

DAIKEN



# DAIKEN GROUP REPORT 2017

Daiken Group Report

DAIKEN CORPORATION

Corporate Message

# Toward the future going beyond the functions of yesterday

Since its establishment, the Daiken Group has developed a multitude of products by capitalizing on limited resources and listening to our customers' needs. Today we have evolved into a company where our efforts have accrued to provide first rate building materials and comfortable spaces for our customers. We will continue to strive towards a sustainable future where people can enjoy pleasant living spaces and lead spiritually rich lifestyles. In pursuit of new possibilities, we will transcend the past by developing innovative functions towards a brighter tomorrow.





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



## CONTENTS

Table of Contents ..... 1-2

### Foundation of Value Creation

Businesses and Characteristics ..... 3-4  
Product Development Uses Strengths ..... 5-6  
Process of Creating Value ..... 7-8

### Vision of Value Creation and Strategy

Management Policy ..... 9-10  
Message from the President ..... 11-14

### Practice of Value Creation

Financial and Non-financial Data ..... 15-16  
Summary of Business ..... 17-18  
Initiatives for Priority Areas ..... 19-24

### ESG Information

The Daiken Group's CSR ..... 25-26  
Medium-Term CSR Activity Plan ..... 27-28  
Governance ..... 29-32  
With the Society ..... 33-36  
For the Environment ..... 37-40

### Financial Information

10-Year Summary of Consolidated  
Financial Data ..... 41-42  
Consolidated Balance Sheet ..... 43-44  
Consolidated Statements of Income ..... 45  
Consolidated Statements of  
Comprehensive Income ..... 46  
Consolidated Statements of  
Changes in Net Assets ..... 47  
Consolidated Statements of Cash Flows ..... 48

### Company Information

Corporate Profile/Directors and *Kansayaku*/  
Corporate History/Stock Information ..... 49-50

#### ■ Editorial Policy

The Daiken Group previously issued the CSR Report to better communicate with our stakeholders about the Group's general management and corporate activities with a focus on its approach to corporate social responsibilities. The Group updated the CSR Report in fiscal year 2016 and issued a Daiken Group Report. We hope that the report clarifies the corporate value and growth potential of the Daiken Group. In addition, the website offers the Group's initiative on CSR and environment data in detail.

#### ■ Eligible period:

Fiscal 2017 (April 1, 2016, to March 31, 2017)

\*Some contents include information other than the relevant fiscal year.

#### ■ The scope of report:

Daiken Corporation and Daiken Group

\*The performance data for safety, health, and environment differs in scope.

#### ■ Issued in

September 2017

#### ■ Reference guidelines

"The GRI Sustainability Reporting Guidelines 4"  
ISO26000

International Integrated Reporting Council (IIRC)

"The International Integrated Reporting Framework"

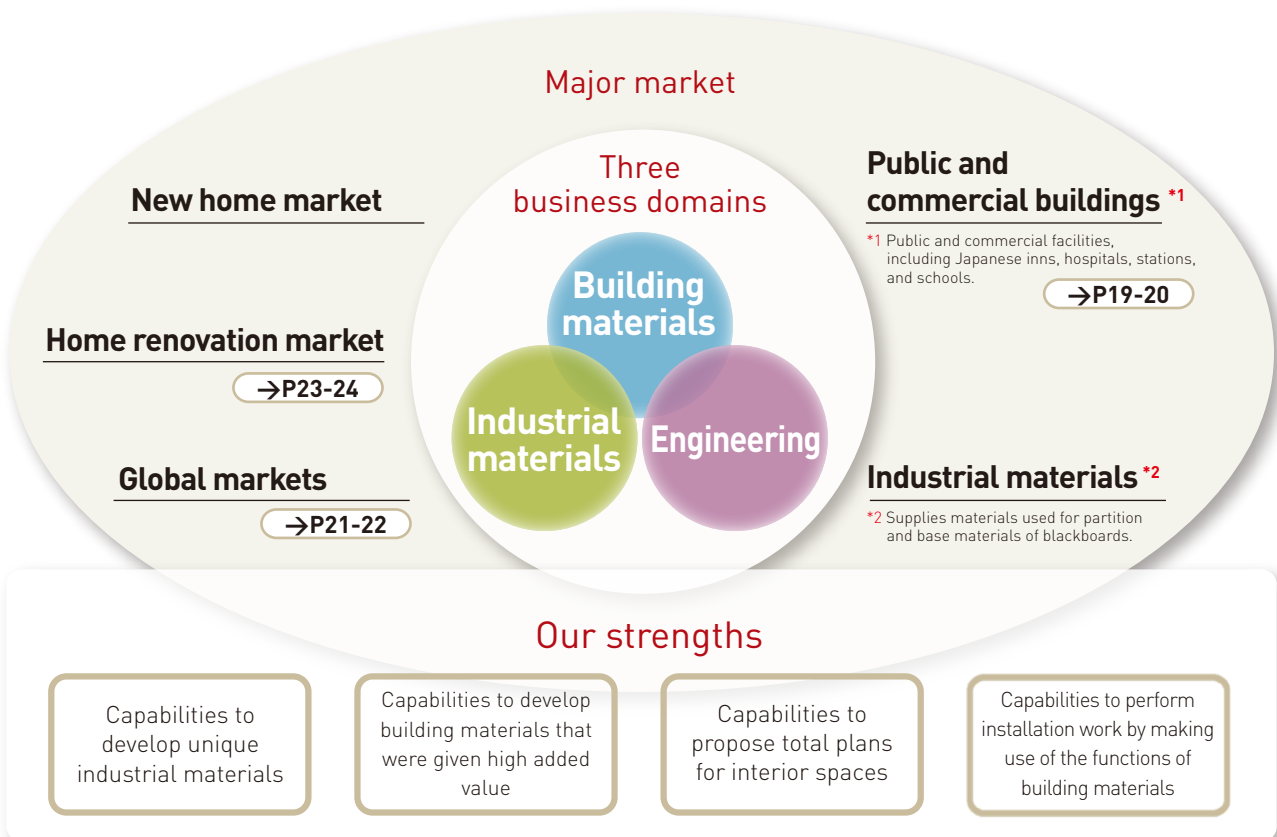
#### 【Disclaimer regarding future projections】

The forecasts and estimates shown in this report are based on information available at the time of the report's issuance. Plans and figures depicting the future do not imply a guarantee of actual outcome.

# Businesses and Characteristics

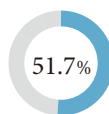
## Toward an all-embracing company for building materials that support the social infrastructure of houses, buildings, and facilities.

Building materials are indispensable to the various buildings that shape our lives. The Daiken Group provides a wide range of building materials that ensure safety in various buildings and create comfortable spaces. With unique ideas and technologies, we create multifunctional building materials to realize safe, reliable, healthy, and comfortable lives while developing and using materials originated from wood resources, mineral resources, and Japanese paper (washi). Furthermore, we also engage in installation work and the creation of spaces to maximize the functions of our building materials. Aiming to be an all-embracing company for building materials and to play an active role in more fields than homes, which has been our main business domain, to public spaces and commercial facilities, we will continue our challenge to create the products and services needed by society.



# Building materials

business

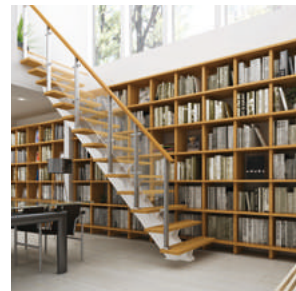


## Developing and providing building materials best suited for the interior of various buildings

Provides a wide variety of highly functional building materials that form safe, reliable, healthy, and comfortable spaces, including floors, walls, and ceilings to doors, cabinets, stairs, and acoustic products for homes and public spaces and commercial facilities.



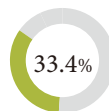
Flooring



Cabinet

# Industrial materials

business



## Developing and providing highly functional materials

Provides various functional industrial materials incorporating non-combustibility, anti-seismic thermal insulation, sound insulation, humidity conditioning, and various other features needed in our daily life by making full use of wood and mineral resources from a sustainable perspective.



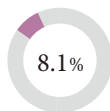
Wood material



Inorganic material

# Engineering

business



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

Mainly by providing interior finish work for a wide range of buildings, including public facilities, such as schools and halls, and commercial facilities from office buildings apartments, we are engaging in creating spaces where our industrial materials and building materials are maximized.



Hotel Nikko Osaka













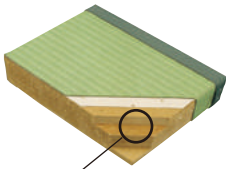


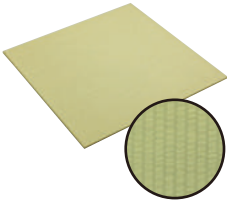







Nagano City Arts Center Recital Hall



# Product Development Uses Strengths

Developing and providing a wide variety of building materials with added functionality by making full use of industrial materials.

## Industrial materials utilized in various fields

Making effective use of wood materials			Making effective use of mineral materials	
<p><b>Insulation board</b> <span style="background-color: red; color: white; padding: 2px;">IB</span></p> <p>A wood fiberboard using wood waste materials generated when buildings are demolished as the main raw material</p>  <p>Wood chips</p> 	<p><b>MDF</b> <span style="background-color: red; color: white; padding: 2px;">MDF</span></p> <p>A wood fiberboard using residual wood offcuts as the main raw material</p>  <p>Wood chips</p> 	<p><b>Tatami facing</b> <span style="background-color: red; color: white; padding: 2px;">Tatami facing</span></p> <p>Tatami facing that is manufactured by twisting machine-made Japanese paper (washi) into strings, coating resin, and weaving it with a weaving machine</p>  <p>Machine-made Japanese paper (strings)</p> 	<p><b>Dai-Lotone</b> <span style="background-color: blue; color: white; padding: 2px;">DL</span></p> <p>A rock wool sound-absorbing board that is manufactured using slag wool (fibered slag, a byproduct produced in ironmaking) as the main raw material</p>  <p>Slag wool</p> 	<p><b>Dai-Lite</b> <span style="background-color: blue; color: white; padding: 2px;">DIL</span></p> <p>An inorganic panel that is manufactured by making effective use of slag wool, a recycled material, and <i>shirasu</i> (volcanic soil), an untapped resource</p>  <p>Slag wool and <i>shirasu</i></p> 
<p><b>Major applications</b></p> <ul style="list-style-type: none"> <li>• Substrate (base material) of tatami mats</li> </ul>  <p>Insulation board</p> <ul style="list-style-type: none"> <li>• Protection board</li> </ul>  <ul style="list-style-type: none"> <li>• Other</li> <li>Base material for external walls, packaging material, buffer material, etc.</li> </ul>	<p><b>Major applications</b></p> <ul style="list-style-type: none"> <li>• Flooring</li> </ul>  <p>MDF</p> <ul style="list-style-type: none"> <li>• Other</li> <li>Doors, cabinets, shelves, window frames, tabletops, and core material for chalkboard, etc.</li> </ul>	<p><b>Major applications</b></p> <ul style="list-style-type: none"> <li>• Tatami facing</li> </ul>  <ul style="list-style-type: none"> <li>• Color variation</li> </ul> 	<p><b>Major applications</b></p> <ul style="list-style-type: none"> <li>• Ceiling materials</li> </ul>  <p>For facilities</p>  <p>For houses</p> 	<p><b>Major applications</b></p> <ul style="list-style-type: none"> <li>• Base material for external walls</li> <li>Wooden construction</li> </ul>  <ul style="list-style-type: none"> <li>Steel construction</li> </ul>  <ul style="list-style-type: none"> <li>• Non-combustible wall material</li> </ul> 

## Product range enabling us to propose total plans for interior spaces

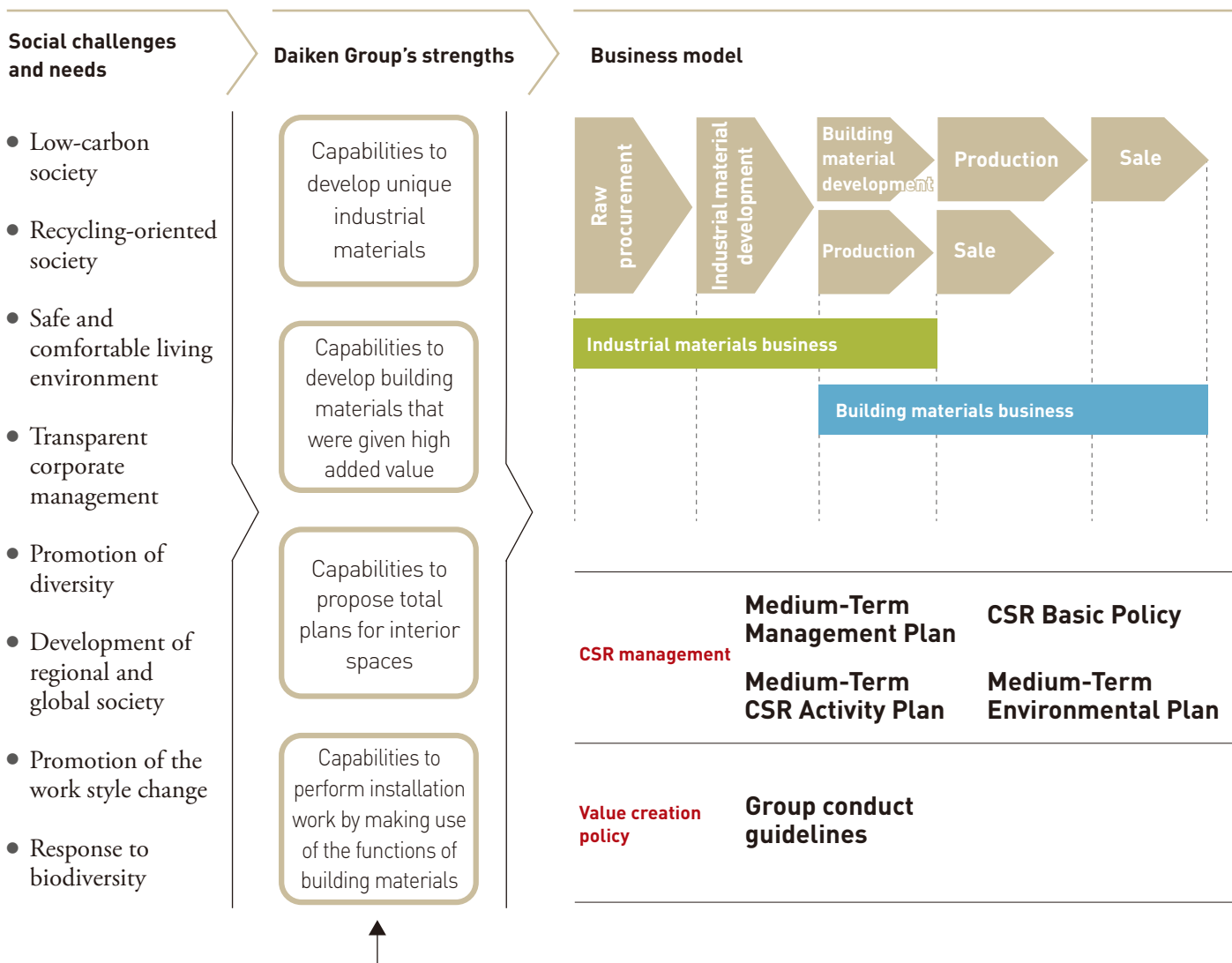
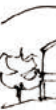
For houses	For public spaces and commercial facilities
<p><b>Ceiling that watches over our lives</b> A complete line of ceiling materials that are superior in not only design but also sound absorption and humidity conditioning features</p>	<p><b>Anti-seismic ceiling</b> A anti-seismic ceiling is the realization of a ceiling material equipped with high functionality and design while ensuring safe, reliable, and labor-saving installation</p>
<p><b>A wall that conditions humidity</b> Responding to diverse user requirements, including wall materials that condition humidity and reduce odors and those placing a premium on design and material's visual impressions</p>	<p><b>A fire-resistant wall</b> A non-combustible wall material based on Dai-Lite realizing a solid finish using Dai-Lite as the base material and labor-saving installation</p>
<p><b>A flooring of ultimate beauty</b> A complete line of products that place a premium on features, including surface feel, resistance to damage, long-lasting beauty, design, and high functionality and performance</p>	<p><b>A floor that secures your steps</b> A complete line of flooring that can be used with shoes on, including those made of natural wood resistant to damage, sound-proofing materials, and those that reduce the impact when a person falls.</p>
<p><b>Wide varieties of designs and product variations</b> Interior doors that are easy to use, superior in functionality, and can be coordinated flexibly</p>	<p><b>Doors that place a premium on safety</b> Interior doors that place a premium on safety and functionality to be usable in elderly welfare facilities, kindergartens, stores, etc.</p>
<p><b>Solving storage issues</b> A complete line of cabinets equipped with abundant storage capacity, space-saving and other features to fit for individual spaces.</p>	<p><b>Cabinets inspired by consideration to users</b> A cabinet that can reduce various risks in living spaces to be used with a peace of mind</p>
<p><b>Space for enjoying sound</b> A complete line that responds to various needs for sound, including a home theater, practice room for a musical instrument, and audio room.</p>	<p><b>Panel that absorbs sound</b> A sound-absorbing panel that can be easily installed and used in office environments where sound echoes making communication difficult.</p>
<p><b>Maintaining the comfort of tatami mats</b> Realizing a Japanese-style floor environment especially made for you by offering a wide variety of products, from modern tatami mats that fit your current lifestyle to genuine Japanese-style rooms</p>	<p><b>Tatami mats equipped with fire-resistant feature</b> Applicable to buildings requiring fire and flame protection, such as kindergartens, nursery schools, and welfare facilities for the elderly, with newly-added fire-resistant features in addition to superior durability and maintainability.</p>
<p><b>Anti-seismic boards</b> Dai-Lite contributes to creating houses with superior durability to protect your house from earthquakes and fire.</p>	<p><b>Fire-resistant panel</b> A base material for fire-resistant external walls using Dai-Lite, which is non-combustibility and lightweight, as the main material.</p>

# Process of Creating Value

Daiken Group capitalizes on its business and unique strengths to deliver new value to society.

To make a sustainable society a reality, corporations must meet various social challenges and needs. The Daiken Group capitalizes on its unique strengths to promote business activities in consideration of social challenges and needs. The Group is striving to create new value that responds to every need by contributing to solving problems.

In addition to catering to social challenges and needs, the Daiken Group aims to conduct business activities with CSR management as the foundation. The Group is aspiring to create new value and realize its long-term vision (the Daiken Group's goal).







Procurement of members

Interior projects and renovations

Engineering business

### The values created

- Added functions of products prevent global warming. →P37-40
- Waste wood is restored and reused as products. →P39-40
- Products contribute to earthquake resistance, fire prevention, fire resistance and noise control. →P5-6
- Reorganization and reinforcement of the whistleblowing contact points. →P32
- Improved diversity awareness among managers through training programs. →P35
- Promotion of social studies for children through factory and showroom tours. →Web
- The workstyle change promotion projects reduce long working hours. →P35
- Contribution to biodiversity by expanding rice paddies in the collection areas of raw materials. →P40

### The Daiken Group's goal

#### Group Corporate Philosophy

#### Our Mission

We will create a wonderful future with our technology, ideas, and passion.

