
- Provision of information (notes for correct use or handling requirements, etc.)
- Collection and disclosure of information on product accidents
- Report of product accidents (immediately report to relevant authorities under the laws)
- Product recall (to prevent further incidents)
- Formulation of measures to prevent recurrences (investigate the cause, develop measures to prevent recurrences, and take corrective action)
- Disseminate information and operational assessment (thorough understanding of laws and essential policies)

Structure to Promote Product Safety

The Daiken Group established the system to conduct annual reviews performed by the department responsible for product safety and monitor the status of each departments’ activities in following their Product Safety Action Plans in order to continue to provide safe and highly reliable products and services. Then, the Risk and Compliance Management (RCM) committee and the Daiken Quality Assurance committee instruct the departments to review and modify their Product Safety Action Plans.

- The department must review whether the operation is following the Product Safety Action Plan (herein after referred to as the “Plan”) that was established by the Daiken Group and submit the report of its results to the department responsible for product safety (Quality Assurance Department).
- The department responsible for product safety shall summarize the reports from each department and submit it to the executive officers in charge of risk management and quality assurance for review.
- The department responsible for product safety shall summarize the review results and then report the measures to improve the Plan to the RCM committee or Daiken Quality Assurance committee.
- The RCM committee or Daiken Quality Assurance committee shall provide the instructions necessary for improvements of the Plan.
- The department responsible for product safety shall notify the entire Group to operate the modified Plan.

Key Initiatives
A review is conducted once a year to verify whether the Basic Policy on Product Safety is properly implemented.

- Enhance safety reviews
- Review of Quality Standards from the perspective of product safety
- Strengthening of purchasing management
- Promotion of the implementation of the user registration system
  * Improve and maintain the system that can gather customer information (end user information) in case of an emergency or product accident
- Thorough awareness by all employees
  * Inform them through e-learning or other ways

Initiatives to provide products that can be used with confidence
- Enhance safety reviews
- Review of Quality Standards from the perspective of product safety
- Strengthening of purchasing management

Response in the event of a product accident
- Promotion of the implementation of the user registration system
  * Improve and maintain the system that can gather customer information (end user information) in case of an emergency or product accident
- Thorough awareness by all employees
  * Inform them through e-learning or other ways

Initiatives as above
- Enhance safety reviews
- Review of Quality Standards from the perspective of product safety
- Strengthening of purchasing management

DAIKEN GROUP REPORT 2018
Suppliers

Promotion of CSR Procurement

The Daiken Group states that the Promotion of CSR Procurement is one of the important commitments of the Medium-Term CSR Activity Plan. We aim to provide products and services meeting the expectations of our customers and for a sustainable society in which people and the environment can coexist. Under these circumstances, we are implementing procurement activities with the cooperation of our business partners based on the following fundamental concepts.

<table>
<thead>
<tr>
<th>CSR Procurement Policy and Standards</th>
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<tbody>
<tr>
<td><strong>Procurement Policy</strong></td>
</tr>
<tr>
<td>1. Compliance with laws and regulations</td>
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<tr>
<td>2. Fair and even-handed transactions</td>
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<td>3. Sharing excellent value</td>
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<td>4. Promotion of green procurement</td>
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<td>5. Promotion of CSR procurement</td>
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<tr>
<td>6. Relationship of trust and co-prosperity</td>
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<tr>
<td><strong>CSR Procurement Standards</strong></td>
</tr>
<tr>
<td>1. Respect for human rights</td>
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<tr>
<td>2. Compliance with laws and regulations</td>
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<tr>
<td>3. Occupational safety and health</td>
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<tr>
<td>4. Fair transactions</td>
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<tr>
<td>5. Information management</td>
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<tr>
<td>6. Coexistence with society</td>
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<tr>
<td><strong>Green Procurement Standards</strong></td>
</tr>
<tr>
<td>1. Environmental management system</td>
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<td>2. Chemical substance management</td>
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<tr>
<td>3. Wood from legitimate sources</td>
</tr>
</tbody>
</table>

CSR questionnaire for suppliers to domestic plants

The Daiken Group has been carrying out the CSR questionnaire for suppliers following the Procurement Policy and CSR Procurement Standards since fiscal 2016. For fiscal 2018, the questionnaire was distributed to 235 suppliers of four plants. The survey results will be provided to the respondents. We will ask our suppliers to correct problems or make the necessary improvements if the evaluation score is continuously low. We will continue to implement the survey widening the respondents, including our Group companies, to make improvements as part of our efforts to further promote CSR procurement.

Management policy briefing session to strengthen the partnership with our business partners

The Daiken Group holds an annual management policy briefing session to strengthen relations with business partners, suppliers, and logistics companies. In fiscal 2018, nine sessions were held in different locations all over Japan. In June, one of the sessions was held in Osaka, and 125 people from 88 major customers attended. From the Daiken Group, 24 people, including President Okuda, executive officers, and department managers, attended. President Okuda explained the corporation’s direction under the medium-term management plan, management policy for fiscal 2018, and the workstyle change project. Other departments also presented their policies and shared their information. After that, a meeting was held to exchange information between our business partners to deepen communication.
Employees

Work-life balance

Joined Ikuboss Corporate Alliance and started Ikuboss Declarations

In October 2017, Daiken Corporation started Ikuboss Declarations in which all managers declare their concrete initiatives to promote the improvement of the work-life balance and diversity in the workplace. The Ikuboss campaign website was launched to share the Ikuboss Declarations of all managers and the Ikuboss Guidebook. In addition, we joined a corporate alliance, the Ikuboss Alliance, to foster the ideal boss of the new era. (joined as the 167th member) The signing ceremony was held in October. It was also the opportunity to exchange information for the effective utilization of the Ikuboss Declarations.

* An Ikuboss is a supervisor or a manager who supports the private lives and careers of their subordinates and enjoys a good work-life balance themselves while achieving the targets (profit, etc.) of the organization. (Advocate: Non-profit Organization Fathering Japan) Daiken Corporation defines the meaning of Ikuboss as a “go one step ahead (iku in Japanese)” boss.

Diversity management

Female employees meeting to promote active participation in work

We held the First Female Employees Meeting in the Osaka and Tokyo Offices in March 2018 to promote their active participation in work and reduce their problems by exchanging useful information with each other. A total of 179 female employees participated. President Okuda gave a message, speeches were given by external lecturers, and participants joined work groups to exchange opinions. We received opinions from female employees participating in the meeting who said it was a good opportunity to realize how they want work to be in future, which means that it was a fruitful meeting where they could communicate face-to-face.

Occupational safety and health

Daiken Engineering Safety Convention pledging zero occupational accidents

The 41st Daiken Engineering Safety Convention was held in April 2017. About 350 people participated, including members of the Health and Safety Cooperation Association involved in construction work. During this convention, a visiting lecturer delivered a speech about safety in the workplace, the safety awards ceremony was held, and all participants made the safety declaration to recognize the importance of safety. We will endeavor to eradicate labor accidents.

