

DAIKEN GROUP REPORT 2019

Toward the future going beyond the functions of yesterday

Group Corporate Philosophy

Company mission

[Our Mission]

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

Company vision

[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.

Company values

[Our Values]

We pledge the following:

- Ensure harmony between the environment, society, and people.
- Be careful of safety, security, health, and comfort.
- Courageously accept the challenges of new ideas.
- Promptly respond to changes and opportunities.
- Be sincere at all times.

CONTENTS

Foundation of Value Creation	
Group Corporate Philosophy	1
Historical Development of Value Creation and Strengths	3
Product Development Uses Strengths	5
Process of Creating Value	7
Value Creation by Businesses	9
Vision and Strategy of Value Creation	
Interview with Top Management	13
Positioning of the Long-Term Vision and New Medium-Term Management Plan	17
Looking Back on previous Medium-Term Management Plan GP25 1st Stage	19
Medium-Term Management Plan GP25 2nd Stage	21
Special Interview on SDGs	29

ESG Information	
G: Governance	33
G: Directors and Audit and Supervisory Board Members	39
S: Social	41
E: Environment	45
Data	
Summary of Business	49
Highlight of Data	51
Ten-Year Financial Summary	53
Financial Statements	55
Stock Information	58
Company Information	59

The scope of report
DAIKEN CORPORATION and Daiken Group
*Environment data differs in scope.

Eligible period
FY2019
(April 1, 2018 to March 31, 2019)
*Some contents include information other than
the above period.

Reference guidelines
International Integrated Reporting Council (IIRC)
The International Integrated Reporting
Framework

[Disclaimer regarding future prospect]
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
outcomes.



DAIKEN

Message to stakeholders

In fiscal 2019, we completed the final fiscal year of the three-year medium-term management plan GP25 1st Stage, which was the first step in the realization of the long-term vision GP25, which envisions our goal for 2025. In addition to the new home market, which has been our primary field, we achieved the enhancement of new product proposals, executed proactive M&A, and strengthened R&D as the foundation for expansion into the non-housing, global, and other new markets. In the meantime, requirements have been identified for continuously meeting the expectations of clients and achieving customer satisfaction.

In fiscal 2020, the GP25 2nd Stage was started as the new medium-term management plan that envisions our next growth strategies. In a rapidly changing business environment, we will leverage our strengths in industrial materials and technologies to further enhance achievements from the 1st Stage and strengthen our foundation by responding to requirements as opportunities for reform through the pursuit of a resolution to the social issues that have always been our goal since our establishment. In this manner, we will continuously endeavor to improve corporate value so that we remain the choice of customers and supported by the stakeholders at all times. We sincerely ask for your continuous support.

Representative director,
President

Masanori Okuda

Editorial Policy

This report focuses on the *resolution of social issues through business*, which we regard as the key to achieving our targets, and provides an overview of the creation of value by our company. In addition, the report outlines the growth strategies described in the new medium-term management plan that started in fiscal 2020, as well as the initiatives for the enhancement of the management foundation focused on ESG. We had a special interview inviting external experts at the time of opening the R&D center. This interview shares the philosophy of the management executives, along with how SDGs will be proactively incorporated into R&D activities and how new value creation will be pursued for the future. We hope that this report helps stockholders, investors, and other diverse stakeholders deepen their understanding of our medium-term and long-term initiatives for the enhancement of corporate value and that the report provides a new opportunity for dialog. Please visit our website for details of the ESG information including environmental data.