#### Our 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.

#### 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.

→P9

#### Long-term vision

#### 「GP25」

(GROW/GLOW PLAN 25)

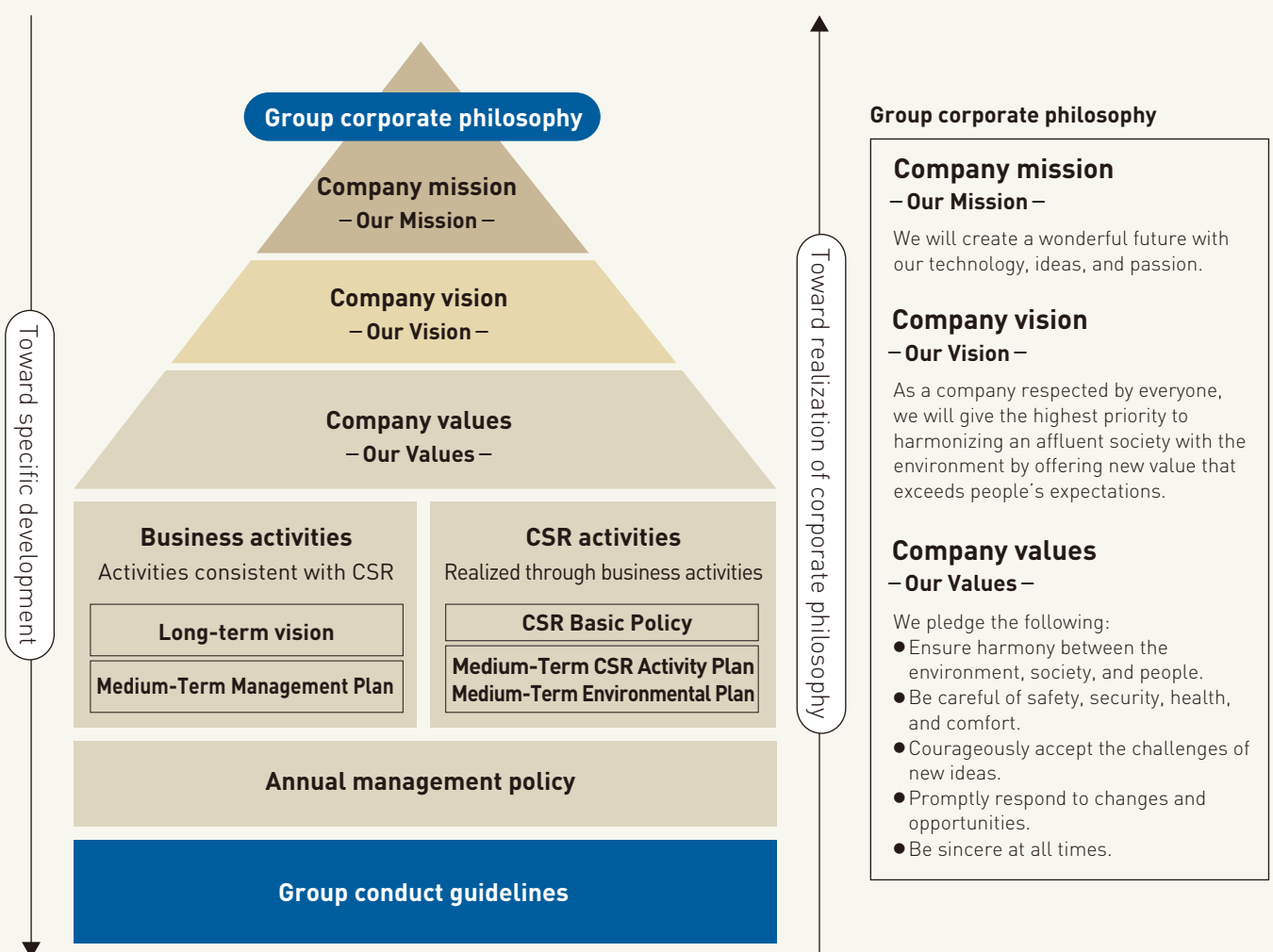
→P10

# Management Policy

Aiming to make the new group corporate philosophy a reality, the Daiken Group will promote CSR management from a long-term point of view.

Since the long-term vision GP25 was established in 2015, the Daiken Group has been promoting a growth strategy aimed at becoming an all-embracing company for building materials according to the GP25 1<sup>st</sup> Stage in its Medium-Term Management Plan from 2016. In April 2017, the new Group Corporate Philosophy was formulated to address stronger management toward sustainable improvements in our corporate value and philosophy.

## The system of practicing the group corporate philosophy



## Key points of the long-term vision, GP25 (GROW/GLOW PLAN25)

The Daiken Group celebrated the 70<sup>th</sup> anniversary of its founding in 2015. In that milestone year, the Group formulated GP25 (GROW/GLOW PLAN25 (GP25), the long-term vision for its business in 2015 to be achieved by 2025. The plan GP25 sets the Group's vision for the future (corporate vision) of transforming from a housing materials manufacturer to an all-embracing company for building materials. For us to grow and glow, The

Daiken Group not only the pursuit of profit, but must also be committed to improving society. We seek to be an enterprise that people value highly for an attractive working environment and as a place where employees can work confidently and enthusiastically. We will work together to achieve our objectives by anticipating changes in the business environment and continuing to accept the challenge of offering new value to customers.

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

**GROW**

**GLOW**

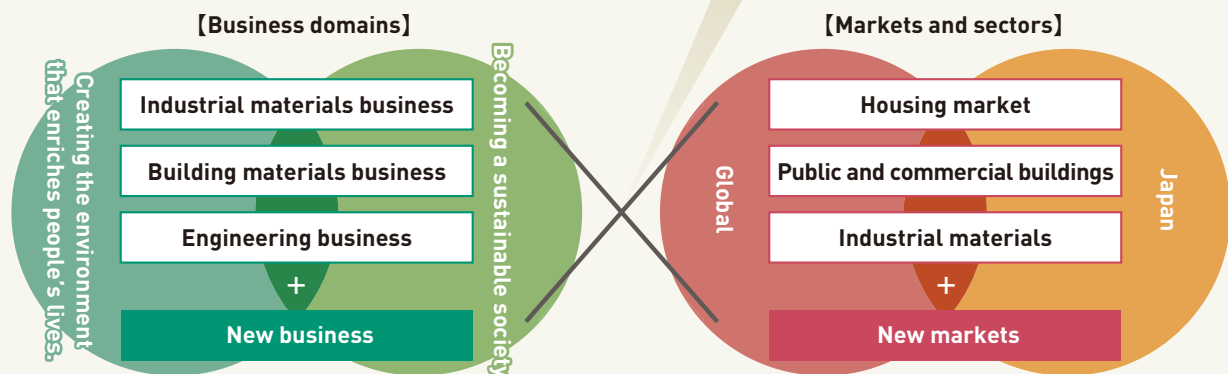
The Group will work to become an enterprise that people rate highly for its attractive working environment and as a place where employees can work positively and enthusiastically.

## Key points of the Medium-Term Management Plan, GP25 1st Stage (for fiscal 2017-2019)

The Daiken Group began the GP25 1<sup>st</sup> Stage in April 2016, in its Medium-Term Management Plan, which we regard as a first step in achieving a long-term vision GP25. Under this plan, the Group has set the management target an ordinary income of ¥7.0 billion on net sales of ¥180.0 billion, operating profits of ¥7.0 billion, ¥4.3 billion for profit attributable to owners of parent and 8% or higher of ROE by fiscal 2019, the final year in the first stage of the plan.

The largest mission in the GP25 1<sup>st</sup> Stage is to lay the foundation for transforming into a housing material manufacturer to an all-embracing company for building materials. To make these a reality, the Group has completely reviewed its policies and activities, laid out a strategy that includes both a business and a market point of view, and identify major issues and determine resolutions. We have been carrying out these approaches steadily.

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



**Key business:** Engineering business

**Prioritized markets:** Public and commercial buildings, global markets

# Message from the President



Masanori Okuda  
Representative Director,  
President

# Aiming to become an all-embracing company for building materials, the Daiken Group is up for the challenge for new markets and business sectors.

## General overview of business results and key initiatives for fiscal 2017

Under the Medium-Term Management Plan, GP25 1st Stage, the Group embarked on new challenges in a variety of sectors.

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While the house construction sector for fiscal 2017 lost momentum in the second half of the fiscal year, the rental-housing sector sustained strong performance. The owner-occupied houses, including built-for-sale houses, also maintained high-level growth. For the public and commercial buildings, private construction contracts, mainly lodging facilities and retained premises, increased steadily.

Under such business circumstances, our Group embarked on a three-year Medium-Term Management Plan, titled GP25 1st Stage, from 2016, with the goal of achieving the vision for 2025 as a first step toward realizing the long-term vision of GP25.

In the home renovation market, the Daiken Group opened two new showrooms jointly with TOTO Ltd., and YKK AP Inc., to expand the platform for showcasing products, as well as to improve the lineup of renovation products. In addition, the Group entry into the condominium renovation market.

In the public and commercial buildings market, we launched new products that highlight Daiken's strengths of

sound insulation and local Japanese wood, building a track record in the domestic market. As for global markets, the Group expanded distribution of MDF in North America and Southeast Asia. In addition, the interior door plant in Indonesia went into full operation as a supply system for the country and surrounding countries.

To further renew our efforts, Daiken began reviewing the comprehensive commercial use of wood building materials, encouraging the use of cascading. Additionally, the Okayama plant began full-scale operation of a wood biomass boiler, which uses wood chips as fuel. This reduces the environmental load and energy costs while increasing productivity.

Consequently, net sales for fiscal 2017 increased to ¥168,848 million (up 0.4% year-on-year), operating income was ¥8,515 million (up 52.4% year-on-year), and ordinary income was ¥9,021 million (up 70.8% year-on-year) with profit attributable to owners of the parent at ¥5,116 million (up 28.3% year-on-year). The Daiken Group achieved record net profits since consolidation.

## Forecast for the market environment and financial results for fiscal 2018

The Daiken Group will capitalize on its unique technologies and expertise to expand profits with high-value added products.

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The Japanese housing market in fiscal 2018 is expected to come to a temporary standstill because of the postponement of an increase in the consumption tax and ongoing low-interest mortgage rates, causing consumers no rush into home buying and renovations.

Based on these market environment, the Daiken Group will continue to inject corporate resources into the home renovation market, public and commercial buildings market, and the global markets, which are prioritized in the first stage of GP25. The Group will further promote

initiatives in each sector in order to strengthen management practices and not rely solely on housing starts. The task for the moment is to further promote streamlining and focus on sales of high-value added products by capitalizing on the Group's unique technologies and expertise to increase profits.

As for the forecast of financial results for fiscal 2018, we anticipate net sales of ¥173.0 billion, operating income of ¥8.7 billion, ordinary income of ¥9.2 billion, and the profit attributable to owners of the parent of ¥5.6 billion.

## Medium-Term Policy and Strategy

The Daiken Group is transforming its business structure in preparation for decreased domestic housing starts in the future.

In the home renovation market and amidst the increased importance of stock homes, we aim to further strengthen comprehensive proposal services of eight showrooms across the country, which we jointly operate with our business partners, TOTO Ltd. and YKK AP Inc., in the renovation sector. In addition, we will

expand sales of new commercial products designed for easy renovation over existing flooring without nails and adhesive. By maximizing the synergy effect with Mansion Renovation Company, Daiken will develop laborsaving installation products.

In the public and commercial buildings market, Daiken will actively propose our uniquely developed, easy-to-maintain tatami mats with excellent durability to lodging facilities and Japanese restaurants to meet the expansion of domestic demand. For high-end hotels, we propose wooden floors with durability and excellent sound insulation developed to reduce footstep sounds.

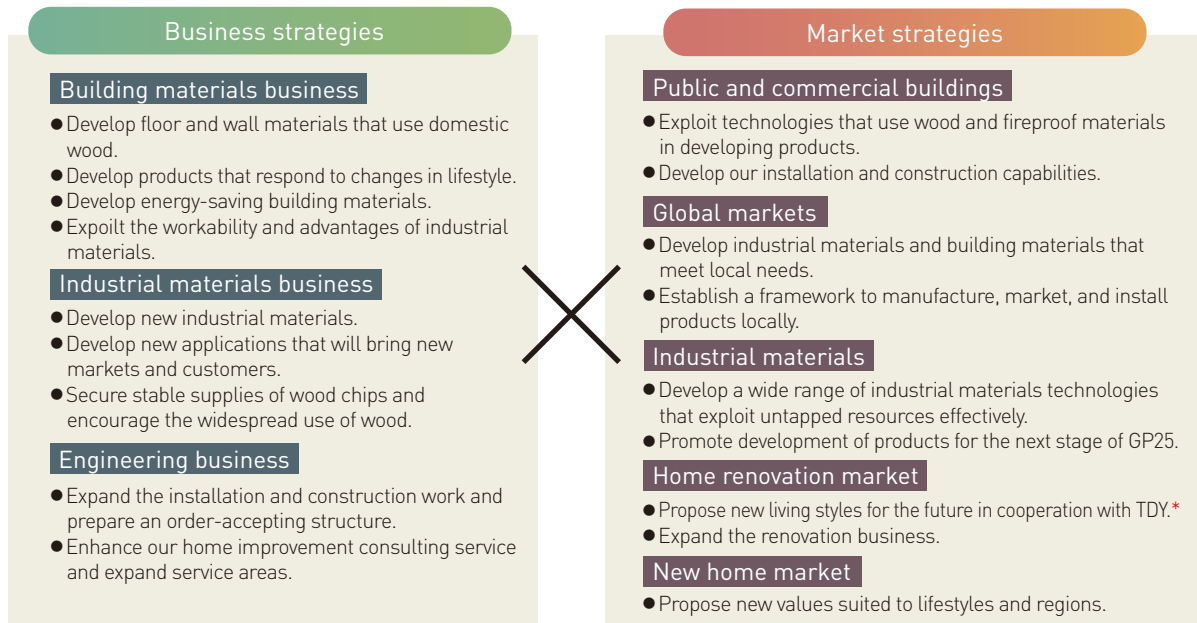
On the other hand, the Daiken Group will promote the use of local domestic wood as part of a national policy and propose the use of domestic wood to local governments to meet their needs. Daiken products made with local domestic wood have been widely introduced at Toyama Station on the Hokuriku Shinkansen Line and Kurobe-Unazuki Onsen Station, as well as libraries and schools in many areas. The application has been expanding across

### Management goals of the Medium-Term Management Plan

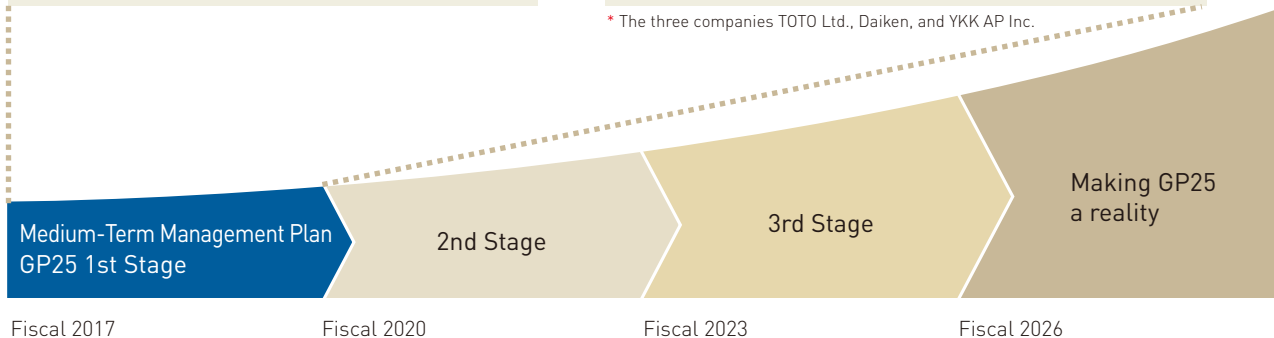
(¥million)

	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2019 GP25 1st Stage Final year
Sales	168,848	173,000	180,000
Net sales	8,515	8,700	7,000
Operating income	9,021	9,200	7,000
Profit attributable to owners of parent	5,116	5,600	4,300
ROE (%)	11.7%	—	8% or higher

### Strategy of the Medium-Term Management Plan, GP25 1st Stage (for fiscal 2017-2019)



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





the country. The Group set up a supply structure for 29 prefectures with a plan for expansion into more locations.

For global markets, Daiken intends to expand the structure of local production and sales. For the Southeast Asian market with its ongoing economic progress, we will proceed with an expanded production and supply system at a fast pace to meet the needs for

both quantity and quality. For Indonesia, in particular, the installation and sales company established earlier will be enhanced by a Japanese quality production, sales, and installation system in its new interior door plant, which went into full operation in fiscal 2017, with the aim of expanding operations in the country.

## Our approach and efforts in CSR

### The Daiken Group will enhance its environmental efforts and focus on creating a fulfilling work environment.

The Daiken Group considers CSR as the foundation of business. For Daiken to continuously develop into a corporation supported by customers and society, it is essential to address CSR strategically by comprehensively capturing the aspects of ESG. Through efforts for the basic policy of ecology and qualitative improvement of spaces, Daiken is pledged to create common value with society. As part of the efforts to realize a sustainable society, Daiken is committed to products made from eco-friendly, ecological based materials designed for high-quality space from the viewpoint of consumers to meet social expectations and demand.

Daiken believes that the source of corporate growth is human resources. As part of its corporate responsibility, the basic policy of

the Medium-Term Management Plan includes the creation of a fulfilling work environment and the use of the skills of diverse human resources, including non-Japanese, women, and skilled employees. In particular, Daiken considers the change in workstyles an urgent issue. We will crystalize company-wide measures by centering on the company-wide workstyle change project. In addition, to reduce working hours, each employee needs to become more creative and skillful. To that end, the Daiken Group will grant self-improvement incentives to all employees with a summer bonus for fiscal 2018. Daiken will boost self-investment for each employee by encouraging personal growth for the future.

## Message to stakeholders

### Under the new group corporate philosophy, the Daiken Group is pledged to improving corporate value with employees as a whole.

The Daiken Group established its group corporate philosophy in April 2017.

With the advancement of globalization and diversifying human resources in recent years, the Daiken Group needs to share a common mission, vision, and values as a corporation to match the direction for further growth. We established the group corporate philosophy by evolving the management philosophy with the wish to making it a reality with all group employees. The Group Corporate philosophy consists of three elements of "Our Mission," "Our Vision," and "Our Values" to indicate the direction of

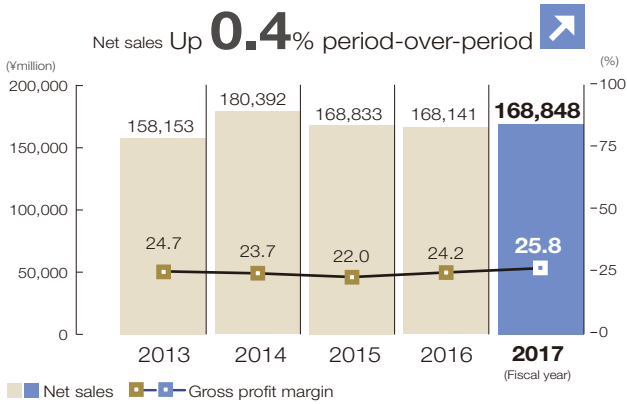
the Group in the future.

While our long-term vision GP25 is a milestone toward 2025, the group corporate philosophy anticipates the 100<sup>th</sup> anniversary, of its founding in 30 years later. The Daiken Group will remain an appreciated corporation that contributes to future happiness even after 30 years. Group employees are committed to working as one to make efforts that will result in sustainable improvements in corporate value. Daiken appreciates its stakeholders' continued understanding and support of the Group.