Occupational health and safety

Mutual safety checks and case study presentation to enhance safety awareness

The Daiken Group Mutual Safety Diagnosis is implemented in 14 plants every year with the aim of improving safety at our production sites. In February 2018, we held the Daiken Small Group Case Study Presentation. The teams selected from all eleven plants in Japan and the Daiken Miri Sdn Bhd. plants in Malaysia participated and presented case studies of 6S and Productive Maintenance (PM) activities by small groups. Daiken will pledge to continue mutual safety diagnoses and improve our awareness of safety at production sites through the activities implemented by small groups.
Local Community

Regional contribution to support students studying wood in Malaysia

Our Group companies in Sarawak State in Malaysia, Daiken Sarawak Sdn Bhd. and Daiken Miri Sdn Bhd., manufacturing MDF using wood chips as the main raw material, established a scholarship system, Daiken Scholarships, in 2007 to support students who are studying wood in their state. They supported twenty students in total by 2016 jointly managed with the local Timber Association. In fiscal 2018, they selected three students and held a ceremony in Kuching, Sarawak State, in July, and in Miri, Sarawak State in August. In order to contribute to the promotion of timber-related business in Malaysia, we will continue our activities rooted in local communities.

Forest Foster Parent Promotion Program
Contribution to the enrichment of the forest through a Residents’ Forest Development Project

In July 2017, staff from the Mie and Inami plants participated in a workshop in Nagano Prefecture held by the Forest Foster Parent Promotion Program. The concept of this program is the promotion of forest development through a new approach to the utilization of forests by collaboration between companies, regions, and governments. We agreed to the purpose of the program and participated in support activities as a Forest Foster Parent. In Toyama Prefecture, where the Inami plant is located, the 5th Residents’ Forest Development Project was started in November 2017 by the Vibrant Workplace Building Team comprising members from each department in the plant. The participants cut grass and cleared away the remaining trees in the plantation area. We will contribute to the development of a better environment for our future while participating in volunteer activities aiming to coexist with local communities.

Shareholders and Investors

Proper information disclosure
Well-received website for shareholders and investors

Our website for shareholders and investors was selected as an Excellent Website in the overall ranking of all Japanese listed companies’ websites in 2017 by Nikko Investor Relations Co., Ltd. A total of 3,713 listed companies’ websites were evaluated for the three aspects of clarity, ease of use, and disclosure quality. We had completely renewed our website in June 2017, and the menu functions and smartphone pages for access by individual investors received high ratings for clarity and ease of use. We will continue to further improve information disclosure for shareholders and investors on our website.
Environment

Daiken Group Environment Policy

The Daiken Group recognizes the important duty to engage in environmental issues as we carry out our business activities, and we are committed to the building of a sustainable society that is friendly to the Earth and its people. To deliver long-term sustainability, we will maintain our Environmental Management System with our progressive efforts.

- **Building a recycling-oriented society**
  We are committed to the effective use of wood resources and untapped resources in developing, producing, and selling our ecological products as part of our efforts to realize a recycling-oriented society.

- **Minimize environmental burden**
  We strive to reduce emissions of greenhouse gases, waste, and chemicals in all our business activities and efforts to promote conservation of the environment and prevention of pollution.

- **Contribution to biodiversity**
  We will promote the procurement of wood resources with consideration for biodiversity.

- **Compliance**
  We will continue to be a company trusted by our customers and society by complying with laws, regulations, and company regulations related to our business activities.

- **Communications**
  We strive to disseminate information proactively and enhance communication with various groups in society.

Environment Management

<table>
<thead>
<tr>
<th>Basic Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Daiken Group is continuously striving to improve our environmental activities throughout the Group with the formulation of the medium-term environment plan to achieve our environmental policy while optimizing the Environment Management System (EMS). Furthermore, for efficient operation, we promote and develop the Quality and Environmental Management System (QEMS) to be integrated with the Quality Management System (QMS).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure to Promote Environment Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Directors’ Meeting</strong></td>
</tr>
<tr>
<td><strong>President</strong></td>
</tr>
<tr>
<td><strong>QEMS Management Officer</strong></td>
</tr>
<tr>
<td><strong>CSR Committee</strong></td>
</tr>
<tr>
<td><strong>Departmental QEMS Management Officer</strong></td>
</tr>
<tr>
<td><strong>QEMS Management Officer of Each Affiliated Company</strong></td>
</tr>
<tr>
<td><strong>Department Responsible for Environmental Management</strong> (Corporate Planning Division)</td>
</tr>
<tr>
<td><strong>QEMS Internal Audits Team</strong></td>
</tr>
</tbody>
</table>
### Fifth Medium-Term Environmental Plan (for fiscal 2017–2019)

<table>
<thead>
<tr>
<th>Theme and content</th>
<th>Goal</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eco-friendly products</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution for achieving sales targets in the final year of the medium-term plan (fiscal 2019) by expanding eco-friendly products and their sales</td>
<td>Development of eco-friendly products that contribute to reducing the environmental burden</td>
<td>Number of new products five items/year</td>
</tr>
<tr>
<td></td>
<td>Fixation through the supply of recycled wood boards</td>
<td>Amount of carbon fixation (CO_2 equivalent) 800,000 t-CO_2/year</td>
</tr>
<tr>
<td>Reduce CO_2* emissions from energy sources</td>
<td>Reduction of emissions by the domestic production sites</td>
<td>Discharge rate 62.5 (t-CO_2/¥100 million) or below (CO_2 emission factors from electricity generation is fixed at the value of fiscal 2014)</td>
</tr>
<tr>
<td>*CO_2 emitted by the combustion of fuels or the use of electricity or heat supplied by a third party</td>
<td>Promote energy savings through the introduction of energy-saving equipment and improvement of efficiency in equipment operation</td>
<td>Total emissions 110,000 t-CO_2 or below/year (CO_2 emission factors from electricity generation is fixed at the value of fiscal 2014)</td>
</tr>
<tr>
<td>Contribution for building a low-carbon society</td>
<td>Reduction of emissions from logistics and transport divisions (Improved modal shift rate and load rate)</td>
<td>Unit of energy use 44.7 kl/million tkm or below (reduction by more than 1% in annual average)</td>
</tr>
<tr>
<td>Contribution to creating a recycling-oriented society</td>
<td>Reduction of emissions from sales and administrative divisions (Thorough implementation of energy-saving measures)</td>
<td>CO_2 emissions 1,500 t-CO_2 or below</td>
</tr>
<tr>
<td>Promote the 3Rs* to reduce the volume of waste destined for final disposal</td>
<td>Promotion of recycle and conversion of waste into valuables</td>
<td>Final disposal rate (proportion by volume disposed of in landfill outside the company) 5% or below</td>
</tr>
<tr>
<td>*Reduce, Reuse, and Recycle</td>
<td>Introduce the cascading use of wood</td>
<td>Ratio of old material/virgin material: 90%</td>
</tr>
<tr>
<td></td>
<td>Material recycle of construction waste</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Use of wood biomass energy (internal use)</td>
<td>Input amount of wood biomass energy 1,350×10^{12}J Use of fuel chip 95,000 t/year</td>
</tr>
<tr>
<td></td>
<td>Promotion of shift to biomass energy and other eco-friendly energy from heavy oil, LNG, etc.</td>
<td>Reduction of heavy oil (heat quantity equivalent) 35,000 kl/year</td>
</tr>
<tr>
<td>Contribution for biodiversity</td>
<td>Procure wood in a biodiversity friendly way</td>
<td>Improvement in the rate of use of certified wood, domestically produced wood, planted trees, and recycled board, etc.</td>
</tr>
<tr>
<td></td>
<td>Strengthen cooperation with supply chains</td>
<td>Dissemination and proper management of green procurement in the supply chain</td>
</tr>
<tr>
<td>Strengthen environmental risk management</td>
<td>Identify, prevent, and minimize environmental risks</td>
<td>Operation and continuous improvement of environment management system</td>
</tr>
<tr>
<td></td>
<td>Environmental education</td>
<td>Industrial waste training session e-learning by year</td>
</tr>
<tr>
<td></td>
<td>Improve our ability to satisfy regulations governing chemical substances</td>
<td>Establishment and operation of a system for appropriate management of chemical substances (The introduction of a management system is considered)</td>
</tr>
</tbody>
</table>
ESG Information