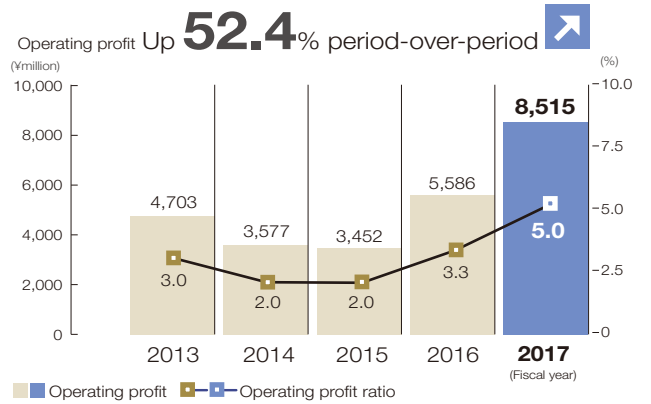
Representative Director, President

# Financial and Non-financial Data

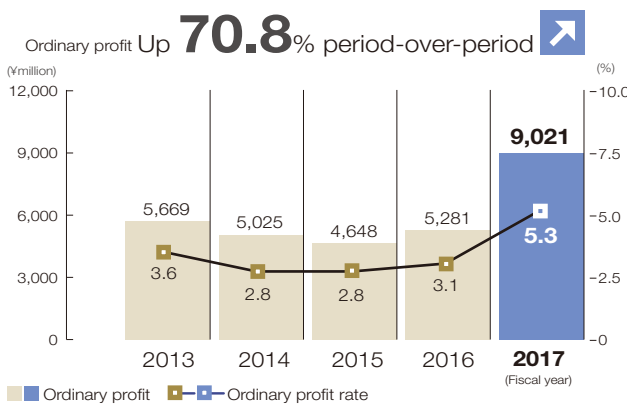
## Net sales/Gross profit margin



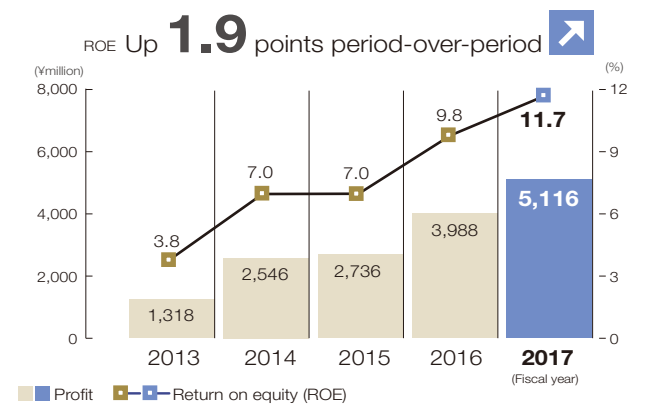
## Operating profit/Operating profit ratio



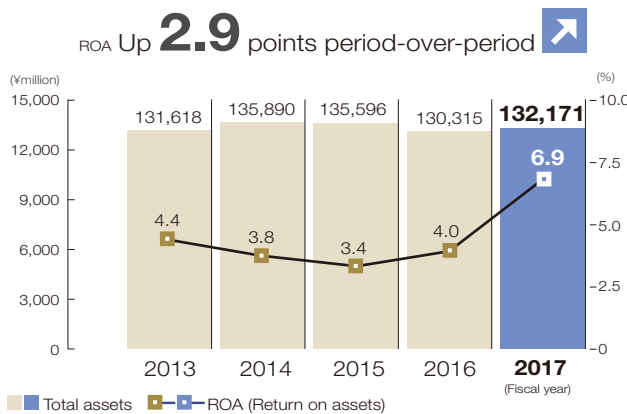
## Ordinary profit /Ordinary profit rate



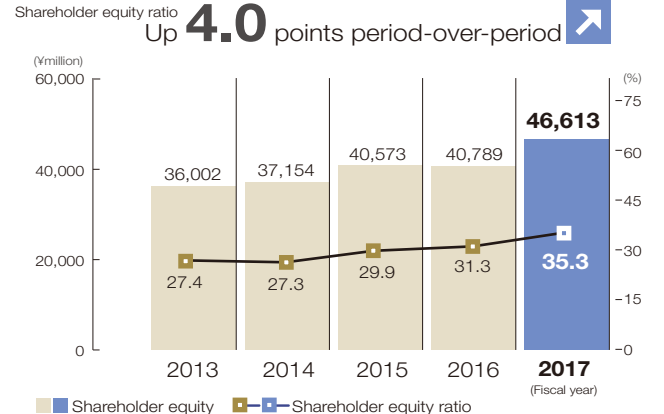
## Profit attributable to owners of parent/ROE (Return on equity)



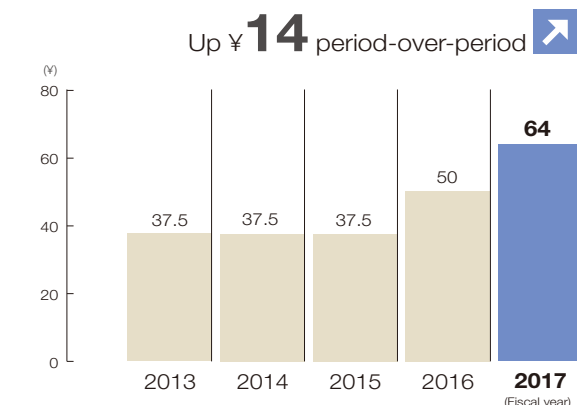
## Total assets/ROA (Return on assets)



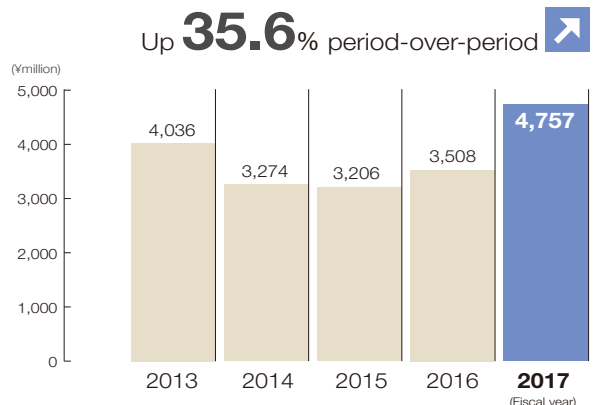
## Shareholder equity/Shareholder equity ratio



## Cash dividends per share



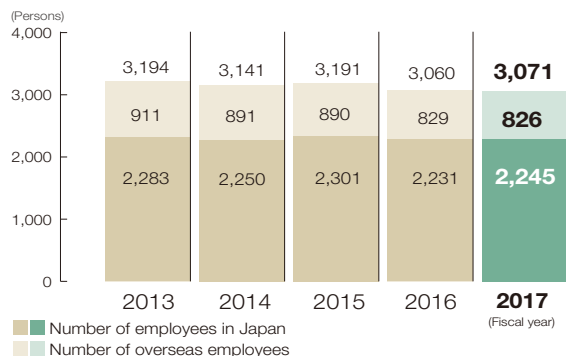
## Capital investment



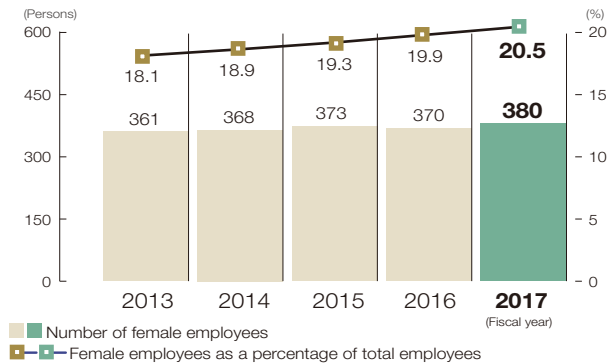
Aiming at dividend payout ratio of 30% or more



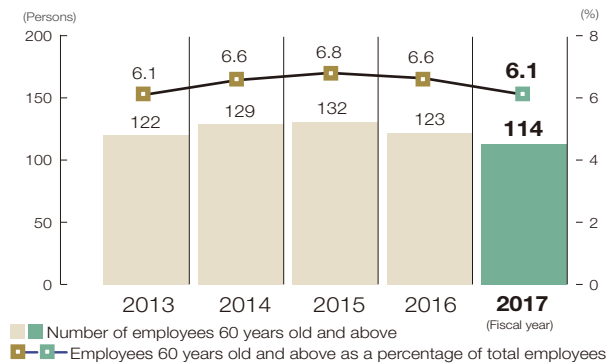
## Number of employees in Japan and overseas



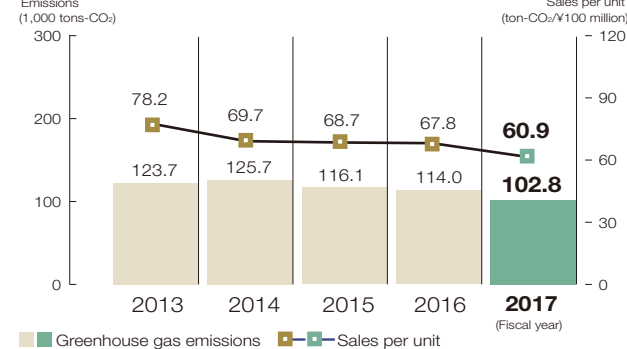
## Number of female employees/Female employees as a percentage of total employees (Daikden Corporation's non-consolidated basis<sup>\*1</sup>)



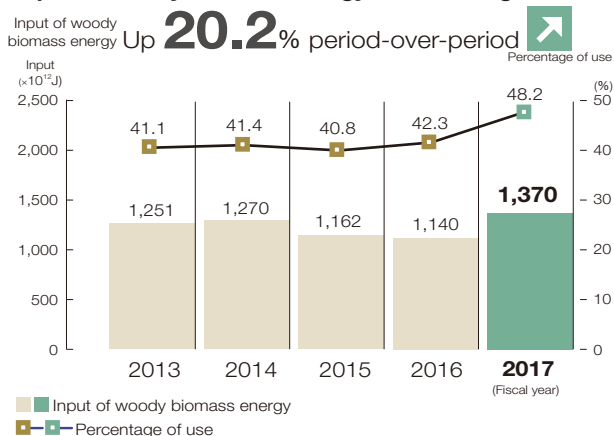
## Number of employees 60 years old and above/Employees 60 years old and above as a percentage of total employees (Daikden Corporation's non-consolidated basis<sup>\*1</sup>)



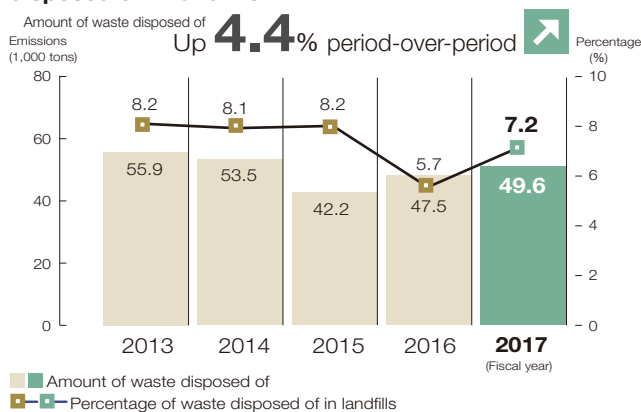
## Greenhouse gas emissions<sup>\*2</sup>/Sales per unit<sup>\*3</sup> (Daikden Corporation's non-consolidated basis<sup>\*1</sup>)



## Input of woody biomass energy<sup>\*2</sup>/Percentage of use<sup>\*4</sup>



## Amount of waste disposed of<sup>\*2</sup>/Percentage of waste disposed of in landfills<sup>\*5</sup>



\*1: Data for fiscal 2016 is data after absorbing four subsidiaries. Data for fiscal 2013-2015 includes data for four absorbed subsidiaries.

\*2: Total value at the Daikden Group's production bases in Japan. CO<sub>2</sub> emissions are calculated in accordance with the Act on the Rational Use of Energy and the Act on the Promotion of Global Warming Countermeasures.

\*3: Greenhouse gas emissions as a percentage of net sales.

\*4: Woody biomass energy input as a percentage of total energy input.

\*5: 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.daikden.jp/company/ir/>

Nonfinancial Indicators <https://www.daikden.jp/company/csr/>

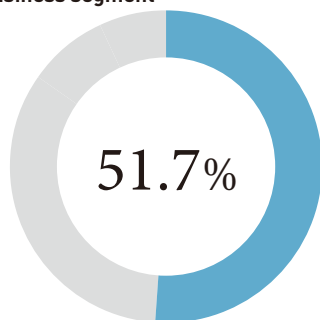
# Summary of Business

## Building Materials Business

Achieved an increase in profits by penetrating the effect of new products.

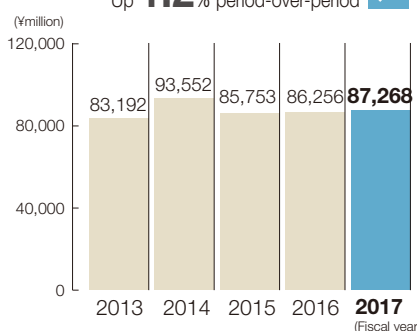
[Note] It is in the segment of residential space business in the summary of financial results.

Breakdown of sales by business segment



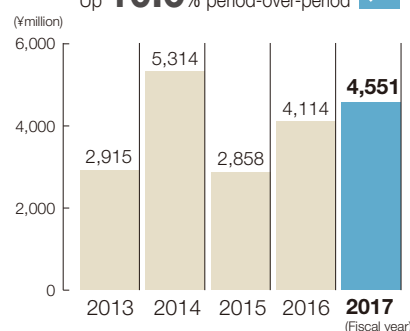
Changes in net sales

Up **1.2%** period-over-period



Changes in ordinary profit

Up **10.6%** period-over-period

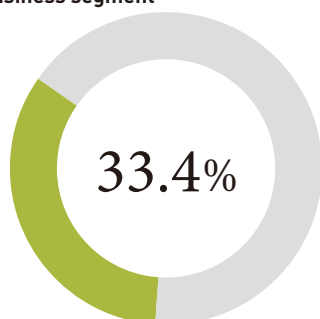


## Industrial materials Business

A significant increase in profits of more than four times year on year due to the reduction in costs, production efficiency, etc.

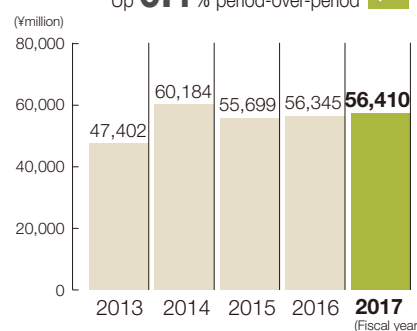
[Note] It is in the segment of ecological based business in the summary of financial results.

Breakdown of sales by business segment



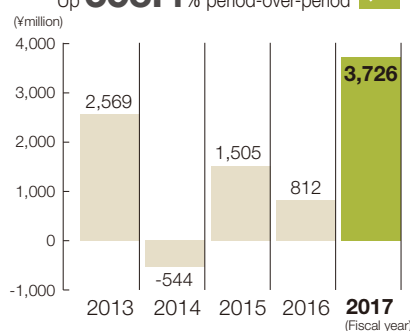
Changes in net sales

Up **0.1%** period-over-period



Changes in ordinary profit

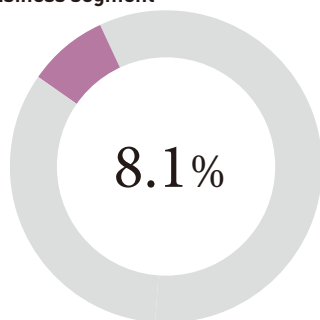
Up **358.4%** period-over-period



## Engineering Business

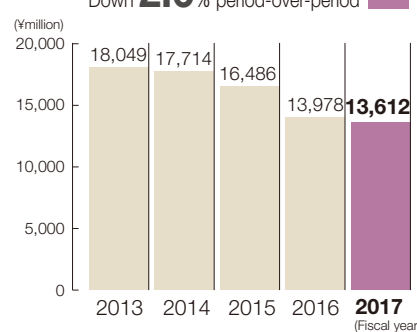
Achieved a two-digit increase in profits by improving profitability through the enhancement of the management system.

Breakdown of sales by business segment



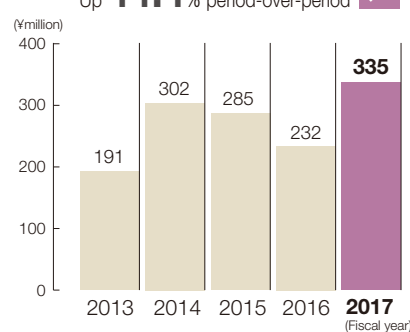
Changes in net sales

Down **2.6%** period-over-period



Changes in ordinary profit

Up **44.4%** period-over-period



\*Besides the above, other businesses account for 6.8%.

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## Summary of business results for fiscal 2017

We developed a new construction method for flooring and storage that featured labor-saving installation and started proposing this in the home renovation market. For the public and commercial buildings, we proceeded with proposals on products that suited the needs in the buildings, such as flooring for lodging facilities like hotels and doors for nursery schools and day-care centers for children.

Consequently, we increased profits as we recorded net sales of ¥87,268 million (up 1.2% year-on-year). In the aspect of profit, as we steadily proceeded with the switch to our leading interior finishing products that we drastically revamped in 2015, in addition to various kinds of streamlining to maintain our profitability in the second half of the previous period, we recorded ordinary profit of ¥4,551 million (up 10.6% year-on-year).

## Forecast, targets, and policy for fiscal 2018

In fiscal 2018, the building materials business is forecasted to post ¥89,400 million. While further penetrating into the existing market, we will also focus on the expansion of sales volumes in the public and commercial buildings, which is our prioritized market. We will enhance propositions on a new product that we launched in the market in June 2017 and expand it in a wide variety of markets, such as welfare facilities for the elderly, public facilities, educational facilities, and lodging facilities.



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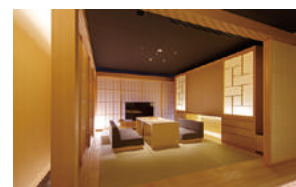
## Summary of business results for fiscal 2017

Shipments of our original tatami facings using machine-made Japanese paper to hotels and Japanese inns increased and the sale of MDF expanded because of the development of covering flooring surface by decoration sheets. We also released non-combustible decorative wall materials and eave soffit materials by making use of the characteristics of our original inorganic material Dai-Lite.

Consequently, net sales slightly increased to ¥56,410 million (up 0.1% year-on-year). On the other hand, we achieved a significant increase in profit as ordinary profit was ¥3,726 million (up 358.4% year-on-year), which was four or more times larger than a year earlier due to the effects of our efforts made in optimizing production efficiency, such as reviews on the production items in each base, in addition to raw material and energy-related cost reductions and posting of the repair cost for the partial product deficiency in the previous period.

## Forecast, targets, and policy for fiscal 2018

In fiscal 2018, the industrial materials business is forecasted to post net sales of ¥55,700 million. As for housing starts, although we assume it will be in the same level as that of two fiscal years ago, we will proceed with the transformation of our business structure to be less affected by changes in the number of housing starts by expanding and strengthening our response to public and commercial buildings and focusing on the development of functional and distinguished products in the global markets.



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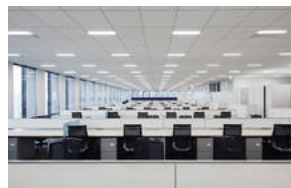
## Summary of business results for fiscal 2017

In the engineering business, domestic construction work steadily grew but we had a hard time because the demand for interior work centered on the condominium market did not increase.

Consequently, the engineering business saw a decrease in net sales and recorded net sales of ¥13,612 million (down 2.6% year-on-year) in this period. On the other hand, in terms of profit, we saw an increase in profit and recorded an ordinary profit of ¥335 million (up 44.4% year-on-year) as we worked to improve profitability by securing skilled workers and enhancing the management system at each site as the countermeasures for soaring construction cost due to the shortage of skilled workers.

## Forecast, targets, and policy for fiscal 2018

In fiscal 2018, the engineering business is forecasted to post net sales of ¥16,900 million. We will continuously expand our interior work in the metropolitan area, which has strong demand for construction, and begin full-fledged development in the condominium renovation business.

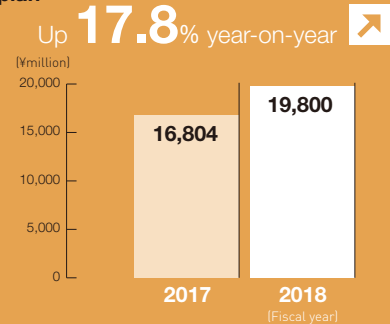


# Initiatives for Priority Areas

## Public and commercial buildings

We offer a wide range of products from flooring, wall materials, ceiling materials, doors, and tatami mats, which are intended for office buildings, public and commercial facilities, educational facilities, and lodging facilities.

### Sales plan



### Strengthening wall material businesses

We propose wall materials using Dai-Lite, our unique non-combustible base material, to be applied to spaces in various public and commercial facilities such as lodging facilities, offices, stores, kindergartens, and nursing schools. We also develop and propose products intended for public facilities that make effective use of domestically or regionally produced woods as surface material, as well as office products for improving the sound environment in conference rooms.



Non-combustible wall material Gravio

### Increasing the choice of doors for use in various facilities

We are expanding the Daiken Omoiari (or Caring) series, a series of door products implementing universal design, such as barrier-free and antivirus features. The Omoiari kids' door is intended for kindergartens and nursing schools where safety is a consideration by incorporating a mechanism for preventing fingers from being caught and where corners are rounded by machining. We offer a wide variety of products intended not only for above facilities but also for welfare facilities for the elderly and commercial facilities.



Omoiari kids' door

### Expanding flooring with superior durability

Using our unique WPC technology that injects a plastic into the cavities of wood material for hardening, we developed flooring that can be used with shoes on and are equipped with resistance to damage and water while maintaining the beauty and texture of natural woods. We have received many inquiries for general-use type "Communication Tough" and sound-proof type "Communication Tough Soundproof" from lodging facilities, stores, kindergartens, as well as public facilities.



"Communication Tough"

## Proposing spaces that utilize domestically or regionally produced woods

From February 2017, we are selling the "Wood cube", a wooden space that can be installed without the need for complicated work for fixation to secure the construction body and that makes effective use of domestically or regionally produced woods in limited large urban areas. We are actively proposing this product as a method of using domestically or regionally produced woods, whose promotion of use is required.



"Wood cube"

## Expanding sales of tatami facing that is resistant to damage and dirt

Our uniquely developed "Sukoyaka omote", which uses machine-manufactured Japanese paper (washi) as raw material, is resistant to water and the generation of mites and mold. The tatami facing has also high scratch resistance. It has earned a high reputation from hotels and Japanese inns for its easiness of creating a relaxing Japanese-style environment suited for inbound. We also offer a model with fireproof feature and a model that can be easily placed in a part of wood flooring.



"Kokochiwaza" Placement-type Seiryu (fireproof)

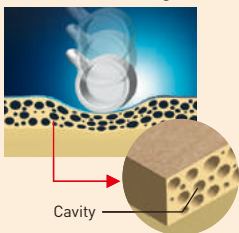
## Topics Supporting the use of domestically produced woods using technologies

### ■ Increasing the durability of domestically produced woods with unique wood-processing technology

By increasing the hardness of soft domestically produced woods with Daiken's unique WPC processing technology that enable to use them as flooring even in facilities where shoes are put on without worrying about damages and dirt.

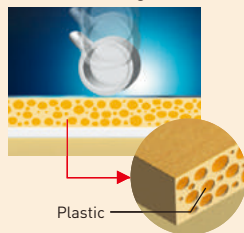
#### <Comparison of a flooring made by WPC and general flooring>

##### General flooring



The surface is easily damaged.

##### WPC flooring



The surface is hard and resistant to damages.

### ■ "Dai-Lite", non-combustible base material made from Shirasu

"Dai-Lite" which is light in weight and has superior fire resistance and workability is used in a wide range of facilities as a non-combustible wall material with domestically produced woods for its surface material.

#### <Characteristics of Dai-Lite>

##### Non-combustibility

The non-combustibility that has certified by the Minister of Land, Infrastructure, Transport and Tourism can be safely used in wood environments where there are limitations for interior design.

##### Lightweight

The weight of Dai-Lite is two-thirds of general melamine board. It contributes to reducing the burden on workers installing the product even in work at height.

##### Workability

The lightweight and flexible base material can be easily cut by a handsaw or cutter knife, thereby realizing labor-saving installation.

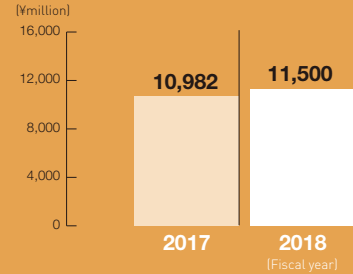
# Initiatives for Priority Areas

## Global markets

We will continue to develop industrial materials and building materials that match local needs in Asia while building systems for on-site production, sales, and installation.

### Sales plan

Up **4.7%** year-on-year 



## Expanding door business with a new factory in Indonesia

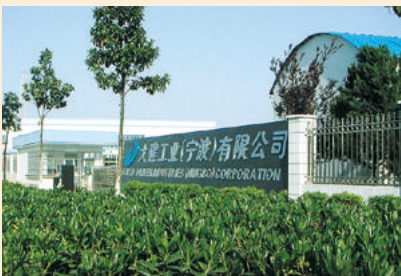
In August 2016, the newly established production base for interior doors in Indonesia started operation. In Indonesia, where we put particular emphasis in ASEAN region, we built a base in Jakarta in 2012 and started marketing activities. In January 2014, we established a joint venture specialized in installation and sales of interior building materials. From then on, we formed a sales base while making efforts to be differentiated from competitors through high-quality installation control.

With the launch of new factory, we will actively make proposals not only to Japanese developers and house makers expanding businesses in the Indonesian markets but also local developers, aiming to expand operations in the area by providing a total business from product supply through installation.

## Topics Global network of the Daiken Group

Our global production factories are located in China, Malaysia, Indonesia, and New Zealand. Our sales operations sites are mainly located in Asia (China, Singapore, Malaysia, and Indonesia) where economic growth has been remarkable.

Under thorough quality control systems, each site realizes a stable supply of wood products to overseas destinations including China, Southeast Asia, Europe, and the United States, in addition to Japan.



Daiken Industries (Ningbo) Corporation (China)



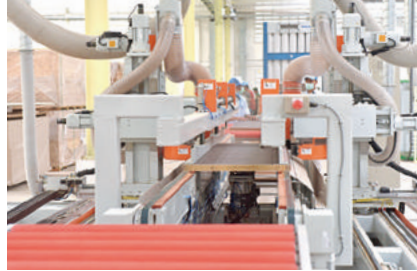
DAIKEN MIRI SDN.BHD



DAIKEN SARAWAK SDN.BHD



Appearance of the factory of PT. Daiken Dharma Indonesia



Production line in PT. Daiken Dharma Indonesia



MDF

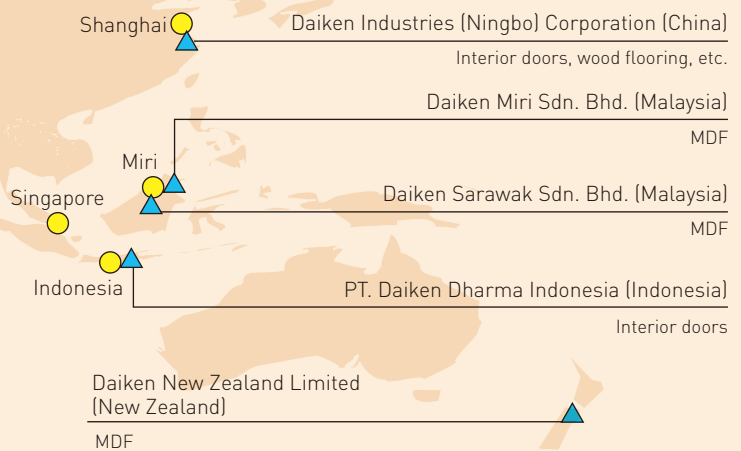
## Expanding sales of MDF

The MDF wood fiberboard is manufactured by processing wood chips into fibers, adding adhesive, and then processing it into board-shaped products. Tropical broadleaf trees and the needleleaf *Pinus radiata* are used for raw materials. We produce MDF with various characteristics by using different trees and adhesives.

Our lightweight MDF is superior in quality stability and water resistance compared with other wooden base boards manufactured overseas (plywood, particleboard, and OSB). By taking advantage of these features, we continue to promote the product and expand sales not only in Southeast Asia but also in North America and other regions.



DAIKEN NEW ZEALAND LIMITED



▲ Production sites (upper line: company name) (lower line: products) ● Overseas sales sites

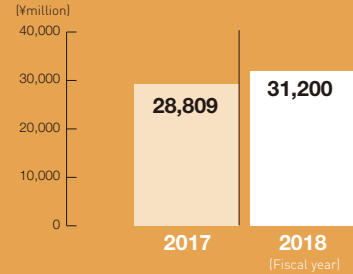
# Initiatives for Priority Areas

## Home renovation market

We will continue to propose new living styles for the future through cooperation among TDY, while developing products dedicated for apartment renovation for the expanding home renovation market.

**Sales plan**

Up **8.3%** year-on-year 



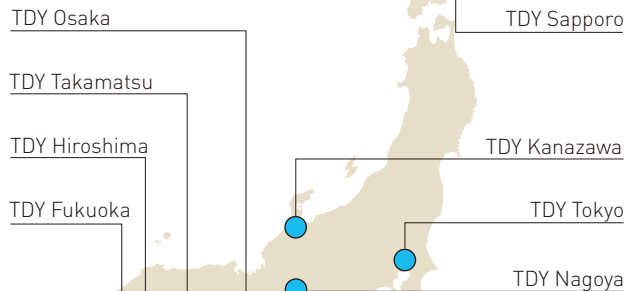
### Strengthening connections with customers through expansion of TDY collaboration showrooms

On July 3, 2017, we will open the TDY Sapporo Collaboration Showroom in cooperation with TOTO Ltd. and YKK AP Inc. in the area adjacent to Sapporo Factory, a large commercial facility located in Sapporo. This is the eighth showroom jointly operated by the three companies (TDY) in Japan and the first in Hokkaido.

Although we have jointly operated showrooms with TOTO Ltd. in the Sapporo district since August 2009, with YKK AP Inc. newly participating the project, the showroom jointly operated by three companies will have a larger scale.

From now on, we will continue to strengthen the showroom's capabilities of exhibiting of spaces and consultation, and propose more comfortable and enjoyable lifestyles to our customers.

**TDY Collaboration Showroom**



Appearance of TDY Sapporo collaboration showroom (image)

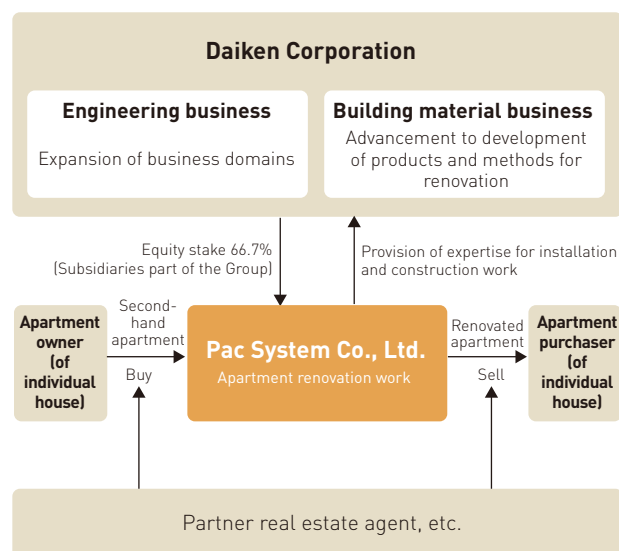


## Full-scale development of apartment renovation business

In October 2016, through the acquisition of Pac System Co., Ltd., which operates the apartment renovation business in the Kanto region, we entered the apartment renovation business. While Daiken Home & Service Corporation, our affiliated company, had conventionally undertaken relatively small-scale renovation work for detached houses and apartments, with the participation of Pac System, which specializes in relatively large-scale repair projects, and members of the group, we will endeavor to expand our engineering business in the home renovation market, while developing products and methods used for renovation in building materials business.



Web site of Pac System Co., Ltd.



## Topics Developing industry's first flooring that can be installed by sticking on the floor

Daiken Corporation developed self-adhering flooring, the industry's first flooring for the renovation of houses that can be stuck on the floor. The product has been available on the market since June 2016. Unlike conventional flooring, you can easily install it by placing and sticking onto the floor without using nails or adhesives. It enables to reduce the construction period and the total costs but

also allow users to perform installation by themselves.

Moreover, as it is stuck onto the existing wood flooring or cushion floor, restoration of the original state is also easy. Another key feature is that it can be employed in the renovation regardless of leasehold properties, owned houses or housing complexes, which makes the product suited for various renovation needs.



You can easily fix the self-adsorption surface onto the base material by peeling the clear film from the back and pressing down onto the surface.

The product is compact with dimensions 150 mm x 900 mm and can be installed even in a single sheet.

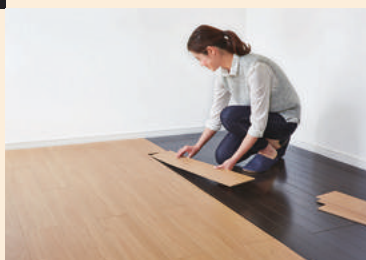


Image of installing adsorption flooring

# The Daiken Group's CSR

## CSR Basic Policy

### Vision

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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”

### Policies

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- 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

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

The Daiken Group formulated its Medium-Term CSR Activity Plan (for fiscal 2017-2019), as a medium-term plan to push forward with the long-term vision GP25 in stages.

We incorporate the concept of creating shared value (CSV) into our conventional CSR activities, apply specific initiatives in the Medium-Term Management Plan and management policy for the fiscal year as the CSV activity themes, and promote them on a group-wide basis.

### Medium-Term CSR Activity Plan (for fiscal 2017-2019)

- This action plan stipulates activities to promote compliance and other basic CSR activities on a group-wide basis.
- Based on the core subjects of ISO 26000, key items and initiatives to be addressed are extracted for each of the following six themes: (1) organizational governance, (2) human rights, (3) labor practices, (4) fair operating practices, (5) consumer issues, and (6) community involvement and development.
- Our flexibility is enhanced by just expressing the medium-term targets in broad and qualitative terms.
- Based on this plan, each CSR promotion department will design and implement its own plan for specific activities.
- In the environmental area, we need to set out more technical and specific contents in an activity plan. We have therefore formulated our Medium-Term Environmental Plan separately.

### The 5th Medium-Term Environmental Plan (for fiscal 2017-2019)

- This activity plan is specifically designed for the environment. The 1st Medium-Term Environmental Plan was formulated in 2002.
- Before determining activity themes, their priorities were defined based on the results of evaluating the impact these activities have on the global environment, society, and management (risks and opportunities).
- Based on this action plan, each department will establish and implement its own targets and specific plans for each period.

### CSR Activity Promotion System



# Medium-Term CSR Activity Plan

## Status of the Medium-Term CSR Activity Plan (for fiscal 2017-2019)

Major CSR activity plan and its results in fiscal 2017 and the major activity plan in fiscal 2018

	Key items	Plan for fiscal 2017	
<b>Management area</b>	<b>CSR management</b>	<ul style="list-style-type: none"> <li>Promote company-wide CSR activities led by the CSR Committee.</li> </ul>	<ul style="list-style-type: none"> <li>Confirm progress in CSR activities.</li> <li>Maintain management philosophy and disseminate it group-wide.</li> </ul>
	<b>Risk management</b>	<ul style="list-style-type: none"> <li>Develop, update and manage business continuity plans (BCPs).</li> </ul>	<ul style="list-style-type: none"> <li>Confirm progress.</li> </ul>
	<b>Governance</b>	<ul style="list-style-type: none"> <li>Establish optimal corporate governance.</li> </ul>	<ul style="list-style-type: none"> <li>Evaluate the effectiveness of the board and disclose the results externally.</li> </ul>
	<b>Compliance</b>	<ul style="list-style-type: none"> <li>Reinforce the compliance system.</li> <li>Further improve compliance education.</li> <li>Develop and implement the whistle-blowing system.</li> </ul>	<ul style="list-style-type: none"> <li>Strengthen the management system with the cooperation of the Legal Affairs Department and Audit Department.</li> <li>Reform and expand the Company's compliance site.</li> <li>Thoroughly disseminate the use of the whistle-blowing system.</li> </ul>
<b>Consumer issues</b>	<b>Improving product quality and ensuring product safety</b>	<ul style="list-style-type: none"> <li>Reinforce the quality management system based on quality ISO standards.</li> <li>Reinforce the system to reduce quality-related problems and continue taking measures to prevent reoccurrence of similar problems.</li> <li>Strengthen the quality traceability system.</li> </ul>	<ul style="list-style-type: none"> <li>Respond to the 2015 version of ISO 9001.</li> <li>Strengthen the quality review system.</li> <li>Implement training sessions given by experts.</li> <li>Manage registrations by the user registrants (continue).</li> </ul>
	<b>Providing products and services that give high customer satisfaction</b>	<ul style="list-style-type: none"> <li>Reinforce our ability to collect information by strengthening contact points with consumers.</li> <li>Reinforce the system to encourage consumer-centric new product development.</li> </ul>	<ul style="list-style-type: none"> <li>Implement training sessions given by outside lecturers.</li> <li>Collect opinions using a Web questionnaire.</li> <li>Strengthen the input of consumer information in the meetings such as product planning, promotion, etc.</li> </ul>
	<b>Enhancing communication with customers</b>	<ul style="list-style-type: none"> <li>Enhance face-to-face communication with customers at showrooms and exhibitions.</li> </ul>	<ul style="list-style-type: none"> <li>Implement promotional measures connected with the strategy to capture the market.</li> <li>Enhance appeal of the TDY* collaborated showrooms *TDY: The three companies of TOTO Ltd., DAIKEN, and YKK AP Inc.</li> </ul>
		<ul style="list-style-type: none"> <li>Enhance communication with customers through sales activities.</li> </ul>	<ul style="list-style-type: none"> <li>Promote the Company's understanding through information transmission to customers.</li> <li>Appeal the Company's technologies and product quality.</li> </ul>
		<ul style="list-style-type: none"> <li>Enhance communication with customers through websites, etc.</li> <li>Enhance communication with shareholders and investors.</li> </ul>	<ul style="list-style-type: none"> <li>Enhance information transmission by the official site.</li> <li>Systematically hold presentations of financial results to investors (continue).</li> </ul>
<b>Protecting personal information</b>	<ul style="list-style-type: none"> <li>Ensure strict management of personal information.</li> </ul>	<ul style="list-style-type: none"> <li>Confirm the status of the retention and management of personal information.</li> </ul>	
<b>Fair operating practices</b>	<b>Ensuring fair competition and transactions</b>	<ul style="list-style-type: none"> <li>Ban all transactions with antisocial forces.</li> </ul>	<ul style="list-style-type: none"> <li>Thoroughly conclude the said contract with a new business partner.</li> </ul>
	<b>Protecting intellectual property</b>	<ul style="list-style-type: none"> <li>Continue to provide education on intellectual property.</li> </ul>	<ul style="list-style-type: none"> <li>Hold the intellectual property operation promotion meeting with the development department.</li> <li>Hold e-learning programs.</li> </ul>
	<b>Promoting CSR procurement</b>	<ul style="list-style-type: none"> <li>Develop and implement CSR procurement rules.</li> </ul>	<ul style="list-style-type: none"> <li>Carry out the actual condition survey on CSR procurement on a group-wide basis and promote the initiatives.</li> </ul>
<b>Labor practices</b>	<b>Promoting life-work balance</b>	<ul style="list-style-type: none"> <li>Encourage employees to reduce overwork and cut long working hours.</li> </ul>	<ul style="list-style-type: none"> <li>Consider the new workstyles that will lead to reduce overwork and cut long working hours.</li> </ul>
	<b>Promoting diversity</b>	<ul style="list-style-type: none"> <li>Implement human resources development programs intended to promote the empowerment of female employees and develop a working environment that meets this purpose.</li> </ul>	<ul style="list-style-type: none"> <li>Implement the provision of information and training toward the empowerment of female employees.</li> <li>Implement activities toward the achievement of the action plan for the Act on Promotion of Women's Participation and Advancement in the Workplace.</li> <li>Revise, streamline, and promote the in-house system toward the acquisition of "Kurumin."</li> </ul>
	<b>Reinforcing human resources development</b>	<ul style="list-style-type: none"> <li>Develop global human resources.</li> </ul>	<ul style="list-style-type: none"> <li>Employ foreign students, those who have linguistic talents, and those who wish to work abroad.</li> <li>Continue to hold training programs for language training, study abroad, and global communication.</li> </ul>
		<ul style="list-style-type: none"> <li>Formulate human resource development programs that facilitate career development and capacity building for employees.</li> </ul>	<ul style="list-style-type: none"> <li>Consider revising the contents of the training currently held.</li> <li>Hold training to the job levels to which the training has not been held.</li> <li>Consider and provide training to improve skills by job type.</li> </ul>
<b>Improving the safety and health system</b>	<ul style="list-style-type: none"> <li>Encourage and strengthen efforts to create a safer working environment.</li> </ul>	<ul style="list-style-type: none"> <li>Implement and strengthen the mutual safety diagnosis.</li> </ul>	
<b>Respect for human rights</b>	<b>Raising awareness of human rights</b>	<ul style="list-style-type: none"> <li>Continue education to raise awareness of human rights.</li> </ul>	<ul style="list-style-type: none"> <li>Provide information in the training at the time of promotion, training for new employees, and at other times.</li> </ul>
<b>Community involvement and development</b>	<b>Community involvement</b>	<ul style="list-style-type: none"> <li>Participate in local communities.</li> </ul>	<ul style="list-style-type: none"> <li>Implement communication activities in each region.</li> <li>Implement regional exchanges through the events at showrooms.</li> <li>Contribute funding for the Malaysia scholarship.</li> </ul>
	<b>Social contribution</b>	<ul style="list-style-type: none"> <li>Continue tree-planting activities in Malaysia.</li> </ul>	<ul style="list-style-type: none"> <li>Implement a secondary forestation program and develop an additional forestation area.</li> </ul>
<ul style="list-style-type: none"> <li>Promote the comprehensive use of domestic wood.</li> </ul>		<ul style="list-style-type: none"> <li>Develop and crystallize initiatives across the country.</li> </ul>	

For environmental initiatives, please see the Medium-Term Environmental Plan (p. 37).