Soil improvement additive, DW fiber, using cascading domestic wood, contributes to building a low-carbon society

The Daiken Group stated three policies: becoming a sustainable society, expansion of the use of domestic wood, and the comprehensive utilization of wood. In order to achieve these policies, we have developed the soil improvement additive, DW fiber, in collaboration with JCE Co., Ltd., by utilizing our strength in material development technologies. DW fiber has been used for a variety of purposes, including the project of total cascading of wood that is carried out in Nichinan-cho, Tottori Prefecture, and is attracting attention as a new approach to environmental conservation.

A new material to create new value based on effective use of resources

DW fiber is a coarse, fibrous soil improvement additive created from domestically produced wood chips where their fibers are loosened by adding fluvic acid, which facilitates the growth of plants. By mixing soil with DW fiber, which has excellent water retention, permeability and contains fluvic acid, the growth of plants is facilitated, the soil environment is improved, salt damage is prevented, and landslides in mountainous areas are prevented by afforestation. Its capabilities can be used in various situations. In addition, the wood material can also decrease the environmental burden. The raw material of DW fiber is mainly wood offcuts and untapped resources generated while processing wood. It contributes to the cascading use of wood resources and the revitalization of forestry in Japan.

On March 20, 2018, the Daiken Group’s initiatives were jointly awarded with JCE Co., Ltd., the Gold prize in the corporation category of the Japan Resilience Award (2018), which commends advanced activities for the building of a resilient society for the next generation.

**PICK UP**

Business base for total cascading of wood in Nichinan-cho, Tottori

We launched a project for the total cascading of wood by using DW fiber with Nichinan-cho in Tottori Prefecture. We purchase wood offcuts that are generated when producing LVL* from the local LVL manufacturer, Orochi Co., Ltd., to produce the DW fiber. The DW fiber is sold to construction companies through Sansui Navico, a group company of JCE Co., Ltd., and is used to improve coastal forests and the greening of roads all over Japan to support reforestation and local forestry.

*LVL: Laminated Veneer Lumber
An engineered wood product that is laminated with multiple layers of a single board aligned with the fiber direction
**Initiatives for prevention of global warming**

In the past, the Daiken Group has shifted from fossil fuels, such as heavy oil, to biomass energy fueled by wood chips derived from building scraps in order to reduce greenhouse gas emissions. We also installed our largest biomass boiler at the Okayama plant in July 2016 leading to an increase in biomass energy to 50% of the total energy used in the production sites in Japan for fiscal 2018. With these efforts, we were able to reduce greenhouse gas emissions by 20% compared with fiscal 2014.

**Recycling of waste materials**

The Daiken Group is aiming to develop a recycling-oriented society and is recycling waste by reusing the wood offcuts and defective products generated during the manufacturing process for the product materials.

In fiscal 2018, the waste emissions generated during the manufacturing process were 48,800 metric tons. We promoted their use as materials or for heating, which resulted in simple incineration being reduced to 1% and the recycling rate reaching 91%.

We continue to further improve the recycling rate.

(Note) Recycling rate = Amount of recycled resources/Total amount of waste generated x 100(%)  
Amount of recycled resources = Valuable + Use for materials + Use for heat

**Effective use of recycling/untapped resources**

The Daiken Group is committed to the effective use of wood resources and untapped resources in developing and producing its products as part of our efforts to develop a sustainable society. In fiscal 2018, the utilization of recycled materials was 63%, and untapped resources were 5% of the raw materials used for manufacturing. In addition, we prioritized the use of environmentally friendly wood, such as plywood made from planted trees, thus we improved the utilization ratio of plantation resources to 12%. We continue to strive to use sustainable resources.
Highlight of Data

Financial Indicators

Net sales/Gross profit margin

Operating profit/Operating profit to net sales

Ordinary profit/Ordinary profit to net sales

Total assets/ROA (Return on assets)

Shareholder equity/Shareholder equity ratio

Cash dividends per share/Dividend payout ratio

Market capitalization/Stock price at the end of the period

We set a target of our dividend payout ratio of 30% or more.
Nonfinancial Indicators

### Number of employees in Japan and overseas

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of employees in Japan</th>
<th>Number of overseas employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3,141</td>
<td>891</td>
</tr>
<tr>
<td>2015</td>
<td>3,191</td>
<td>890</td>
</tr>
<tr>
<td>2016</td>
<td>3,060</td>
<td>829</td>
</tr>
<tr>
<td>2017</td>
<td>3,071</td>
<td>826</td>
</tr>
<tr>
<td>2018</td>
<td>3,073</td>
<td>825</td>
</tr>
</tbody>
</table>

### Acquisition rate of paid holidays

<table>
<thead>
<tr>
<th>Year</th>
<th>Acquisition rate of paid holidays</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>49.2%</td>
</tr>
<tr>
<td>2015</td>
<td>49.5%</td>
</tr>
<tr>
<td>2016</td>
<td>49.5%</td>
</tr>
<tr>
<td>2017</td>
<td>51.9%</td>
</tr>
<tr>
<td>2018</td>
<td>49.8%</td>
</tr>
</tbody>
</table>

### Rate of lost-worktime injuries

<table>
<thead>
<tr>
<th>Year</th>
<th>Rate of lost-worktime injuries</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.58%</td>
</tr>
<tr>
<td>2015</td>
<td>1.66%</td>
</tr>
<tr>
<td>2016</td>
<td>1.61%</td>
</tr>
<tr>
<td>2017</td>
<td>1.63%</td>
</tr>
<tr>
<td>2018</td>
<td>1.66%</td>
</tr>
</tbody>
</table>

*1. The data for fiscal year 2014–2015 include four subsidiaries absorbed in the absorption-type merger in April 2015.
*2. Total value at the Daiken Group's production bases in Japan.
*3. Woody biomass energy input as a percentage of total energy input.
*4. As the emission coefficient of electricity use associated with the calculation of greenhouse gas emissions, the real emission coefficient for the relevant fiscal year by electric power suppliers was used, provided that the latest figures were used when the real emission coefficients were undisclosed.
*5. Greenhouse gas emissions as a percentage of net sales.
*6. Waste disposed of in landfills as a percentage of the amount of waste disposed of.