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

Fiscal 2017 Results	Self-assessment	Plan for fiscal 2018
<ul style="list-style-type: none"> <li>Confirmed that CSR activities were properly conducted.</li> <li>Formulated the group's corporate philosophy and disseminated it group-wide using various tools.</li> </ul>	○	<ul style="list-style-type: none"> <li>Confirm progress of the CSR activities.</li> <li>Formulate and implement the group's corporate philosophy and CSR.</li> </ul>
<ul style="list-style-type: none"> <li>Confirmed that BCPs were operating properly.</li> </ul>	○	<ul style="list-style-type: none"> <li>Confirm progress (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Evaluated the effectiveness of the board, analyzed the result, and disclosed it externally.</li> </ul>	○	<ul style="list-style-type: none"> <li>Evaluate the effectiveness of the board and disclose the result externally (continue).</li> </ul>
<ul style="list-style-type: none"> <li>The Legal Affairs Department and Audit Department cooperated with each other and enhanced the management system.</li> <li>Prepared to respond to the amendment of the Personal Information Protection Law. (Revision of the regulations, etc., posting in the in-house site, etc.)</li> <li>Added the whistle-blowing contact point and disseminated it group-wide.</li> </ul>	○	<ul style="list-style-type: none"> <li>The Legal Affairs Department and Audit Department cooperate with each other and strengthen the management system (continue).</li> <li>Revamp the Company's compliance site.</li> <li>Expand the information to be provided in line with the amendment of the Personal Information Protection Law.</li> <li>Thoroughly disseminate the use of the whistle-blowing system (continue).</li> <li>Systematize the anonymous whistle-blowing.</li> </ul>
<ul style="list-style-type: none"> <li>Revised and started to operate the company regulations that correspond to the 2015 version of ISO 9001.</li> <li>Confirmed the implementation status by the internal audits.</li> <li>Strengthened the review system by adding advisors and others.</li> <li>Implemented seminars given by the external experts.</li> <li>Number of user registrants: 9,133</li> </ul>	○	<ul style="list-style-type: none"> <li>Receive the review on the transfer to the 2015 version of ISO by an external institution.</li> <li>Hold an operation training for the division managers.</li> <li>Enhancement of the quality review system (continue).</li> <li>Hold training programs, etc. given by experts (continue).</li> <li>Manage registrations by the user registrants (continue).</li> <li>Analyze the registrant information and consider its method of use.</li> </ul>
<ul style="list-style-type: none"> <li>Implemented the basic training on making responses and training on complaints by inviting outside lecturers.</li> <li>Conducted a web questionnaire surveys (eight times).</li> <li>Held meetings and prototype evaluation meetings which widely incorporated consumer information, market researches, etc.</li> </ul>	○	<ul style="list-style-type: none"> <li>Review entries in the inquiry recording system.</li> <li>Individually disseminate to the development department.</li> <li>Consider the method for marketing review which promptly incorporates the customers' opinions.</li> <li>Implement processes from the establishment of promotion and release themes to the improvement of tools.</li> </ul>
<ul style="list-style-type: none"> <li>Posted in the architecture magazines (4 magazines) (25 times).</li> <li>Made a presentation at the exhibitions for public and commercial buildings (JAPAN SHOP, etc.).</li> <li>Opened showrooms in Nagoya, Kanazawa, and Takamatsu.</li> <li>Improve the web reservation system, implemented a questionnaire survey, etc.</li> </ul>	○	<ul style="list-style-type: none"> <li>Place an advertisement in architecture magazines (four magazines) (continue).</li> <li>Make a presentation at exhibitions for public and commercial buildings (continue).</li> <li>Enhance the use of Akihabara Technical Space.</li> </ul>
<ul style="list-style-type: none"> <li>Held policy briefing sessions (8 locations and 731 participants).</li> <li>TDY* held a collaborated grand prix awarding ceremony "Kansha no Tsudoi" (About 370 participants).</li> <li>*TDY: The three companies of TOTO Ltd., Daiken, and YKK AP Inc.</li> </ul>	○	<ul style="list-style-type: none"> <li>Promote the Company's understanding through the information transmission to customers (continue).</li> <li>Appeal the Company's technologies and product quality (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Strengthened the information transmission to the customers such as public and commercial buildings, etc.</li> </ul>	○	<ul style="list-style-type: none"> <li>Completely revamp the external website and strengthen the information transmission.</li> </ul>
<ul style="list-style-type: none"> <li>Held presentations for financial results to investors (continued).</li> </ul>	○	<ul style="list-style-type: none"> <li>Systematically hold presentations of financial results to investors (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Confirmed that management of personal information was operated properly.</li> </ul>	○	<ul style="list-style-type: none"> <li>Confirm the status of the retention and management of personal information (continue).</li> <li>Respond to the amendment of the Personal Information Protection Law.</li> </ul>
<ul style="list-style-type: none"> <li>Maintained the situation where the said contract is concluded with all business partners.</li> </ul>	○	<ul style="list-style-type: none"> <li>Thoroughly conclude the said contract with a new business partner (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Held the intellectual property operation promotion meeting for the development department and explained the cases.</li> <li>Held e-learning training programs for second to fifth-year employees.</li> </ul>	○	<ul style="list-style-type: none"> <li>Hold intellectual property operation promotion meetings with the development department (continue).</li> <li>Hold e-learning programs (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Completed in building the CSR survey system and conducted the actual condition survey (237 companies).</li> </ul>	○	<ul style="list-style-type: none"> <li>Carry out the actual condition survey on CSR procurement (continue).</li> <li>Promote the initiatives with suppliers based on the survey results.</li> </ul>
<ul style="list-style-type: none"> <li>Established the New Workstyle Reform Promotion Project.</li> <li>Introduced the automatic PC shut-down on a trial basis.</li> </ul>	△	<ul style="list-style-type: none"> <li>Establish and promote the Preparation Office to Promote the Realization of New Workstyle Reform.</li> <li>Analyze the overtime work results and consider new work styles.</li> </ul>
<ul style="list-style-type: none"> <li>Held a management training program for those in the managerial position under the theme of the promotion of the empowerment of female employees (41 participants).</li> <li>Held a skill improvement training program for female employees (35 participants).</li> <li>Received the award of excellence as a leading company for women's participation in workplace from Osaka City.</li> <li>Submitted an application to acquire "Kurumin."</li> </ul>	△	<ul style="list-style-type: none"> <li>Provide information and hold training programs toward the empowerment of female employees (continue).</li> <li>Conduct activities toward the achievement of the action plan for the Act on Promotion of Women's Participation and Advancement in the Workplace (continue).</li> <li>Collect information on various evaluations on the empowerment of female employees/Make necessary applications, etc.</li> </ul>
<ul style="list-style-type: none"> <li>Employed foreign students.</li> <li>Continued to hold language training programs for new employees.</li> </ul>	○	<ul style="list-style-type: none"> <li>Employ foreign students, those who have linguistic talents, and those who wish to work abroad.</li> <li>Hold language training programs (continue) (review eligible persons).</li> </ul>
<ul style="list-style-type: none"> <li>Promoted for newly appointed directors and directors serving their terms to taken the seminars (Number of seminars: 31).</li> <li>Introduced a new training program to be taken at the time of promotion and built the training system at the time of being promoted to each job level.</li> </ul>	○	<ul style="list-style-type: none"> <li>Hold various training programs (continue).</li> <li>Hold sales human resource development programs that place emphasis on skills.</li> </ul>
<ul style="list-style-type: none"> <li>Strengthened the safety activities by implementing the diagnostic schedule according to the characteristics of the plants.</li> <li>Increased the number of those who conduct the safety diagnosis and strengthened the own department's safety activities through the diagnosis of other plants.</li> </ul>	○	<ul style="list-style-type: none"> <li>Raise the level of the mutual safety diagnosis and enhance safety education.</li> <li>Raise the level of those who conduct the diagnosis and consider starting the safety and cultural diagnosis (overseas).</li> </ul>
<ul style="list-style-type: none"> <li>Invited outside lecturers when providing a training program for new employees and provided information on the overall human rights.</li> <li>Provided information on harassment in the training at the time of promotion.</li> </ul>	○	<ul style="list-style-type: none"> <li>Provide information in the training programs at the time of promotion and training programs for new employees (continue).</li> </ul>
<ul style="list-style-type: none"> <li>Held programs of exchange with local governments and local residents, cleanup events, plant tours, etc. in individual regions.</li> <li>Held regional exchanges through the events at showrooms.</li> <li>Two local companies in Malaysia (Daiken Sarawak Sdn Bhd. and Daiken Miri Sdn Bhd.). Contributed funding to the Malaysia scholarship.</li> </ul>	○	<ul style="list-style-type: none"> <li>Conduct communication activities in each region (continue).</li> <li>Hold regional exchanges through the events at showrooms (continue).</li> <li>Contribute funding for the Malaysia scholarship (planned to be continued).</li> </ul>
<ul style="list-style-type: none"> <li>Felled trees (262 ha) and implemented a secondary forestation program (262 ha) and a forestation program (290 ha) in the additional forestation area.</li> </ul>	○	<ul style="list-style-type: none"> <li>Fell trees in the forestation area, implement a secondary forestation program, and develop an additional forestation area.</li> </ul>
<ul style="list-style-type: none"> <li>Proposed the use of locally grown wood across the country.</li> <li>Released "Wood cube" for which locally grown wood can be used.</li> </ul>	○	<ul style="list-style-type: none"> <li>Develop and crystallize initiatives across the country (continue).</li> <li>Test out the soil improvement material, agriculture, and livestock raising in the areas around Nichinan City.</li> </ul>

# Governance

## Basic Approach

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

Under the group corporate philosophy, we are 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 constantly works to improve it. Based on the basic policy on corporate governance established in 2015, we are making constant improvement to respond to ever changing business environment surrounding the group in ceaseless pursuit of optimal corporate governance system.

## Key initiatives for the reinforcement of corporate governance.

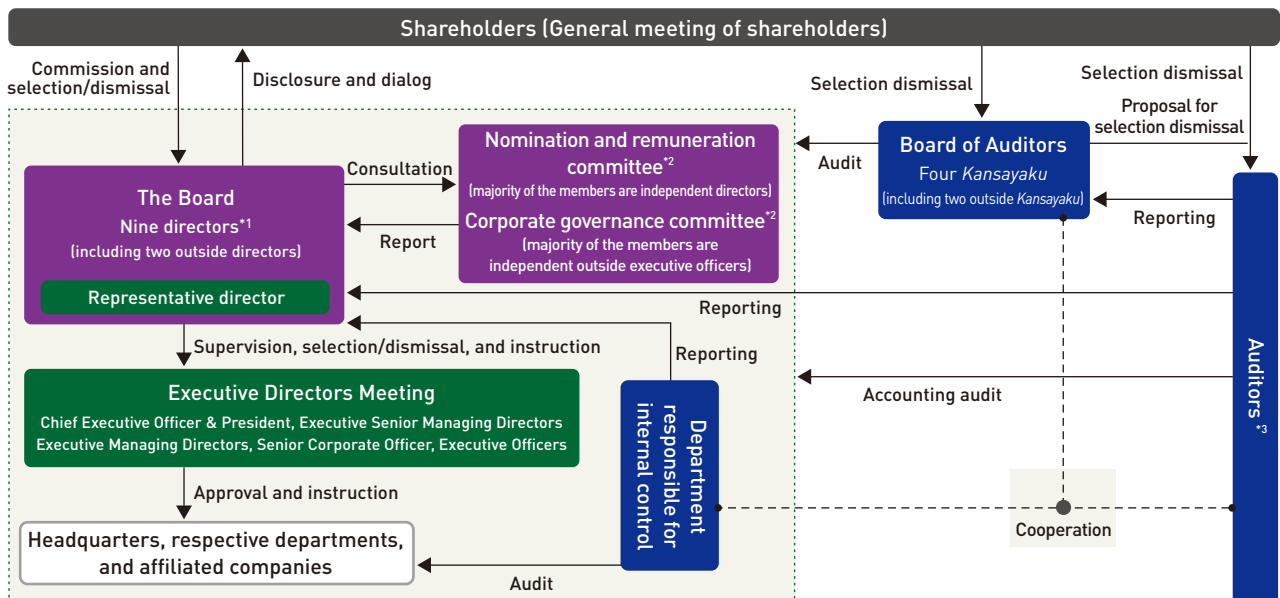
- 2002: Made the shift to the chief executive officer system.
- 2003: The Compliance Committee was established.
- 2008: Reorganized to the Risk & Compliance Management Committee for reinforcement.
- 2010: Reduced the number of directors from 11 to 9.
- 2011: Outside directors are selected.
- 2012: The term for the Board is reduced from two years to one year.

- 2015: Outside directors increased from one to two. The Basic Policy on Corporate Governance was established. The Nomination and Remuneration Committee and the Corporate Governance Committee were established.
- 2016: The effectiveness evaluation of the Board was implemented.

## Governance System

Governance System aims for sustainable improvements in our corporate value.

### The Daiken Group's Corporate governance framework



■ Monitoring, supervising, and important decision-making ■ Auditing ■ Business execution and decision-making □ Business execution

\*1 The term for directors is one year.

\*2 The nomination and remuneration committee and the Corporate Governance Committee are set up as an arbitrary advisory committee for the Board. The nomination and remuneration committee nominates directors, executive officers, and *Kansayaku* candidates and discusses remuneration for directors and chief executive officer. The corporate governance committee implements effectiveness evaluation of the governance system and the Board and discusses related items.

\*3 Auditors are Gyosei & Co.

## Selection of independent directors

Based on the independence standards Daiken Corporation has established for judging whether an outside director or *Kansayaku* is independent or not, we report our independent directors to the Tokyo Stock Exchange to ensure transparent and fair company management. We have selected two independent directors (out of a total of nine directors) and two independent outside *Kansayaku* (out of a total of four *Kansayaku*.)

Independence Standards	*The eligible term of office: The term of office for the below No. 1 is current or in the past without term of office, and the term of office the below No. 2 to 6 is current or the past five years.
<p><b>1. Relevant persons of the Daiken Group</b></p> <p>The persons shall not be a director (excluding its outside director), <i>Kansayaku</i> (excluding its outside <i>Kansayaku</i>), accounting advisor, executive officer, corporate officer, or employee (hereinafter collectively referred to as "directors, etc.") of the Daiken Group, its subsidiaries and affiliates (hereinafter referred to as "the Group, etc.")</p>	
<p><b>2. Relevant persons with voting power</b></p> <p>I. The persons shall not be a shareholder or director, etc., with 10% or higher voting power for the Group.</p> <p>II. The persons shall not be a director, etc., of a company in which the Group possesses 10% or higher voting power.</p>	
<p><b>3. Relevant persons of business partners</b></p> <p>I. The persons shall not be a director, etc., of a business partner, which the Group does business with for the equivalent amount of 2% or higher consolidated net sales or purchase for either of the companies.</p> <p>II. The persons shall not be a director, etc., of a primary financial institution, which the Group borrows the equivalent amount of 2% or higher of the Group's consolidated assets.</p> <p>III. The persons shall not be a director, etc., of the Group's lead brokerage.</p>	
<p><b>4. Experts (lawyer, certified public accountant, consultant, etc.)</b></p> <p>I. The persons shall not be a certified public accountant who is the Group's auditor, an employee, partner, or personnel of an auditing company.</p> <p>II. The persons shall not be a person who receives remuneration of more than ¥10 million annually as a certified public accountant, licensed tax accountant, lawyer, or other consultants besides the remuneration as a director or <i>Kansayaku</i> from the Group.</p>	
<p><b>5. Charitable donation</b></p> <p>The persons shall not be a person who receives a donation exceeding ¥10 million annually from the Group or an executing person.</p>	
<p><b>6. Other</b></p> <p>I. The persons shall not be a family member within the second degree of those listed the above No. 1 to 5 (excluding those who do not hold a key position).</p> <p>II. The persons shall not be a director, etc., of the company where the Group's officers are mutually in place.</p>	

## Convention of the Board and the attendance rate of independent directors

	Fiscal 2016	Fiscal 2017
Number of the board convened	13 times	12 times
Attendance rate of independent outside directors	96%	100%
Takashi Aihara	100%	100%
Koji Mizuno	90%	100%
Attendance rate of independent outside <i>Kansayaku</i>	100%	100%
Akio Hasunuma	100%	100%
Masafumi Inoue	100%	100%

## Convention of *Kansayaku* and the attendance rate of independent outside *Kansayaku*

	Fiscal 2016	Fiscal 2017
Number of Board of Auditors convened	14 times	14 times
Attendance rate of independent outside <i>Kansayaku</i>	100%	100%
Akio Hasunuma	100%	100%
Masafumi Inoue	100%	100%

## Executive remuneration

	Number of persons	Amount of payment
Directors	10	¥227 million
Of them, independent outside directors	2	¥13 million
<i>Kansayaku</i>	4	¥47 million
Of them, independent outside <i>Kansayaku</i>	2	¥9 million
Total	14	¥274 million
Of them, independent outside directors and independent outside <i>Kansayaku</i>	4	¥22 million

The board has formulated detailed rules for determining the remuneration of executive officers. The Representative Director submits a plan to the Nomination and Remuneration Committee, which examines the plan and makes recommendations, based on which results the remuneration is determined. There are two types of standard remuneration for directors: remuneration reflecting their role as directors based on their individual duties (fixed part), and remuneration for their performance based on the Company's performance and each director's achievements in the field for which they are responsible (variable part). The maximum limit for executive remuneration is decided within the range set at the general meeting of shareholders (up to ¥35 million per month for directors, and up to ¥4 million per month for *Kansayaku*). The total remuneration for executive officers is disclosed to the public.

# Governance

## 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 2017.

Assessment procedure	Questionnaires were distributed to nine directors and four <i>Kansayaku</i> to survey the effectiveness of the Board, and the answers were collected. The board and the corporate governance committee, in which outside directors and outside <i>Kansayaku</i> make up a majority, conducts analysis and assessment.
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 <i>Kansayaku</i> of the Board are committed to presenting and deliberating their opinions actively while ensuring the fairness and transparency with diverse perspectives and four independent outside directors. The Board maintains the effectiveness of important decision-making in management and supervision of business execution properly. In addition, the assessment revealed that the Board is involved effectively in determining important policies by reviewing the corporate philosophy and conduct guidelines. On the other hand, it also confirmed points to be improved, such as the penetration of management strategy and other key policies within the company, monitoring and supervision of the progress level of key challenges, deepening of discussions about key projects and active information collection of each director and <i>Kansayaku</i> .

**Message from the outside director**

The Daiken Group is committed to transparent management and the maintenance of soundness.

Koji Mizuno  
Outside Director



The Daiken Group contributes to creating safe, sound, and comfortable spaces as a corporation that directly connects to people's daily lives. Since its founding, Daiken has worked to develop products in harmony with the environment as a corporation handling wood materials. I am attracted to Daiken's business that contributes to the environmental conservation. My wish is that Daiken will make a leap forward as an all-embracing company for building materials that makes a social contribution.


In order to make the long-term vision GP25 a reality, it is crucial to execute customer-orientated management without being sidetracked. In addition, while it is necessary to further strengthen corporate governance to ensure transparency and making rapid decisions, I believe the governance system of the Daiken Group is becoming stronger year after year.

As an outside director, I am committed to understanding the environment of the Daiken Group more than ever to actively and freely offer comments to contribute to the sustainable improvement of its corporate value.

**Message from the outside *Kansayaku***

My goal is to reinforce the governance structure to increase corporate value.

Masafumi Inoue  
Outside *Kansayaku*



The Daiken Group has established the group corporate philosophy consisting of Our Mission, Our Vision, and Our Values. All Group employees share the philosophy based on conduct guidelines. The Group is working as one under the Medium-Term Management Plan to achieve the mission to make the long-term vision GP25 a reality.

The Medium-Term Management Plan sets the Group's goals to exploit the public and commercial buildings market and the global markets, as well as to expand the new business domain through investments. Because the new agenda requires the formulation of a better governance system, the Daiken Group aims to further increase corporate value to meet social expectations by monitoring a system where stakeholders can mutually check the key audit items.

In addition, the Daiken Group will focus on the promotion of workstyle changes for employees, which is necessary to achieve these goals.



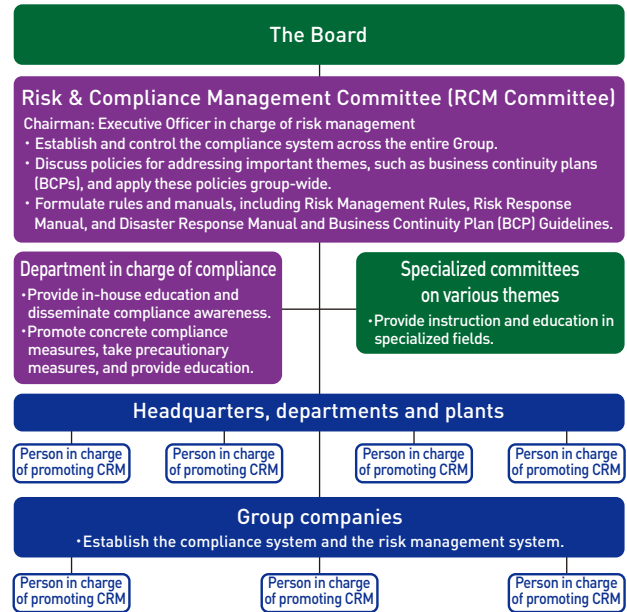
## Compliance/Risk management

### Promotion of Compliance/Risk management.

The Daiken Group has established a Risk & Compliance Management Committee (RCM Committee). With the executive officer in charge of risk management serving as its chairperson, membership includes executive officers in charge of the business administration, sales, and operational and legal compliance fields. The RCM Committee formulates various rules and manuals that enable the management system to function effectively to identify, evaluate and respond to potential risks. It also promotes compliance and risk management throughout the Daiken Group, deliberates on problems, and determines the measures to be implemented to resolve them.

Meanwhile, each subsidiary has assigned a person to promote RCM as part of our compliance and risk management system. The departments in charge of compliance manage compliance measures across the entire Daiken Group, including subsidiaries.

### Compliance/Risk management Promotion System



## Establishing various routes as the whistleblowing contact points

### Enhanced whistleblowing contact points for various harassments.

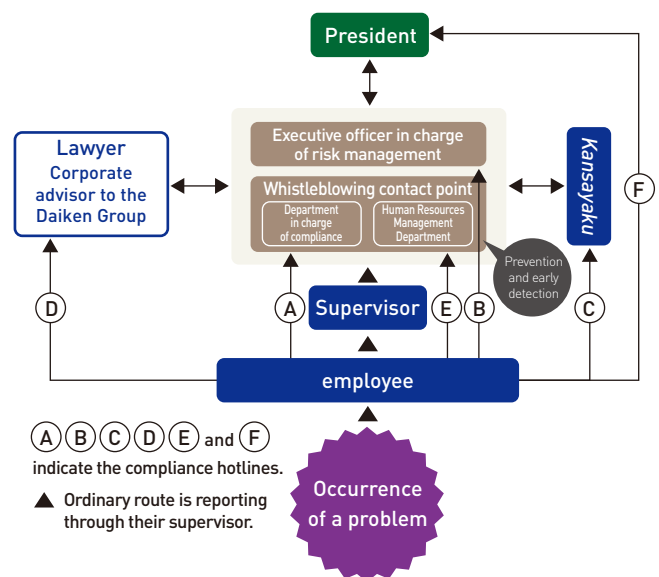
To prevent the violation of laws and company rules in advance and ensure early detection, the Daiken Group has whistleblowing contact points as a direct reporting route in cases where it is difficult to report through regular office organization. In addition, the Group implements measures to ensure that the whistle-blowers will not receive detrimental treatment after reporting.

The following contact points have been added:

- Ⓐ. Department in charge of compliance
- Ⓑ. Executive Officer in charge of risk management
- Ⓒ. *Kansayaku*, who can respond to items at the director level.
- Ⓓ. Corporate advisor who serves as an outside contact point.
- Ⓔ. Department in charge of human resources designed to make reporting easier in cases of harassment starting fiscal 2017.
- Ⓕ. The president starting from May 2017, allowing employees to anonymously blow a whistle.

The direct phone numbers and email addresses are listed under the hotline menu on the top page of the internal website to further make the initiative widely known.

### Compliance hotline flow



# With the Society

## Customers

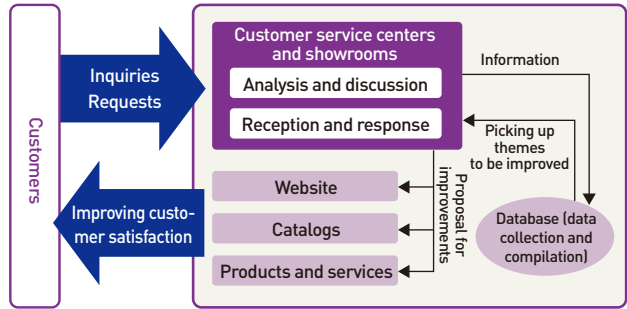
### Improving customer satisfaction

Information utilization system in response to customer voices.

We have customer service centers that listen directly to the opinions of our customers to gather feedback on what they think of our products. We would like to improve the trust customers place in us by responding quickly and sincerely to their honest opinions.

Information obtained through our customer service centers and showrooms is automatically collected and compiled into a database. We extract the essential information from the database and feed it back to the departments concerned. This system has proved effective in improving our website and catalogs and developing new products, thus resulting in even better manufacturing and services that answer the needs of our customers.

Flow showing how our customers' suggestions are reflected back into our products and services



### Quality Control

Enhancing quality through quality auditing and education.

We are working to strengthen our quality assurance system and ensure product quality and safety through quality auditing and education. We carry out internal audits for each department in the Daiken Group, product audits, and second-party audits for our OEM clients. These audits provide instructions on how to improve our quality management system (QMS). To disseminate the QMS, mutual internal audits are conducted by audit teams whose members include internal auditors from other departments.

In January 2017, external experts were invited to hold a lecture on the theme of adhesives, which are essential for building materials. Nearly 100 employees including those in charge of development joined to deepen their understanding about characteristics and assessment procedure.



The fourth lecture for the Quality Assurance Department

### Communication with customers

Active participation in exhibitions with an aim of increasing the awareness of our products for public spaces and commercial facilities.

In fiscal 2017, Daiken Corporation actively took part in exhibitions with the aim of increasing the awareness of our products for public spaces and commercial facilities. In addition to joining the Second Retail Premises and Facilities Exhibition held in Tokyo Big Site for the first time in October, our products were exhibited at the 45<sup>th</sup> International Hotel and Restaurant Show (Tokyo Big Sight) in February 2017, as well as the Japan Shop 2017 (Tokyo International Exhibition Center) in March. Daiken's products for hotels, inns, retail premises and offices, including noise-proof flooring with excellent design, wall materials with superior workability and easy-to-maintain tatami mats, were showcased at the exhibitions.

Moving forward, we will continue to actively propose products designed for public spaces and commercial facilities through exhibitions.



The Second Retail Premises and Facilities Exhibition

# Suppliers

## CSR Procurement Policy and Standards

Procurement Policy	Purchase Control Rules	Green Procurement Standards	CSR Procurement Standards
<ol style="list-style-type: none"> <li>1. Compliance with laws and regulations</li> <li>2. Fair and even-handed dealings</li> <li>3. Sharing excellent value</li> <li>4. Promotion of green procurement</li> <li>5. Promotion of CSR procurement</li> <li>6. Relationship of trust and co-prosperity</li> </ol>	<ol style="list-style-type: none"> <li>1. Quality</li> <li>2. Prices</li> <li>3. Delivery time</li> <li>4. Capabilities for technological development</li> <li>5. Services</li> <li>6. Management conditions</li> </ol>	<ol style="list-style-type: none"> <li>1. Environmental management system</li> <li>2. Chemical substance management</li> <li>3. Wood from legitimate sources</li> </ol>	<ol style="list-style-type: none"> <li>1. Respect for human rights</li> <li>2. Compliance with laws and regulation</li> <li>3. Occupational safety and health</li> <li>4. Fair transactions</li> <li>5. Information management</li> <li>6. Coexistence with society</li> </ol>

## Communication with suppliers

### Management policy briefing session for our business partners and suppliers.

Daiken Corporation holds management policy briefing session for business partners, suppliers, and logistics companies every year. For fiscal 2017, the briefing session was held on July 7 at Hilton Tokyo Odaiba by inviting 114 participants from 80 companies. President Okuda explained the corporation's directionality of the Medium-Term Management Plan, management policy for the fiscal year and prioritized measures. Other departments also shared their information to deepen cooperation.

In addition, on July 13, 33 companies were invited to the management policy briefing session at Hotel Granvia Okayama. The policy briefing sessions were also held by other departments all around the country.



Management policy briefing session for fiscal 2017

## CSR Procurement

### Survey for domestic plants and suppliers.

Starting March 2016, an online survey was launched on the status of CSR implementation by our business partners and suppliers. For fiscal 2017, the questionnaire was distributed to four domestic plants and 237 suppliers.

The survey results will be provided to the respondents. We will ask our suppliers to correct problems, or make necessary improvements if they continue to score low. Where necessary, we will ask them to submit a corrective action report where necessary.

We will continue to implement the survey to understand the actual condition to make improvements as part of our efforts to further promote CSR procurement.



Sample of CSR questionnaire



Example of feedback to the CSR questionnaire results

# With the Society

## Employees

### Reduced long working hours

Self-improvement incentives are offered to promote the workstyle change.

At Daiken Corporation, the president declared a ban on working before 7 a.m. and overtime working after 8 p.m.\* Starting March 2017, the workstyle change project was launched and in May, the workstyle change promotion preparatory office was set by the General Affairs and Personnel Department with the goals of reinforcing the organizational structure and accelerating the effort toward realization.

For the summer bonus, full-time employees, contract employees, temporary employees, and full-time non-employees received ¥30,000 across the board as self-improvement incentives. This helps to give a boost to improved skills among personnel, consequently leading to the reduction of long working hours.

\*Personnel working directly for the plant department and shift workers are excluded.



A review meeting for promoting women's active participation  
(Office: Workstyle change promotion preparatory office)

### Work-life balance

Daiken Group acquired the “Kurumin” certification.

In May 2017, Daiken Group obtained the “Kurumin” certification, which the Ministry of Health, Labour and Welfare recognizes corporations supporting employees who are raising children. The Group has been making efforts to create a fulfilling work environment where each employee can work actively in good health, as well as to enhance the systems.

It is Daiken's commitment to continuously promote work-life balance and actively make efforts to create a work environment where employees can balance work with child raising.



### Occupational safety and health

Mutual safety diagnosis is implemented to improve the worksite capabilities.

On the premise of prioritizing safety above all, Daiken Group is working to maintain and improve a workplace environment that ensures safety without work-related injuries. With an aim of raising the level especially in production sites, the Daiken Group mutual safety diagnosis is implemented in four plants in Japan, seven group manufacturers and three overseas companies every year.

For fiscal 2017, Daiken sets key agendas of ensuring compliance with rules and improved worksite capabilities. The safety diagnosis was joined by worksite leaders, including unit head, shift leader and group leader, to focus on creating the structure of compliance with rules. For the future, Daiken is pledged to continue safety diagnosis according to challenges in worksites to create a safe workplace.



Worksite diagnosis for mutual safety checks

### Human resource development

Managers received training for promoting active participation of female employees.

To further promote active participation, Daiken Corporation believes it is important to change the awareness of managers who are supervisors for female employees besides themselves. To that end, for fiscal 2017, in addition to providing skill improvement training for female employees, managers who supervise female employees received diversity management training.

For future, Daiken Corporation is pledged to deepen the awareness and understanding of the necessity for all managers to promote diversity by continuing follow-ups for managers through training. We will aim to form a work culture that supports active participation of female employees.

# Shareholders and investors

## IR communication

Building a trustworthy relationship through IR activities, results briefing, and individual meetings.

In addition to holding annual meetings of shareholders (the end of June), Daiken Group holds presentations for financial results for investment analysts and institutional investors on a regular basis to explain about the outline of financial results and business plans. In addition, individual meetings are held quarterly by inviting institutional investors in consideration of mutual communication. Through direct dialog, we aim to reflect their expectations in our management.



Presentations for financial results

## Proper information disclosure

A renewed corporate website for better communication.

A new corporate website of Daiken Corporation was launched in June 2017. The updated page design helps various stakeholders to have a better understanding of the Daiken Group for better usability.

In addition, as an informative tool for IR, the business performance information is highlighted to offer enhanced stock information. We will continue to actively utilize the website to disclose unbiased information to shareholders, investors and other stakeholders.



IR website page

# Local community

## Sports promotion

By supporting the Soccer J1 Gamba Osaka, Daiken will contribute to promotion and activation of sports.

Daiken Corporation is an official partner of Gamba Osaka in the Soccer J1 League. We take part in sponsorship program for Gamba Osaka Academy aimed at nurturing soccer players for the next generation to support their activities.

In November 2016, we held a rally to encourage Gamba Osaka Youth (U-18) and Junior Youth (U-15) in cooperation with corporations and schools supporting the academy to boost exchanges with players and staff.

We will continue to support youth's dreams for the future through our sponsorship of the academy.



# For the Environment

## Medium-Term Environmental Plan

As part of our effort for realizing a recycling-oriented and low-carbon society, we are following goals to take actions towards them.

### 5<sup>th</sup> Medium-Term Environmental Plan (from fiscal 2017-2019)

Theme and content			Goal	Result
			Fiscal 2019 (Indicator BM: Fiscal 2015)	Fiscal 2017
<b>Eco-friendly products</b>	Contribution for achieving sales targets in the final year of the medium-term plan (fiscal 2019) by expanding eco-friendly products and their sales.	Development of eco-friendly products that contribute to reducing the environmental burden	Number of new products five items/year	6 items
<b>Contribution for building a low-carbon society</b>	Introduce carbon fixation by using wood.	Fixation through the supply of recycled wood boards	Volume of carbon fixation (CO <sub>2</sub> equivalent) 800,000 t-CO <sub>2</sub> /year  BM: 794,000 t-CO <sub>2</sub> /year (breakdown) MDF: 630,000 t-CO <sub>2</sub> /year IB: 164,000 t-CO <sub>2</sub> /year	777,000 t-CO <sub>2</sub> /year (breakdown) MDF: 633,000 t-CO <sub>2</sub> /year IB: 144,000 t-CO <sub>2</sub> /year
	Reduce CO <sub>2</sub> * emissions from energy sources. * CO <sub>2</sub> : emitted by the combustion of fuels or the use of electricity or heat supplied by a third party	Reduction of emissions by the domestic production sites	Discharge rate 62.5 (t-CO <sub>2</sub> /¥100 million) or below BM:69.7 (t-CO <sub>2</sub> /¥100 million)	62.2 (t-CO <sub>2</sub> /¥100 million)
		Promotion of energy savings through the introduction of energy-saving equipment and improvement of efficiency in equipment operation	Total emissions 110,000 t-CO <sub>2</sub> or below/year (CO <sub>2</sub> emission factor for electric power is fixed at the value of fiscal 2014) BM: 125,700 t-CO <sub>2</sub> /year (BM is the result in fiscal 2014)	105,100t-CO <sub>2</sub> (CO <sub>2</sub> emission factor for electric power is fixed at the value of fiscal 2014)
		Reduction of emissions from logistics and transport divisions	Unit of energy use 44.7 kl/1 million ton-kilo or below (reduction by more than 1% in annual average) BM: 46.6 kl/million ton-kilo (Reference: CO <sub>2</sub> emissions 23,700t-CO <sub>2</sub> /year)	48.4 kl/million ton-kilo
<b>Contribution for creating a recycling-oriented society</b>	Promote the 3Rs* to reduce the volume of waste destined for final disposal. *Reduce, Reuse, and Recycle	Promotion of recycle and conversion of waste into valuables	Final disposal rate (ratio of volume disposed of in landfill outside the company) 5% or below BM: 8.2%	7.2%
		Material recycle of construction waste wood	Ratio of old material/virgin material: 90% (Ratio of old material/virgin material BM: 86%)	92%
	Introduce the cascading use of wood	Use of wood biomass energy (internal use)	Input amount of wood biomass energy 1,350TJ (116% compared to fiscal 2015) BM: 1,162TJ Use of fuel chip 95,000 t/year BM: 82,000 t/year	1,370TJ (118% compared to fiscal 2015)  97,000 t/year
<b>Contribution for biodiversity</b>	Procure wood in a biodiversity friendly way	Improvement in the rate of use of certified wood, domestically produced wood, planted trees, and recycled board, etc.	Use rate of non-certified natural plywood: 15% or below BM: 18.2%	15.1%
	Strengthen cooperation with supply chains	Dissemination and proper management of green procurement in the supply chain	Coverage of applicable companies (consent acquisition rate) 100%	99%
<b>Strengthen environmental risk management</b>	Identify, prevent, and minimize environmental risks	Operation and continuous improvement of environment management system  Environmental education	Environmental accident/violation 0	0
	Improve our ability to satisfy regulations governing chemical substances	Establishment and operation of a system for appropriate management of chemical substances (also considering introduction of a management system)	System operation	Introduced a management system and started operation with a new system.