For more detailed information, please visit the following websites. (Japanese only)

Financial Indicators
https://www.daiken.jp/company/ir/

Nonfinancial Indicators
https://www.daiken.jp/company/csr/
## Ten-Year Financial Summary

### (¥million)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Profit attributable to owners of parent</th>
<th>Return on equity (ROE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2009</td>
<td>598</td>
<td>1.8%</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>511</td>
<td>1.6%</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>1,375</td>
<td>4.1%</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>874</td>
<td>2.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net sales</th>
<th>Operating profit</th>
<th>Ordinary profit</th>
<th>Profit attributable to owners of parent</th>
<th>Return on equity (ROE) (%)</th>
<th>Return on assets (ROA) (%)</th>
<th>Operating profit ratio (%)</th>
<th>Ordinary profit to net sales (%)</th>
<th>Cash flows from operating activities</th>
<th>Cash flows from investing activities</th>
<th>Cash flows from financing activities</th>
<th>Free cash flows</th>
<th>Capital expenditures</th>
<th>Depreciation</th>
<th>R&amp;D expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2009</td>
<td>150,325</td>
<td>1,830</td>
<td>1,331</td>
<td>598</td>
<td>1.8%</td>
<td>1.0%</td>
<td>1.2%</td>
<td>0.9%</td>
<td>1,805</td>
<td>(2,897)</td>
<td>(1,793)</td>
<td>(1,091)</td>
<td>2,934</td>
<td>4,054</td>
<td>1,526</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>140,936</td>
<td>3,010</td>
<td>2,819</td>
<td>511</td>
<td>1.6%</td>
<td>2.3%</td>
<td>2.1%</td>
<td>2.0%</td>
<td>3,141</td>
<td>(3,286)</td>
<td>(1,135)</td>
<td>(145)</td>
<td>2,785</td>
<td>4,197</td>
<td>1,471</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>141,506</td>
<td>4,349</td>
<td>4,373</td>
<td>1,375</td>
<td>4.1%</td>
<td>3.6%</td>
<td>3.1%</td>
<td>3.1%</td>
<td>4,438</td>
<td>(2,618)</td>
<td>(7,095)</td>
<td>1,819</td>
<td>3,765</td>
<td>4,574</td>
<td>1,464</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>151,209</td>
<td>4,542</td>
<td>4,600</td>
<td>874</td>
<td>2.6%</td>
<td>3.8%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>9,074</td>
<td>(3,218)</td>
<td>(1,929)</td>
<td>5,856</td>
<td>2,758</td>
<td>4,217</td>
<td>1,470</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total assets</th>
<th>Net assets</th>
<th>Shareholder equity</th>
<th>Shareholder equity ratio (%)</th>
<th>Interest-bearing debts</th>
<th>Debt-equity ratio (multiple)</th>
<th>Book value per share (BPS) (¥)</th>
<th>Earnings per share (EPS) (¥)</th>
<th>Dividend per share (¥)</th>
<th>Dividend payout ratio (%)</th>
<th>Total dividend</th>
<th>Employees (Consolidated) (Persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fiscal 2009</td>
<td>125,080</td>
<td>34,562</td>
<td>31,520</td>
<td>25.2%</td>
<td>36,488</td>
<td>1.16</td>
<td>1,233.28</td>
<td>23.18</td>
<td>31.25</td>
<td>134.7%</td>
<td>806</td>
<td>3,252</td>
</tr>
<tr>
<td>Fiscal 2010</td>
<td>123,862</td>
<td>36,663</td>
<td>33,213</td>
<td>26.8%</td>
<td>39,407</td>
<td>1.19</td>
<td>1,302.61</td>
<td>20.04</td>
<td>25.00</td>
<td>124.8%</td>
<td>638</td>
<td>3,255</td>
</tr>
<tr>
<td>Fiscal 2011</td>
<td>115,969</td>
<td>36,839</td>
<td>33,306</td>
<td>26.8%</td>
<td>33,720</td>
<td>1.01</td>
<td>1,327.08</td>
<td>36.839</td>
<td>31.25</td>
<td>57.4%</td>
<td>(7,095)</td>
<td>3,189</td>
</tr>
<tr>
<td>Fiscal 2012</td>
<td>125,469</td>
<td>36,949</td>
<td>32,865</td>
<td>26.8%</td>
<td>32,865</td>
<td>0.98</td>
<td>1,337.57</td>
<td>34.83</td>
<td>37.50</td>
<td>107.7%</td>
<td>(1,929)</td>
<td>3,183</td>
</tr>
</tbody>
</table>

(Note) 1. The Company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.
2. For more information about our financial statements, please refer to our securities report posted on our website. [https://www.daiken.jp/company/ir/document/](https://www.daiken.jp/company/ir/document/)
3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities
4. Debt-equity ratio = Interest-bearing debts / Shareholder equity (multiple)
### Ten-Year Financial Summary (¥ million)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Net Sales</th>
<th>Operating Profit</th>
<th>Ordinary Profit</th>
<th>Profit Attributable to Owners of Parent</th>
<th>Return on Equity (ROE) (%)</th>
<th>Return on Assets (ROA) (%)</th>
<th>Operating Profit Ratio (%)</th>
<th>Ordinary Profit to Net Sales (%)</th>
<th>Cash Flows from Operating Activities</th>
<th>Cash Flows from Investing Activities</th>
<th>Cash Flows from Financing Activities</th>
<th>Free Cash Flows</th>
<th>Capital Expenditures</th>
<th>Depreciation</th>
<th>R&amp;D Expenses</th>
<th>Total Assets</th>
<th>Net Assets</th>
<th>Shareholder Equity</th>
<th>Shareholder Equity Ratio (%)</th>
<th>Interest-bearing Debts</th>
<th>Debt-equity Ratio (multiple)</th>
<th>Book Value per Share (BPS) (¥)</th>
<th>Earnings per Share (EPS) (¥)</th>
<th>Dividend per Share (¥)</th>
<th>Dividend Payout Ratio (%)</th>
<th>Total Dividend</th>
</tr>
</thead>
</table>
## Consolidated Balance Sheet