## Reducing waste and recycling

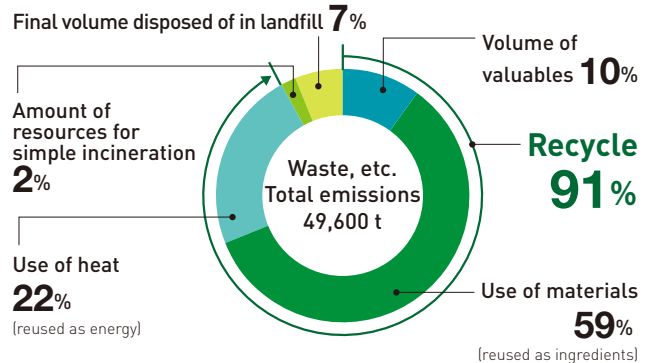
### Current rate of recycling waste 91%

Daiken Group is striving to reduce and recycle waste in an effort to realize a sustainable society.

The waste emissions in the Daiken Group were 49,600 tons in fiscal 2017, and its recycling rate\*1 was 91.1%. We continue to improve the recycling rate.

\*1 Recycling rate = Amount of recycled resources/Total emission of waste x 100(%),  
Amount of recycled resources = Valuable + Use of materials + Use of heat

#### Breakdown of waste processing



## Contribution for realization of low-carbon society

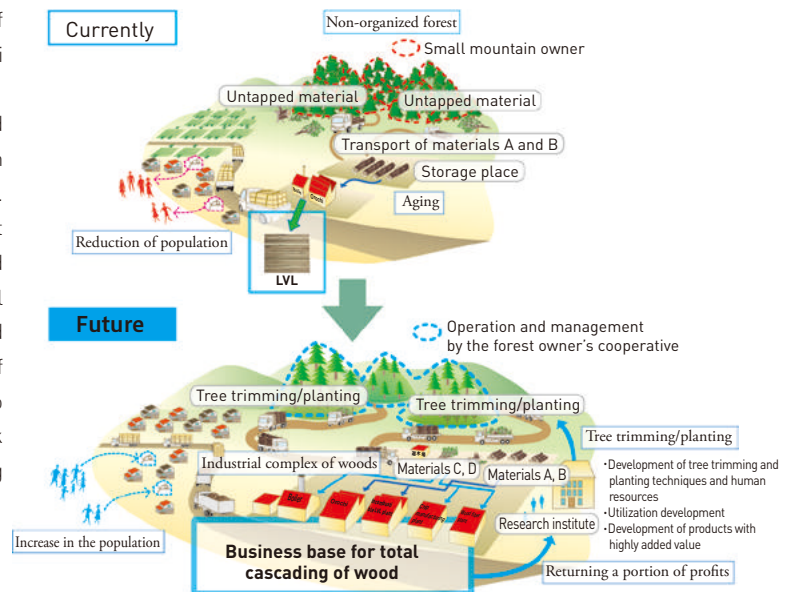
### Launched a project of total cascading of woods

In November 2016, we launched a project of total cascading of woods and started detailed discussion with Nichinan-cho in Tottori Prefecture, a forest owner's cooperative, and local companies.

This project is a new initiative for fully using local wood resources. It is part of an effort to realize total use of woods, which is one of the key measures of the Medium-Term Management Plan.

As the first business project, we developed a soil improvement additive DW fiber in collaboration with JCE Co., Ltd., and started making proposals since May 2017. The DW fiber is a soil improvement additive created by spreading domestically produced wood chips and adding fulvic acid\*, which facilitates the growth of plants. We will propose the product at a nationwide level to municipalities and contractors engaging in civil engineering work for additional soil needed for forming windbreak forest or greening slopes by spraying work.

\*Fulvic acid: A humic acid existing in forests and soils. It activates and promotes photosynthesis of plants. JCE Co., Ltd. is the owner of patents for technology to artificially generate fulvic acid.



Conceptual image of commercializing total cascading of woods



Wood chip



Soil improvement additive DW fiber



Formation of additional soil



Aerial greening work



Conceptual image of greening



Greening by spraying work

# For the Environment **E**



## Effective utilization of recycled resources

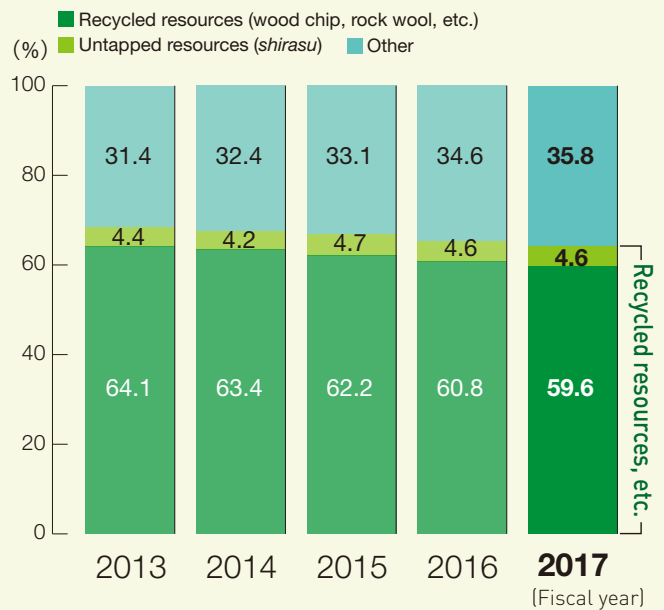
Current rate of using recycled resources on products **64.2%**

The Daiken Group is committed to the effective use of wood resources and untapped resources in developing and producing its products, as part of its efforts to realize a recycle-oriented society,

In fiscal 2017, the Daiken Group's total resource input was 323,000 tons with the ratio of recycled resources used standing at 64.2%.\*

We will continue to maintain and improve this ratio.

\*Ratio of recycled resources = Recycled resources used in producing products / total resources used x 100(%), recycled resources used in producing products = Recycled resources + unused resources



## 1. Recycle of woods

### Fully using wood resources by refining its manufacturing technologies

The Daiken Group promotes the recycling of woods by promoting wood planting, appropriate use of forest trees, and recycling products that have been used once.

In particular, we have been working on the effective use of wood resources for more than 50 years. As a result, we developed manufacturing technologies to use chips and residual wood offcuts generated by demolishing buildings, which had been wasted before. The recycling rate of insulation board was increased to 90%. The product is lightweight and superior in heat insulation, moisture absorption-desorption, and cushioning properties, and its quality is also highly evaluated by the market.

#### Insulation board

Wood fiberboard uses waste wood generated from the demolition of buildings as ingredients, which is a procurement item specified in the Green Purchasing Law.



#### MDF

Wood fiberboard uses residual wood offcuts generated from the demolition of buildings as ingredients, which is a procurement item specified in the Act on Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities.



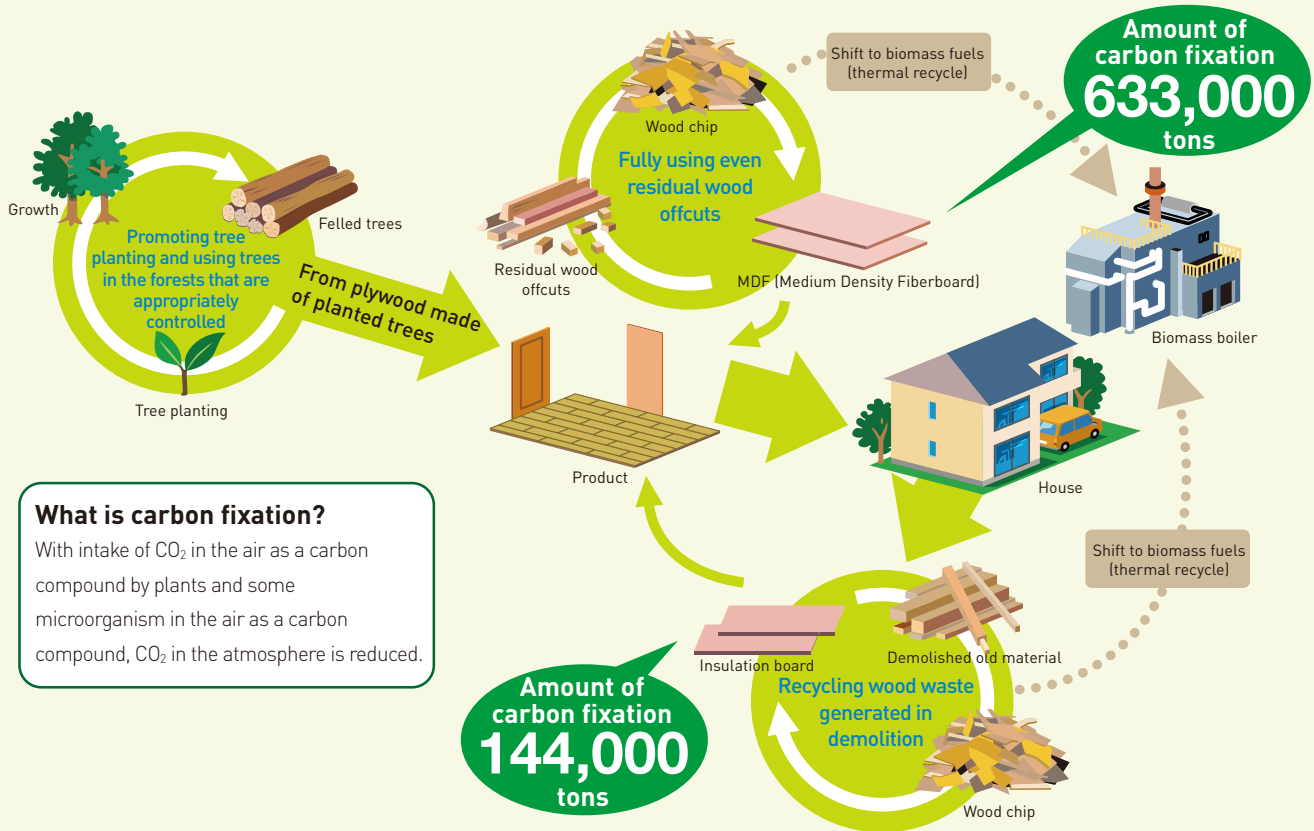
### Shifting the energy source in the manufacturing process to a wood biomass boiler

Daiken Corporation additionally installed a wood biomass boiler, which uses wood chips generated from construction wood waste, in its Okayama factory, which started operation from July 2016.

In the Okayama factory, there was a problem where the energy consumption of boiler used for generating heating steam

in the drying process was high. To address the problem, measures included the installation of a wood biomass boiler in 2007, and energy sources used for drying process using steam are now fully shifted to biomass energy. This will reduce annual CO<sub>2</sub> emissions by approximately 40,000 tons compared to that of 2006.





## 2. Effective use of untapped resources

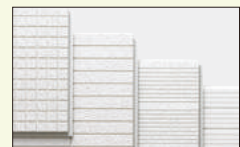
### Commercializing mineral resources that were not used before with unique technologies

The Daiken Group commercializes byproducts produced in ironmaking, such as slag and *shirasu* (volcanic ash), which were not used before, with special processing to use them as ingredients. We are working towards a recyclable society by suppressing consumption of natural resources.

Further research is conducted to enable the product to demonstrate superior performance not only from an environmental perspective but also from a functional perspective, including non-combustibility and durability. It offers wide applications from the home domain to the industry domain, thereby contributing to society even more.

#### Dai-Lotone

The rock wool sound-absorbing board is manufactured using slag wool (fibered slag, which is a by-product produced in ironmaking) as raw material.



#### Dai-Lite

The inorganic panel is manufactured by making effective use of slag wool, a recycled material, and *shirasu* (volcanic soil), an untapped resource.



### Contribution for the promotion of earthquake resistance and local revitalization by ecological based materials

Daiken Corporation released Dai-Lite, the world's first material using *shirasu* as the main raw material, in 1997. It has grown and come to be renowned as a leading brand of inorganic bearing surface members intended for wooden houses and promoted anti-seismic houses.

Increasing the share of products using *shirasu* not only suppresses the consumption of natural resources but also contributes to local revitalization. For example, in the area in Kyushu where we collected *shirasu*, which is also a cause of debris flow, soil was improved, and now the area is filled with paddy fields. This is how we help revitalize local areas.

# 10-Year Summary of Consolidated Financial Data

	Fiscal year ended March 2008	Fiscal year ended March 2009	Fiscal year ended March 2010	Fiscal year ended March 2011
Net sales .....	166,588	150,325	140,936	141,506
Operating profit .....	2,896	1,830	3,010	4,349
Ordinary profit .....	2,613	1,331	2,819	4,373
Profit attributable to owners of parent .....	791	598	511	1,375
Capital expenditures .....	4,490	2,934	2,785	3,765
Depreciation .....	3,927	4,054	4,197	4,574
R&D expenses .....	1,657	1,526	1,471	1,464
Cash flows from operating activities .....	(3,776)	1,805	3,141	4,438
Cash flows from investing activities .....	(4,566)	(2,897)	(3,286)	(2,618)
Cash flows from financing activities .....	3,699	(1,793)	1,135	(7,095)
Free cash flows .....	(8,343)	(1,091)	(145)	1,819
Total assets .....	132,875	125,080	123,862	115,969
Net assets .....	37,053	34,562	36,663	36,839
Book value per share (BPS) (¥) .....	1,329.29	1,233.28	1,302.61	1,327.08
Earnings per share (EPS) (¥) .....	30.37	23.18	20.04	54.41
Dividend per share (¥) .....	37.50	31.25	25.00	31.25
Dividend payout ratio (%) .....	123.6%	134.7%	124.8%	57.4%
Equity ratio (%) .....	26.0%	25.2%	26.8%	28.7%
Return on equity (ROE) (%) .....	2.2%	1.8%	1.6%	4.1%
Return on assets (ROA) (%) .....	1.9%	1.0%	2.3%	3.6%
Operating profit ratio (%) .....	1.7%	1.2%	2.1%	3.1%
Employees (Consolidated) (Persons) .....	3,414	3,252	3,255	3,189

\* As we consolidated shares at a rate of one share per five ordinary shares as of October 1, 2016, we conducted retroactive adjustment calculations to make it easy to compare figures.

\* For more information about our financial statements, please refer to our securities report posted on our website. <https://www.daiken.jp/company/ir/document/>

(¥million)

Fiscal year ended March 2012	Fiscal year ended March 2013	Fiscal year ended March 2014	Fiscal year ended March 2015	Fiscal year ended March 2016	Fiscal year ended March 2017
151,209	158,153	180,392	168,833	168,141	<b>168,848</b>
4,542	4,703	3,577	3,452	5,586	<b>8,515</b>
4,600	5,669	5,025	4,648	5,281	<b>9,021</b>
874	1,318	2,546	2,736	3,988	<b>5,116</b>
2,758	4,036	3,274	3,206	3,508	<b>4,757</b>
4,217	4,107	3,990	4,093	4,068	<b>3,506</b>
1,470	1,453	1,342	1,349	1,430	<b>1,477</b>
9,074	2,624	9,663	9,299	6,016	<b>10,547</b>
(3,218)	(2,033)	(5,168)	(4,072)	(5,972)	<b>(4,231)</b>
(1,929)	224	(1,054)	(2,635)	(5,486)	<b>(6,741)</b>
5,856	591	4,494	5,227	43	<b>6,316</b>
125,469	131,618	135,890	135,596	130,315	<b>132,171</b>
36,949	39,870	41,419	44,984	43,833	<b>49,086</b>
1,337.57	1,434.53	1,480.47	1,669.47	1,692.28	<b>1,933.96</b>
34.83	52.53	101.46	111.70	164.67	<b>212.26</b>
37.50	37.50	37.50	37.50	50.00	<b>64.00</b>
107.7%	71.4%	37.0%	33.6%	30.4%	<b>30.2%</b>
26.8%	27.4%	27.3%	29.9%	31.3%	<b>35.3%</b>
2.6%	3.8%	7.0%	7.0%	9.8%	<b>11.7%</b>
3.8%	4.4%	3.8%	3.4%	4.0%	<b>6.9%</b>
3.0%	3.0%	2.0%	2.0%	3.3%	<b>5.0%</b>
3,183	3,194	3,141	3,191	3,060	<b>3,071</b>

## Consolidated Balance Sheet

(¥million)

	Previous consolidated fiscal year (March 31, 2016)	Current consolidated fiscal year (March 31, 2017)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits .....	11,134	<b>10,474</b>
Notes and accounts receivable-trade .....	37,372	<b>37,772</b>
Electronically recorded monetary claims-operating .....	-	<b>4,223</b>
Securities .....	-	<b>19</b>
Merchandise and finished goods .....	9,018	<b>7,455</b>
Work in process .....	3,188	<b>3,546</b>
Raw materials and supplies .....	4,727	<b>4,339</b>
Deferred tax assets .....	1,953	<b>2,425</b>
Other .....	2,086	<b>2,209</b>
Allowance for doubtful accounts .....	(229)	<b>(110)</b>
Total current assets .....	69,252	<b>72,356</b>
<b>Non-current assets</b>		
Property, plant and equipment		
Buildings and structures, net .....	8,823	<b>8,497</b>
Machinery, equipment and vehicles, net .....	9,884	<b>10,982</b>
Land .....	15,621	<b>14,254</b>
Leased assets, net .....	180	<b>148</b>
Construction in progress .....	2,119	<b>451</b>
Other, net .....	1,784	<b>1,768</b>
Total property, plant and equipment .....	38,413	<b>36,103</b>
Intangible assets		
Goodwill .....	12	<b>195</b>
Software .....	2,093	<b>2,229</b>
Other .....	326	<b>312</b>
Total intangible assets .....	2,432	<b>2,738</b>
Investments and other assets		
Investment securities .....	15,286	<b>16,471</b>
Net defined benefit asset .....	1,373	<b>1,776</b>
Deferred tax assets .....	1,440	<b>207</b>
Other .....	2,081	<b>2,505</b>
Allowance for doubtful accounts .....	(46)	<b>(41)</b>
Total investments and other assets .....	20,135	<b>20,919</b>
Total non-current assets .....	60,980	<b>59,760</b>
<b>Deferred assets</b>		
Bond issuance cost .....	82	<b>54</b>
Total deferred assets .....	82	<b>54</b>
<b>Total assets</b> .....	<b>130,315</b>	<b>132,171</b>

(¥million)

Previous consolidated fiscal year (March 31, 2016)	Current consolidated fiscal year (March 31, 2017)
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## Liabilities

### Current liabilities

Notes and accounts payable-trade .....	23,819	<b>21,000</b>
Electronically recorded obligations-operating .....	-	<b>3,405</b>
Short-term loans payable .....	8,078	<b>6,232</b>
Current portion of bonds .....	-	<b>5,000</b>
Current portion of long-term loans payable .....	4,730	<b>4,143</b>
Lease obligations .....	41	<b>43</b>
Accounts payable-other .....	17,742	<b>17,829</b>
Income taxes payable .....	643	<b>1,088</b>
Accrued consumption taxes .....	527	<b>707</b>
Provision for bonuses .....	1,749	<b>2,153</b>
Provision for product warranties .....	988	<b>1,108</b>
Deferred tax liabilities .....	45	-
Other .....	3,010	<b>2,856</b>
<b>Total current liabilities .....</b>	<b>61,378</b>	<b>65,569</b>

### Non-current liabilities

Bonds payable .....	10,400	<b>5,400</b>
Long-term loans payable .....	8,015	<b>5,378</b>
Lease obligations .....	172	<b>139</b>
Deferred tax liabilities .....	933	<b>1,634</b>
Provision for product warranties .....	2,080	<b>1,316</b>
Net defined benefit liability .....	3,228	<b>3,401</b>
Negative goodwill .....	53	<b>43</b>
Other .....	219	<b>201</b>
<b>Total non-current liabilities .....</b>	<b>25,103</b>	<b>17,515</b>

### Total liabilities

86,482	<b>83,084</b>
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## Net assets

### Shareholders' equity

Capital stock .....	13,150	<b>13,150</b>
Capital surplus .....	11,655	<b>11,943</b>
Retained earnings .....	15,143	<b>19,084</b>
Treasury shares .....	(1,429)	<b>(1,430)</b>
<b>Total shareholders' equity .....</b>	<b>38,519</b>	<b>42,747</b>