### Assets

<table>
<thead>
<tr>
<th>Category</th>
<th>Previous fiscal year (March 31, 2017)</th>
<th>Current fiscal year (March 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and deposits</td>
<td>10,474</td>
<td>10,767</td>
</tr>
<tr>
<td>Notes and accounts receivable-trade</td>
<td>37,772</td>
<td>40,533</td>
</tr>
<tr>
<td>Electronically recorded monetary claims-operating</td>
<td>4,223</td>
<td>6,985</td>
</tr>
<tr>
<td>Securities</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Merchandise and finished goods</td>
<td>7,455</td>
<td>9,126</td>
</tr>
<tr>
<td>Work in process</td>
<td>3,546</td>
<td>2,996</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>4,339</td>
<td>4,677</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>2,425</td>
<td>1,400</td>
</tr>
<tr>
<td>Other</td>
<td>2,209</td>
<td>2,153</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(110)</td>
<td>(110)</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>72,356</td>
<td>78,530</td>
</tr>
<tr>
<td><strong>Non-current assets</strong>透資産</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and structures, net</td>
<td>8,497</td>
<td>8,099</td>
</tr>
<tr>
<td>Machinery, equipment and vehicles, net</td>
<td>10,982</td>
<td>10,946</td>
</tr>
<tr>
<td>Land</td>
<td>14,254</td>
<td>13,555</td>
</tr>
<tr>
<td>Leased assets (net)</td>
<td>148</td>
<td>106</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>451</td>
<td>2,124</td>
</tr>
<tr>
<td>Other (net)</td>
<td>1,768</td>
<td>2,014</td>
</tr>
<tr>
<td><strong>Total property, plant and equipment</strong></td>
<td>36,103</td>
<td>36,847</td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>195</td>
<td>149</td>
</tr>
<tr>
<td>Software</td>
<td>2,229</td>
<td>1,938</td>
</tr>
<tr>
<td>Other</td>
<td>312</td>
<td>491</td>
</tr>
<tr>
<td><strong>Total intangible assets</strong></td>
<td>2,738</td>
<td>2,580</td>
</tr>
<tr>
<td>Investments and other assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment securities</td>
<td>16,471</td>
<td>19,631</td>
</tr>
<tr>
<td>Net defined benefit asset</td>
<td>1,776</td>
<td>2,331</td>
</tr>
<tr>
<td>Deferred tax assets</td>
<td>207</td>
<td>218</td>
</tr>
<tr>
<td>Other</td>
<td>2,505</td>
<td>1,822</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(41)</td>
<td>(43)</td>
</tr>
<tr>
<td><strong>Total investments and other assets</strong></td>
<td>20,919</td>
<td>23,960</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>59,760</td>
<td>63,388</td>
</tr>
<tr>
<td><strong>Deferred assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond issuance cost</td>
<td>54</td>
<td>105</td>
</tr>
<tr>
<td><strong>Total deferred assets</strong></td>
<td>54</td>
<td>105</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>132,171</td>
<td>142,024</td>
</tr>
<tr>
<td>Liabilities</td>
<td>Previous consolidated fiscal year (March 31, 2017)</td>
<td>Current consolidated fiscal year (March 31, 2018)</td>
</tr>
<tr>
<td>------------------------------------------------</td>
<td>--------------------------------------------------</td>
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<tr>
<td><strong>Current liabilities</strong></td>
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<tr>
<td>Notes and accounts payable-trade</td>
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<td>20,620</td>
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<tr>
<td>Electronically recorded obligations-operating</td>
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<tr>
<td>Short-term loans payable</td>
<td>6,232</td>
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<tr>
<td>Current portion of bonds</td>
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<tr>
<td>Current portion of long-term loans payable</td>
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<td>Lease obligations</td>
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<td>38</td>
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<tr>
<td>Accounts payable-other</td>
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<td>21,083</td>
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<td>Income taxes payable</td>
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<td>603</td>
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<td>Accrued consumption taxes</td>
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<td>397</td>
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<tr>
<td>Provision for bonuses</td>
<td>2,153</td>
<td>2,198</td>
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<tr>
<td>Provision for product warranties</td>
<td>1,108</td>
<td>959</td>
</tr>
<tr>
<td>Other</td>
<td>2,856</td>
<td>3,754</td>
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<tr>
<td><strong>Total current liabilities</strong></td>
<td>65,569</td>
<td>64,032</td>
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<tr>
<td><strong>Non-current liabilities</strong></td>
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<td>Bonds payable</td>
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<td>10,400</td>
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<td>Long-term loans payable</td>
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<td>Negative goodwill</td>
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<td>33</td>
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<tr>
<td>Other</td>
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<td>114</td>
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<tr>
<td><strong>Total non-current liabilities</strong></td>
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<td><strong>Total liabilities</strong></td>
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<td>85,045</td>
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<td><strong>Net assets</strong></td>
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<td><strong>Shareholders’ equity</strong></td>
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</tr>
<tr>
<td>Capital stock</td>
<td>13,150</td>
<td>13,150</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>11,943</td>
<td>11,943</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>18,896</td>
<td>23,007</td>
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<tr>
<td>Treasury shares</td>
<td>(1,430)</td>
<td>(1,430)</td>
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<tr>
<td><strong>Total shareholders’ equity</strong></td>
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<td>46,670</td>
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<td><strong>Accumulated other comprehensive income</strong></td>
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<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>4,762</td>
<td>6,897</td>
</tr>
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<td>Deferred gains or losses on hedges</td>
<td>97</td>
<td>22</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(194)</td>
<td>245</td>
</tr>
<tr>
<td>Re-measurements of defined benefit plans</td>
<td>(609)</td>
<td>409</td>
</tr>
<tr>
<td><strong>Total accumulated other comprehensive income</strong></td>
<td>4,055</td>
<td>7,574</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
<td>2,472</td>
<td>2,734</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>49,086</td>
<td>56,979</td>
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<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>132,171</td>
<td>142,024</td>
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</table>
## Consolidated Statements of Income

<table>
<thead>
<tr>
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<th>Previous consolidated fiscal year (April 1, 2016 - March 31, 2017)</th>
<th>Current consolidated fiscal year (April 1, 2017 - March 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>168,841</td>
<td>170,581</td>
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<td><strong>Cost of sales</strong></td>
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<td>127,946</td>
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<td><strong>Gross profit</strong></td>
<td>43,640</td>
<td>42,635</td>
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<tr>
<td><strong>Selling, general and administrative expenses</strong></td>
<td>35,108</td>
<td>35,116</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>8,532</td>
<td>7,519</td>
</tr>
<tr>
<td><strong>Non-operating profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest profit</td>
<td>69</td>
<td>66</td>
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<tr>
<td>Dividend income</td>
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<td>427</td>
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<tr>
<td>Rent income</td>
<td>187</td>
<td>195</td>
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<tr>
<td>Dividend income of life insurance</td>
<td></td>
<td></td>
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<tr>
<td>Amortization of negative goodwill</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of profit of entities accounted for using equity method</td>
<td>46</td>
<td>47</td>
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<tr>
<td>Exchange gain</td>
<td>–</td>
<td>360</td>
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<tr>
<td>Reversal of allowance for doubtful accounts</td>
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<tr>
<td>Miscellaneous profit</td>
<td>460</td>
<td>524</td>
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<tr>
<td><strong>Total non-operating profit</strong></td>
<td>1,197</td>
<td>1,666</td>
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<tr>
<td><strong>Non-operating expenses</strong></td>
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<td>Interest expenses</td>
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<td>191</td>
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<tr>
<td>Sales discounts</td>
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<td>129</td>
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<tr>
<td>Loss on sale of trade receivables</td>
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<td>17</td>
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<tr>
<td>Foreign exchange losses</td>
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<td>Miscellaneous expenses</td>
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<td>86</td>
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<tr>
<td><strong>Total non-operating expenses</strong></td>
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<td>424</td>
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<tr>
<td><strong>Ordinary profit</strong></td>
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<td>8,760</td>
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<td><strong>Extraordinary income</strong></td>
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<tr>
<td>Gain on sales of non-current assets</td>
<td>30</td>
<td>423</td>
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<tr>
<td>Gain on sales of investment securities</td>
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<td>16</td>
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<tr>
<td>State subsidy</td>
<td>412</td>
<td>–</td>
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<tr>
<td>Compensation income</td>
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<td>–</td>
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<td><strong>Total extraordinary income</strong></td>
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<td>440</td>
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<tr>
<td><strong>Extraordinary losses</strong></td>
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<td>Loss on sale of non-current assets</td>
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<td>4</td>
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<tr>
<td>Loss on retirement of non-current assets</td>
<td>516</td>
<td>228</td>
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<tr>
<td>Loss on reduction of non-current assets</td>
<td>412</td>
<td>–</td>
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<tr>
<td>Impairment loss</td>
<td>1,181</td>
<td>421</td>
</tr>
<tr>
<td>Loss on sales of investment securities</td>
<td>1</td>
<td>–</td>
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<tr>
<td>Loss on valuation of investment securities</td>
<td>204</td>
<td>2</td>
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<tr>
<td>Provision for product warranties</td>
<td>–</td>
<td>200</td>
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<tr>
<td>Other</td>
<td>87</td>
<td>1</td>
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<tr>
<td><strong>Total extraordinary losses</strong></td>
<td>2,414</td>
<td>858</td>
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<tr>
<td><strong>Profit before income taxes</strong></td>
<td>7,247</td>
<td>8,342</td>
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<tr>
<td>Income taxes – current</td>
<td>1,234</td>
<td>1,065</td>
</tr>
<tr>
<td>Income taxes – deferred</td>
<td>451</td>
<td>1,253</td>
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<td><strong>Total income taxes</strong></td>
<td>1,685</td>
<td>2,318</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>5,562</td>
<td>6,023</td>
</tr>
<tr>
<td>Profit attributable to non-controlling interests</td>
<td>429</td>
<td>128</td>
</tr>
<tr>
<td>Profit attributable to owners of parent</td>
<td>5,132</td>
<td>5,895</td>
</tr>
</tbody>
</table>
## Consolidated Statements of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th>Previous consolidated fiscal year (April 1, 2016-March 31, 2017)</th>
<th>Current consolidated fiscal year (April 1, 2017-March 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit</strong></td>
<td>5,562</td>
<td>6,023</td>
</tr>
<tr>
<td><strong>Other comprehensive profit</strong></td>
<td></td>
<td></td>
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<tr>
<td>Valuation difference on available-for-sale securities</td>
<td>1,350</td>
<td>2,135</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
<td>(111)</td>
<td>(57)</td>
</tr>
<tr>
<td>Foreign currency translation adjustment</td>
<td>(897)</td>
<td>617</td>
</tr>
<tr>
<td>Re-measurements of defined benefit plans, net of tax</td>
<td>954</td>
<td>1,019</td>
</tr>
<tr>
<td>Share of other comprehensive income of entities accounted for using equity method</td>
<td>0</td>
<td>0</td>
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<td>Total other comprehensive income</td>
<td>1,295</td>
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<td><strong>Comprehensive income</strong></td>
<td>6,857</td>
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<tr>
<td>(breakdown)</td>
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<td></td>
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<tr>
<td>Comprehensive income attributable to owners of parent</td>
<td>6,712</td>
<td>9,414</td>
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<tr>
<td>Comprehensive income attributable to non-controlling interests</td>
<td>144</td>
<td>324</td>
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</table>
## Consolidated Statements of Changes in Net Assets

<table>
<thead>
<tr>
<th>(¥million)</th>
<th>Previous consolidated fiscal year (April 1, 2016 - March 31, 2017)</th>
<th>Current consolidated fiscal year (April 1, 2017 - March 31, 2018)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Capital stock</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of current period</td>
<td>13,150</td>
<td>13,150</td>
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<tr>
<td>Balance at end of current period</td>
<td>13,150</td>
<td>13,150</td>
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<tr>
<td><strong>Capital surplus</strong></td>
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<td></td>
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<tr>
<td>Balance at beginning of current period</td>
<td>11,655</td>
<td>11,943</td>
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<tr>
<td>Change of scope of consolidation</td>
<td>288</td>
<td>—</td>
</tr>
<tr>
<td>Balance at end of current period</td>
<td>11,943</td>
<td>11,943</td>
</tr>
<tr>
<td><strong>Retained earnings</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at beginning of current period</td>
<td>15,143</td>
<td>18,896</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies</td>
<td>(205)</td>
<td>(1,783)</td>
</tr>
<tr>
<td>Dividends of surplus</td>
<td>5,132</td>
<td>5,895</td>
</tr>
<tr>
<td>Balance attributable to owners of parent</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Balance at end of current period</td>
<td>18,896</td>
<td>23,007</td>
</tr>
<tr>
<td><strong>Treasury shares</strong></td>
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<td></td>
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<tr>
<td>Balance at beginning of current period</td>
<td>(1,429)</td>
<td>(1,430)</td>
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<td>(1,430)</td>
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<td><strong>Total shareholders’ equity</strong></td>
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<td></td>
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<tr>
<td>Balance at beginning of current period</td>
<td>38,519</td>
<td>42,559</td>
</tr>
<tr>
<td>Cumulative effects of changes in accounting policies</td>
<td>(205)</td>
<td>(1,783)</td>
</tr>
<tr>
<td>Dividends of surplus</td>
<td>5,132</td>
<td>5,895</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(1)</td>
<td>(0)</td>
</tr>
<tr>
<td>Change of scope of consolidation</td>
<td>288</td>
<td>—</td>
</tr>
<tr>
<td>Balance at end of current period</td>
<td>42,559</td>
<td>46,670</td>
</tr>
<tr>
<td><strong>Accumulated other comprehensive income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valuation difference on available-for-sale securities</td>
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<td></td>
</tr>
<tr>
<td>Balance at beginning of current period</td>
<td>3,413</td>
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<td>Net changes of items other than shareholders’ equity, net</td>
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<td>2,135</td>
</tr>
<tr>
<td>Balance at end of current period</td>
<td>4,762</td>
<td>6,897</td>
</tr>
<tr>
<td>Deferred gains or losses on hedges</td>
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<td></td>
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<tr>
<td>Balance at beginning of current period</td>
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<td>97</td>
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<td>Net changes of items other than shareholders’ equity, net</td>
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<td>(75)</td>
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<td>Balance at end of current period</td>
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<td>22</td>
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<td>Foreign currency translation adjustment</td>
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<td></td>
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<tr>
<td>Balance at beginning of current period</td>
<td>257</td>
<td>(194)</td>
</tr>
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<td>Cumulative effects of changes in accounting policies</td>
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<td>—</td>
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<tr>
<td>Net changes of items other than shareholders’ equity, net</td>
<td>(657)</td>
<td>439</td>
</tr>
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<td>Balance at end of current period</td>
<td>(194)</td>
<td>245</td>
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<tr>
<td>Re-measurements of defined benefit plans</td>
<td></td>
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</tr>
<tr>
<td>Balance at beginning of current period</td>
<td>(1,563)</td>
<td>(609)</td>
</tr>
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<td>Net changes of items other than shareholders’ equity, net</td>
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<td>1,019</td>
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<tr>
<td>Balance at end of current period</td>
<td>(609)</td>
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</tr>
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<td><strong>Total accumulated other comprehensive income</strong></td>
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<td></td>
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<td>3,518</td>
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<td>Balance at end of current period</td>
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<td>7,574</td>
</tr>
<tr>
<td><strong>Non-controlling interests</strong></td>
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<tr>
<td>Balance at beginning of current period</td>
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<td>Net changes of items other than shareholders’ equity, net</td>
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<td>Balance at end of current period</td>
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<td>2,734</td>
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<td><strong>Total net assets</strong></td>
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<td>Balance at beginning of current period</td>
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<td>49,086</td>
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<td>Dividends of surplus</td>
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<td>(1,783)</td>
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<tr>
<td>Profit attributable to owners of parent</td>
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<td>5,895</td>
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<td>Purchase of treasury shares</td>
<td>(1)</td>
<td>(0)</td>
</tr>
<tr>
<td>Change of scope of consolidation</td>
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<td>—</td>
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<tr>
<td>Net changes of items other than shareholders’ equity, net</td>
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<tr>
<td>Balance at end of current period</td>
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### Consolidated Statements of Cash Flows