### Accumulated other comprehensive income

Valuation difference on available-for-sale securities .....	3,413	<b>4,762</b>
Deferred gains or losses on hedges .....	163	<b>97</b>
Foreign currency translation adjustment .....	257	<b>(384)</b>
Remeasurements of defined benefit plans .....	(1,563)	<b>(609)</b>
<b>Total accumulated other comprehensive income .....</b>	<b>2,269</b>	<b>3,865</b>

### Non-controlling interests

3,043	<b>2,472</b>
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### Total net assets

43,833	<b>49,086</b>
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### Total liabilities and net assets

130,315	<b>132,171</b>
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## Consolidated Statements of Income

(¥million)

	Previous consolidated fiscal year (April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (April 1, 2016 to March 31, 2017)
<b>Net sales</b> .....	168,141	<b>168,848</b>
<b>Cost of sales</b> .....	127,452	<b>125,224</b>
<b>Gross profit</b> .....	40,689	<b>43,623</b>
<b>Selling, general and administrative expenses</b> .....	35,102	<b>35,107</b>
<b>Operating profit</b> .....	5,586	<b>8,515</b>
<b>Non-operating profit</b>		
Interest profit .....	64	<b>69</b>
Dividend income .....	318	<b>374</b>
Rent income .....	173	<b>188</b>
Dividend income of life insurance .....	57	<b>46</b>
Amortization of negative goodwill .....	11	<b>10</b>
Share of profit of entities accounted for using equity method .....	44	<b>46</b>
Reversal of allowance for doubtful accounts .....	52	<b>2</b>
Miscellaneous profit .....	515	<b>459</b>
Total non-operating profit .....	1,239	<b>1,196</b>
<b>Non-operating expenses</b>		
Interest expenses .....	351	<b>246</b>
Sales discounts .....	143	<b>138</b>
Loss on sales of accounts receivable .....	55	<b>35</b>
Foreign exchange losses .....	909	<b>169</b>
Miscellaneous expenses .....	84	<b>100</b>
Total non-operating expenses .....	1,544	<b>689</b>
<b>Ordinary profit</b> .....	5,281	<b>9,021</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets .....	8	<b>30</b>
Gain on sales of investment securities .....	7	<b>95</b>
State subsidy .....	-	<b>412</b>
Compensation income .....	-	<b>90</b>
Insurance income .....	2,601	-
Other .....	109	-
Total extraordinary profit .....	2,726	<b>628</b>
<b>Extraordinary losses</b>		
Loss on sale of non-current assets .....	-	<b>11</b>
Loss on retirement of non-current assets .....	441	<b>516</b>
Loss on reduction of non-current assets .....	-	<b>412</b>
Impairment loss .....	-	<b>1,181</b>
Amortization of goodwill .....	686	-
Loss on sales of investment securities .....	-	<b>1</b>
Loss on valuation of investment securities .....	-	<b>204</b>
Other .....	4	<b>87</b>
Total extraordinary losses .....	1,133	<b>2,415</b>
<b>Profit before income taxes</b> .....	6,875	<b>7,235</b>
<b>Income taxes – current</b> .....	726	<b>1,234</b>
<b>Income taxes – deferred</b> .....	2,000	<b>463</b>
<b>Total income taxes</b> .....	2,727	<b>1,698</b>
<b>Profit</b> .....	4,148	<b>5,536</b>
<b>Profit attributable to non-controlling interests</b> .....	159	<b>420</b>
<b>Profit attributable to owners of parent</b> .....	3,988	<b>5,116</b>

# Consolidated Statements of Comprehensive Income

(¥million)

	Previous consolidated fiscal year ( April 1, 2015 to March 31, 2016 )	Current consolidated fiscal year ( April 1, 2016 to March 31, 2017 )
<b>Profit</b> .....	4,148	<b>5,536</b>
Other comprehensive profit		
Valuation difference on available-for-sale securities .....	254	<b>1,350</b>
Deferred gains or losses on hedges .....	111	<b>(111)</b>
Foreign currency translation adjustment .....	(1,348)	<b>(873)</b>
Remeasurements of defined benefit plans, net of tax .....	(1,415)	<b>954</b>
Share of other comprehensive income of entities accounted for using equity method .....	(0)	<b>0</b>
Total other comprehensive income .....	(2,398)	<b>1,319</b>
<b>Comprehensive income</b> .....	1,750	<b>6,856</b>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent .....	1,861	<b>6,712</b>
Comprehensive income attributable to non-controlling interests ..	(111)	<b>144</b>

## Consolidated Statements of Changes in Net Assets

(¥million)

	Previous consolidated fiscal year ( April 1, 2015 to March 31, 2016 )	Current consolidated fiscal year ( April 1, 2016 to March 31, 2017 )
<b>Shareholders' equity</b>		
<b>Capital stock</b>		
Balance at beginning of current period	13,150	<b>13,150</b>
Balance at end of current period	13,150	<b>13,150</b>
<b>Capital surplus</b>		
Balance at beginning of current period	11,850	<b>11,655</b>
Change of scope of consolidation	(195)	<b>288</b>
Balance at end of current period	11,655	<b>11,943</b>
<b>Retained earnings</b>		
Balance at beginning of current period	13,478	<b>15,143</b>
Dividends of surplus	(1,093)	<b>(1,175)</b>
Profit attributable to owners of parent	3,988	<b>5,116</b>
Retirement of treasury shares	(1,229)	
Balance at end of current period	15,143	<b>19,084</b>
<b>Treasury shares</b>		
Balance at beginning of current period	(2,302)	<b>(1,429)</b>
Purchase of treasury shares	(357)	<b>(1)</b>
Retirement of treasury shares	1,229	
Balance at end of current period	(1,429)	<b>(1,430)</b>
<b>Total shareholders' equity</b>		
Balance at beginning of current period	36,177	<b>38,519</b>
Dividends of surplus	(1,093)	<b>(1,175)</b>
Profit attributable to owners of parent	3,988	<b>5,116</b>
Purchase of treasury shares	(357)	<b>(1)</b>
Change of scope of consolidation	(195)	<b>288</b>
Balance at end of current period	38,519	<b>42,747</b>
<b>Accumulated other comprehensive income</b>		
<b>Valuation difference on available-for-sale securities</b>		
Balance at beginning of current period	3,158	<b>3,413</b>
Net changes of items other than shareholders' equity, net	254	<b>1,349</b>
Balance at end of current period	3,413	<b>4,762</b>
<b>Deferred gains or losses on hedges</b>		
Balance at beginning of current period	83	<b>163</b>
Net changes of items other than shareholders' equity, net	80	<b>(66)</b>
Balance at end of current period	163	<b>97</b>
<b>Foreign currency translation adjustment</b>		
Balance at beginning of current period	1,303	<b>257</b>
Net changes of items other than shareholders' equity, net	(1,046)	<b>(641)</b>
Balance at end of current period	257	<b>(384)</b>
<b>Remeasurements of defined benefit plans</b>		
Balance at beginning of current period	(148)	<b>(1,563)</b>
Net changes of items other than shareholders' equity, net	(1,415)	<b>954</b>
Balance at end of current period	(1,563)	<b>(609)</b>
<b>Total accumulated other comprehensive income</b>		
Balance at beginning of current period	4,396	<b>2,269</b>
Net changes of items other than shareholders' equity, net	(2,126)	<b>1,595</b>
Balance at end of current period	2,269	<b>3,865</b>
<b>Non-controlling interests</b>		
Balance at beginning of current period	4,410	<b>3,043</b>
Net changes of items other than shareholders' equity, net	(1,367)	<b>(571)</b>
Balance at end of current period	3,043	<b>2,472</b>
<b>Total net assets</b>		
Balance at beginning of current period	44,984	<b>43,833</b>
Dividends of surplus	(1,093)	<b>(1,175)</b>
Profit attributable to owners of parent	3,988	<b>5,116</b>
Purchase of treasury shares	(357)	<b>(1)</b>
Change of scope of consolidation	(195)	<b>288</b>
Net changes of items other than shareholders' equity, net	(3,493)	<b>1,024</b>
Balance at end of current period	43,833	<b>49,086</b>



# Consolidated Statements of Cash Flows

(¥million)

	Previous consolidated fiscal year ( April 1, 2015 to March 31, 2016 )	Current consolidated fiscal year ( April 1, 2016 to March 31, 2017 )
<b>Cash flows from operating activities</b>		
Profit before income taxes .....	6,875	7,235
Depreciation .....	4,068	3,506
Impairment loss .....	-	1,181
Amortization of bond issuance cost .....	31	28
Loss on retirement of non-current assets .....	441	516
Loss (gain) on sales of non-current assets .....	(8)	(18)
Loss (gain) on sales of investment securities .....	(7)	(94)
Loss (gain) on valuation of investment securities .....	-	204
Amortization of goodwill .....	719	14
Increase (decrease) in allowance for doubtful accounts .....	(53)	(124)
Increase (decrease) in provision for bonuses .....	(112)	411
Increase (decrease) in provision for product warranties .....	625	(645)
Increase (decrease) in net defined benefit liability .....	2,327	(230)
Interest and dividend income .....	(383)	(443)
Interest expenses .....	351	246
Foreign exchange losses (gains) .....	219	49
Share of (profit) loss of entities accounted for using equity method .....	(44)	(46)
Insurance income .....	(2,601)	-
Decrease (increase) in notes and accounts receivable-trade .....	(4,814)	(4,598)
Decrease (increase) in inventories .....	26	1,351
Increase (decrease) in notes and accounts payable-trade .....	(907)	384
Decrease (increase) in consumption taxes refund receivable .....	(65)	(103)
Increase (decrease) in accrued consumption taxes .....	(210)	176
Other, net .....	(2,591)	2,281
Subtotal .....	3,887	11,280
Interest and dividend income received .....	383	443
Interest expenses paid .....	(360)	(249)
Income taxes paid .....	(495)	(927)
Proceeds from insurance income .....	2,601	-
Net cash provided by (used in) operating activities .....	6,016	10,547
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment .....	(5,453)	(3,921)
Proceeds from sales of property, plant and equipment .....	10	375
Purchase of investment securities .....	(191)	(1)
Proceeds from sales and redemption of investment securities .....	518	485
Purchase of shares of subsidiaries resulting in change in scope of consolidation .....	-	(157)
Other, net .....	(857)	(1,010)
Net cash provided by (used in) investing activities .....	(5,972)	(4,231)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term loans payable .....	(966)	(1,810)
Proceeds from issuance of bonds .....	4,958	-
Redemption of bonds .....	(5,000)	-
Proceeds from long-term loans payable .....	1,500	1,600
Repayments of long-term loans payable .....	(3,033)	(4,883)
Repayments of finance lease obligations .....	(43)	(44)
Proceeds from share issuance to non-controlling shareholders .....	234	-
Purchase of treasury shares .....	(357)	(1)
Cash dividends paid .....	(1,093)	(1,175)
Dividends paid to non-controlling interest .....	(42)	(18)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation .....	(1,642)	(408)
Other, net .....	-	0
Net cash provided by (used in) financing activities .....	(5,486)	(6,741)
<b>Effect of exchange rate change on cash and cash equivalents .....</b>	<b>(196)</b>	<b>(234)</b>
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>(5,640)</b>	<b>(660)</b>
<b>Cash and cash equivalents at beginning of period .....</b>	<b>16,774</b>	<b>11,134</b>
<b>Cash and cash equivalents at end of period .....</b>	<b>11,134</b>	<b>10,474</b>

# Company Information

## Corporate Profile

Company Name DAIKEN CORPORATION  
Founding September 26, 1945  
Paid-in capital ¥13,150,039,080

### Registered Head Office and Operational Locations

Registered Head Office: 1-1, Inami, Nanto City, Toyama, Japan  
Operational Headquarters: 3-2-4, Nakanoshima, Kita-ku, Osaka, Japan  
Tokyo Office: 12-8, Sotokanda 3-chome, Chiyoda-ku, Tokyo, Japan  
Major Sales Offices: Sapporo, Sendai, Tokyo, Kanazawa, Nagano, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka and Singapore

### Production Plants

Mie Plant  
[Tsu City, Mie Prefecture]  
Inami Plant  
[Nanto City, Toyama Prefecture]  
Okayama Plant  
[Minami-ku, Okayama City]  
Takahagi Plant  
[Takahagi City, Ibaraki Prefecture]



Nakanoshima Festival Tower West

### Subsidiaries part of the Group

#### <In Japan>

Daifit Co., Ltd. (Kurashiki City, Tottori Prefecture)  
Dai-wood Corporation (Iga City, Mie Prefecture)  
Setouchi Kakoh Co., Ltd. (Minami-ku, Okayama City)  
Toyama Juki Co., Ltd. (Tonami City, Toyama Prefecture)  
Dai-tac Corporation (Minami-ku, Okayama City)  
Aizu Daiken Kako K.K. (Aizuwakamatsu City, Fukushima Prefecture)  
C&H Co., Ltd. (Kishiwada City, Osaka Prefecture)  
Eco Techno Co., Ltd. (Chiyoda-ku, Tokyo)  
Daiken Engineering Corporation (Kita-ku, Osaka City)  
Koukou Sangyo Corporation (Chiyoda-ku, Tokyo)  
Sankei Corporation (Higashiosaka City, Osaka Prefecture)  
Daiken Home & Service Corporation (Kita-ku, Osaka City)  
Smile-Up Corporation (Kita-ku, Osaka City)  
Pac System Co., Ltd. (Shinagawa-ku, Tokyo)

#### <Overseas>

Daiken Industries (Ningbo) Corporation (Zhejiang Province, China)  
Daiken (Shanghai) Corporation (Shanghai City, China)  
PT. Daiken Dharma Indonesia (Jawa Timur Province, Indonesia)  
Daiken New Zealand Limited (Rangiora City, New Zealand)  
Daiken Sarawak Sdn Bhd. (Sarawak State, Malaysia)  
Daiken Miri Sdn Bhd. (Sarawak State, Malaysia)

## Directors and *Kansayaku* [as of June 23, 2017]



**Masanori Okuda**  
Representative Director,  
President



**Takashi Aihara**  
Representative Director,  
Senior Managing Director



**Tomoaki Kato**  
Representative Director,  
Senior Managing Director



**Takashi Terubayashi**  
Representative Director,  
Senior Managing Director



**Tatsuo Shibuya**  
Director



**Tetsuo Harima**  
Director



**Ken Suzuki**  
Director



**Koji Mizuno**  
Outside Director



**Kiyoshi Furube**  
Outside Director



**Kikuo Imamura**  
*Kansayaku*



**Toshio Fuyuki**  
*Kansayaku*



**Akio Hasunuma**  
*Outside Kansayaku*



**Masafumi Inoue**  
*Outside Kansayaku*

## Corporate History

1945: Founded [Succeeded all business of the Forestry Department at Daiken Sangyo Co., Ltd. and established as Daiken Mokuzai Kogyo Co., Ltd.]

1949: Listed in Osaka Stock Exchange

1957: Founded Daiken Wall Board Kogyo Co., Ltd., which is an affiliated company aimed at manufacturing wood fiberboard

1958: Started manufacturing wood fiberboard Insulation Board at Okayama Plant

1964: Started manufacturing rock wool sound-absorbing board Dai-Lotone at Okayama Plant

1967: Merged with Daiken Wall Board Co., Ltd., and established as Daiken Corporation

1970: Started manufacturing WPC products at the Nagoya plant

1971: Listed on the First Section of Tokyo Stock Exchange

1973: Started manufacturing boards for tatami mats at the Okayama plant

1977: Newly constructed the Takahagi plant aimed at manufacturing wood fiberboard

1984: Established Daiken Engineering Corporation aimed at the interior work business for buildings, etc.

1990: Started manufacturing housing equipment at the Inami plant

1994: Established Daiken Sarawak Sdn Bhd. in Malaysia as a production base for MDF  
Installed a production line in Okayama for tatami facings using Japanese paper as a substitute for rush grass

1995: Construction of the new door plant at the Inami plant completed

1996: Constructed the Dai-Lite Plant in Okayama

2000: Comprehensive business ties with TOTO Ltd.

2002: Cooperated with TOTO Ltd. and YKK AP Inc. in the home improvement field  
Established Daiken Industries (Ningbo) Corporation

2005: Established the flooring substrate technology using planted trees  
Purchased an MDF manufacturer in Malaysia and established Daiken Miri Sdn Bhd.

2008: Established Daiken (Shanghai) Corporation aimed at developing and strengthening the Chinese market

2009: Founded Daiken New Zealand Limited as the third MDF production base

2010: Business cooperation with Panasonic Electric Works (currently, Panasonic Corporation) in production and procurement

2012: Integrated quality and environmental ISO in the group companies in Japan

2013: Purchased and acquired 100% ownership of C&H Co., Ltd., including the MDF selling business

2015: Established PT. Daiken Dharma Indonesia in Indonesia aimed at manufacturing and selling interior doors

2016: Acquired 100% ownership of Pac System Co., Ltd.

## Stock Information

### Stock Information (as of March 31, 2017)

Total number of authorized shares ..... 79,643,600

Total number of shares issued ..... 25,175,043

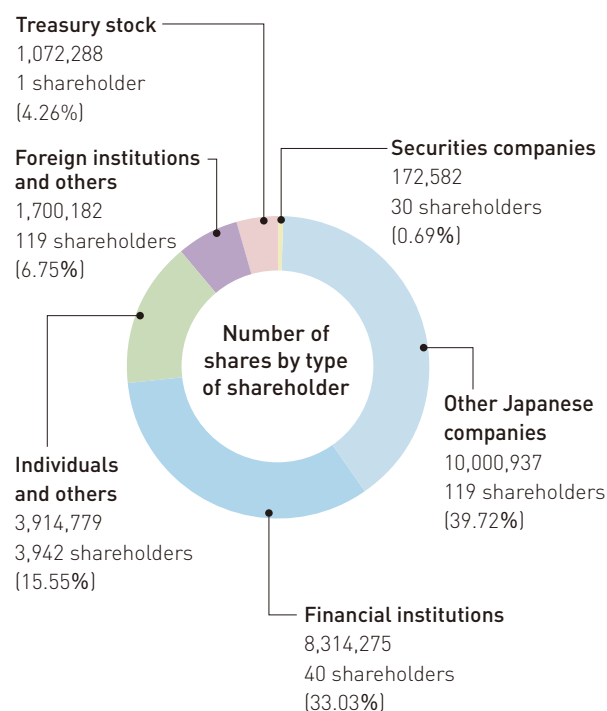
Number of shareholders ..... 4,251

### Major shareholders (as of March 31, 2017)

Name	Number of Shares	Ownership ratio (%)
ITOCHU Corporation	6,389,600	26.5
Sumitomo Mitsui Banking Corporation	986,980	4.1
Sumitomo Life Insurance Company	931,200	3.9
Daiken Corporation Trading-Partner Shareholding Association	717,700	3.0
Sumitomo Mitsui Trust Bank, Limited	688,000	2.9
Sumitomo Forestry Co., Ltd.	638,200	2.6
Marubeni Corporation	564,388	2.3
The Master Trust Bank of Japan, Ltd. (Trust Account)	560,500	2.3
Nippon Life Insurance Company	545,669	2.3
Japan Trustee Services Bank Ltd. (Trust Account)	526,900	2.2

[Note] 1. Daiken Corporation is in possession of 1,072,288 treasury shares. However, the Company is excluded from the above list of major shareholders.  
2. The ownership ratio is calculated excluding the treasury stock.  
3. The Company consolidated shares at a rate of one share per five ordinary shares as of October 1, 2016.

### Breakdown of shares by type of shareholder (as of March 31, 2017)



# DAIKEN

## DAIKEN CORPORATION

Head Office: 14F Nakanoshima Festival Tower West,  
3-2-4 Nakanoshima, Kita-ku, Osaka 530-8210

<https://www.daiken.jp/>

Issued in September 2017.

BC・GL/SI