<table>
<thead>
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<th>Previous consolidated fiscal year</th>
<th>Current consolidated fiscal year</th>
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<tbody>
<tr>
<td></td>
<td>(April 1, 2016-March 31, 2017)</td>
<td>(April 1, 2017-March 31, 2018)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
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<tr>
<td>Profit before income taxes</td>
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<td>8,342</td>
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<tr>
<td>Depreciation</td>
<td>3,507</td>
<td>3,768</td>
</tr>
<tr>
<td>Impairment loss</td>
<td>1,181</td>
<td>421</td>
</tr>
<tr>
<td>Amortization of bond issuance cost</td>
<td>28</td>
<td>26</td>
</tr>
<tr>
<td>Loss on retirement of non-current assets</td>
<td>516</td>
<td>228</td>
</tr>
<tr>
<td>Loss (gain) on sales of non-current assets</td>
<td>(18)</td>
<td>(419)</td>
</tr>
<tr>
<td>Loss (gain) on sales of investment securities</td>
<td>(94)</td>
<td>(16)</td>
</tr>
<tr>
<td>Loss (gain) on valuation of investment securities</td>
<td>204</td>
<td>2</td>
</tr>
<tr>
<td>Amortization of goodwill</td>
<td>14</td>
<td>35</td>
</tr>
<tr>
<td>Increase (decrease) in allowance for doubtful accounts</td>
<td>(124)</td>
<td>2</td>
</tr>
<tr>
<td>Increase (decrease) in provision for bonuses</td>
<td>411</td>
<td>38</td>
</tr>
<tr>
<td>Increase (decrease) in provision for product warranties</td>
<td>(645)</td>
<td>(546)</td>
</tr>
<tr>
<td>Increase (decrease) in net defined benefit liability</td>
<td>(230)</td>
<td>(541)</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(444)</td>
<td>(494)</td>
</tr>
<tr>
<td>Interest expenses</td>
<td>245</td>
<td>191</td>
</tr>
<tr>
<td>Foreign exchange losses (gains)</td>
<td>48</td>
<td>17</td>
</tr>
<tr>
<td>Share of (profit) loss of entities accounted for using equity method</td>
<td>(46)</td>
<td>(47)</td>
</tr>
<tr>
<td>Decrease (increase) in notes and accounts receivable-trade</td>
<td>(4,600)</td>
<td>(5,457)</td>
</tr>
<tr>
<td>Decrease (increase) in inventories</td>
<td>1,352</td>
<td>(1,311)</td>
</tr>
<tr>
<td>Increase (decrease) in notes and accounts payable-trade</td>
<td>378</td>
<td>4,972</td>
</tr>
<tr>
<td>Decrease (increase) in consumption taxes refund receivable</td>
<td>(98)</td>
<td>(75)</td>
</tr>
<tr>
<td>Increase (decrease) in accrued consumption taxes</td>
<td>176</td>
<td>(310)</td>
</tr>
<tr>
<td>Other</td>
<td>2,288</td>
<td>1,483</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>11,297</td>
<td>10,311</td>
</tr>
<tr>
<td>Interest and dividend income received</td>
<td>444</td>
<td>494</td>
</tr>
<tr>
<td>Interest expenses paid</td>
<td>(248)</td>
<td>(189)</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(927)</td>
<td>(1,457)</td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td>10,566</td>
<td>9,158</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>(3,893)</td>
<td>(3,876)</td>
</tr>
<tr>
<td>Proceeds from sales of property, plant and equipment</td>
<td>375</td>
<td>1,809</td>
</tr>
<tr>
<td>Purchase of investment securities</td>
<td>(1)</td>
<td>(54)</td>
</tr>
<tr>
<td>Proceeds from sales and redemption of investment securities</td>
<td>485</td>
<td>228</td>
</tr>
<tr>
<td>Purchase of shares of subsidiaries resulting in change in scope of consolidation</td>
<td>(157)</td>
<td>–</td>
</tr>
<tr>
<td>Other, net</td>
<td>(1,009)</td>
<td>(818)</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities</strong></td>
<td>(4,201)</td>
<td>(2,711)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase (decrease) in short-term loans payable</td>
<td>(1,803)</td>
<td>(630)</td>
</tr>
<tr>
<td>Proceeds from issuance of bonds</td>
<td>–</td>
<td>4,921</td>
</tr>
<tr>
<td>Redemption of bonds</td>
<td>–</td>
<td>(5,000)</td>
</tr>
<tr>
<td>Proceeds from long-term loans payable</td>
<td>1,600</td>
<td>400</td>
</tr>
<tr>
<td>Repayments of long-term loans payable</td>
<td>(4,883)</td>
<td>(4,143)</td>
</tr>
<tr>
<td>Repayments of finance lease obligations</td>
<td>(44)</td>
<td>(43)</td>
</tr>
<tr>
<td>Purchase of treasury shares</td>
<td>(1)</td>
<td>(0)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(1,175)</td>
<td>(1,783)</td>
</tr>
<tr>
<td>Dividends paid to non-controlling interest</td>
<td>(18)</td>
<td>(62)</td>
</tr>
<tr>
<td>Payments from changes in ownership interests in subsidiaries that do not result in changes in the scope of consolidation</td>
<td>(408)</td>
<td>–</td>
</tr>
<tr>
<td>Other, net</td>
<td>0</td>
<td>–</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) financing activities</strong></td>
<td>(6,734)</td>
<td>(6,342)</td>
</tr>
<tr>
<td><strong>Effect of exchange rate change on cash and cash equivalents</strong></td>
<td>(290)</td>
<td>188</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>(660)</td>
<td>239</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at beginning of period</strong></td>
<td>11,134</td>
<td>10,474</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at end of period</strong></td>
<td>10,474</td>
<td>10,767</td>
</tr>
</tbody>
</table>
Data

Company Information (as of July 1, 2018)

Company Name: DAIKEN CORPORATION
 founded: September 26, 1945
Paid-in capital: ¥13,150,039,080
Stock exchange listings: The first section of Tokyo Stock Exchange
Security code: 7905
Setting day: March 31
General meeting of shareholders: June

Paid-in capital: ¥13,150,039,080

Company Name: DAIKEN CORPORATION
Registered Head Office: 1-1 Inami, Nanto City, Toyama, Japan
Operational Headquarters: 3-2-4 Nakamoshima, Kita-ku, Osaka, Japan
Major Sales Offices: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Production Plants: Inami Plant (Nanto City, Toyama Prefecture)
Tokyo Office: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Operational Headquarters: 3-2-4 Nakamoshima, Kita-ku, Osaka, Japan
Major Sales Offices: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Setting day: March 31
General meeting of shareholders: June

Our bases

In Japan

Subsidiaries part of the Group
1. Dai-tac Corporation
2. Azu Daiken Kako K.K.
3. C&H Co., Ltd.
4. Eco Techno Co., Ltd.
5. Daihit Co., Ltd.
6. Dai-wood Corporation
7. Setouchi Kakoh Co., Ltd.
8. Toyama Juki Co., Ltd.
9. Daiken Engineering Corporation
10. Koukou Sangyo Corporation
11. Sankei Corporation
12. Daiken Home & Service Corporation
13. Smile-Up Corporation
14. Pac System Co., Ltd.

TDY Sapporo
TDY Tokyo
TDY Osaka
TDY Hiroshima
TDY Takamatsu
Tokyo Office
Me Plant
Production Plants
Osaka office

Subsidiaries part of the Group
1. Daiken New Zealand Limited (Rangiora City, New Zealand)
2. Daiken Southland Limited (Mataura Gore City, New Zealand)
3. Daiken Sarawak Sdn Bhd. (Sarawak State, Malaysia)
4. Daiken Miri Sdn Bhd. (Sarawak State, Malaysia)
5. Daiken Industries (Ningbo) Corporation (Zhejiang Province, China)
6. Daiken (Shanghai) Corporation (Shanghai City, China)
7. PT. Daiken Dharma Indonesia (Jawa Timur Province, Indonesia)
8. Nippon Life Insurance Company
9. Marubeni Corporation
10. Sumitomo Forestry Co., Ltd.
11. Sumitomo Mitsui Trust Bank, Limited
12. The Master Trust Bank of Japan, Ltd. (Trust Account)
13. Japan Trustee Services Bank Ltd. (Trust Account)

(Note) 1. Daiken Corporation is in possession of 1,072,400 treasury shares.
2. The ownership ratio is calculated excluding the treasury stock.
3. PBR (price book value ratio) = Stock price at the end of the period / Net assets per share (multiple)
4. PER (price earnings ratio) = Stock price at the end of the period / Net income per share (multiple)
5. Market capitalization = Stock price at the end of the period (Total number of shares issued – Number of treasury shares at the end of the period)

TDY Collaboration Show Room
You can see products from three companies in the same place: Daiken’s floorings, interior building materials such as doors, TOTO’s kitchens and bathrooms, and YKK AP’s windows and exteriors.

Overseas

Singapore branch
Indonesia office

Registered Head Office: 1-1 Inami, Nanto City, Toyama, Japan
Tokyo Office: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Operational Headquarters: 3-2-4 Nakamoshima, Kita-ku, Osaka, Japan
Major Sales Offices: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Production Plants: Inami Plant (Nanto City, Toyama Prefecture)
Tokyo Office: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Operational Headquarters: 3-2-4 Nakamoshima, Kita-ku, Osaka, Japan
Major Sales Offices: 3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Setting day: March 31
General meeting of shareholders: June

TDY Sapporo
TDY Tokyo
TDY Osaka
TDY Hiroshima
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Tokyo Office
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**Stock Information** (as of March 31, 2018)

### Major shareholders

<table>
<thead>
<tr>
<th>Name</th>
<th>Number of Shares</th>
<th>Ownership ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITOCHU Corporation</td>
<td>7,198,100</td>
<td>29.85</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>986,980</td>
<td>4.09</td>
</tr>
<tr>
<td>Sumitomo Life Insurance Company</td>
<td>931,200</td>
<td>3.86</td>
</tr>
<tr>
<td>Daiken Corporation Trading Partner</td>
<td>757,200</td>
<td>3.14</td>
</tr>
<tr>
<td>Sumitomo Mitsui Trust Bank, Limited</td>
<td>688,000</td>
<td>2.85</td>
</tr>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>639,100</td>
<td>2.65</td>
</tr>
<tr>
<td>Sumitomo Forestry Co., Ltd.</td>
<td>638,200</td>
<td>2.65</td>
</tr>
<tr>
<td>Japan Trustee Services Bank Ltd. (Trust Account)</td>
<td>607,800</td>
<td>2.52</td>
</tr>
<tr>
<td>Marubeni Corporation</td>
<td>564,388</td>
<td>2.34</td>
</tr>
<tr>
<td>Nippon Life Insurance Company</td>
<td>545,669</td>
<td>2.26</td>
</tr>
</tbody>
</table>

(Note) 1. Daiken Corporation is in possession of 1,072,400 treasury shares. However, the Company is excluded from the above list of major shareholders.
2. The ownership ratio is calculated excluding the treasury stock.

### Trend of stock price/market capitalization/PER/PBR (for last 10 years)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>High (¥)</td>
<td>1,100</td>
<td>1,385</td>
<td>1,615</td>
<td>1,635</td>
<td>1,450</td>
<td>1,530</td>
<td>1,635</td>
<td>2,050</td>
<td>2,349</td>
<td>3,150</td>
</tr>
<tr>
<td>Low (¥)</td>
<td>620</td>
<td>745</td>
<td>885</td>
<td>1,045</td>
<td>830</td>
<td>1,135</td>
<td>1,180</td>
<td>1,130</td>
<td>1,918</td>
<td>1,950</td>
</tr>
</tbody>
</table>

Stock price of the end of the period (¥) 800, 1,285, 1,540, 1,430, 1,285, 1,405, 1,355, 1,570, 2,061, 2,512

PER (multiple) 34.51, 64.14, 28.30, 41.06, 24.46, 13.85, 12.13, 9.53, 9.68, 10.27

PBR (multiple) 0.65, 0.99, 1.16, 1.07, 0.90, 0.95, 0.81, 0.93, 1.07, 1.12

(Note) 1. Market capitalization = Stock price at the end of the period (Total number of shares issued – Number of treasury shares at the end of the period)
2. PER (price earnings ratio) = Stock price at the end of the period / Net income per share (multiple)
3. PBR (price book value ratio) = Stock price at the end of the period / Net assets per share (multiple)
4. The Company consolidated shares at a rate of one share for five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.