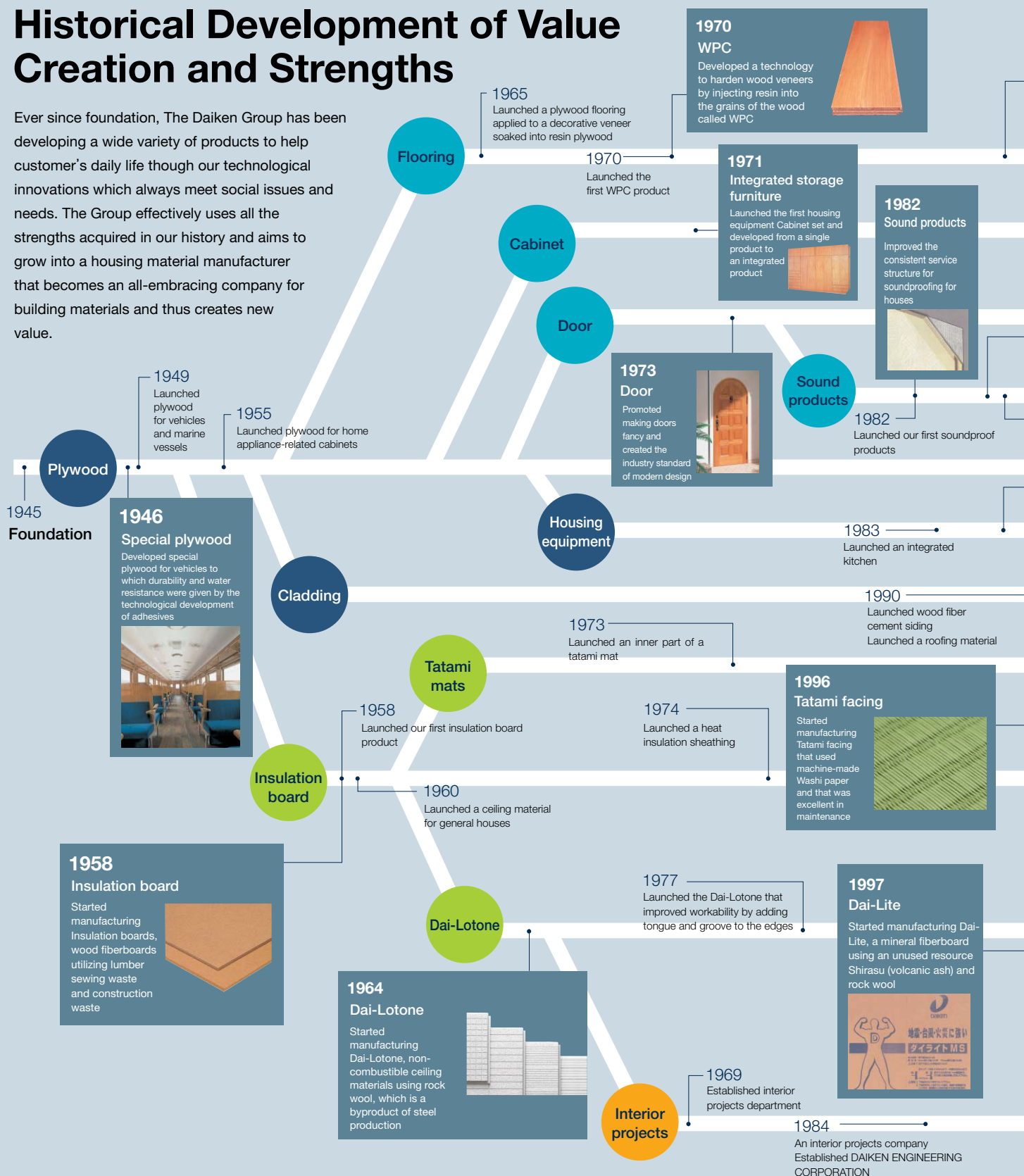
About cover design



The circles in three colors represent our business model, which consists of the three core businesses (industrial materials, building materials, and engineering), supported by technology, creativity, and passion as the three elements of the mission of our group and our philosophy as the source of continuous strength. The three arrows represent the three-step medium-term management plan for the realization of our long-term vision. To become an *all-embracing company for building materials*, as our corporate image in the long-term vision, and *Toward the future going beyond the functions of yesterday*, all employees in the group share the same goals to accelerate growth strategies as symbolized by this design.

Historical Development of Value Creation and Strengths

Ever since foundation, The Daiken Group has been developing a wide variety of products to help customer's daily life through our technological innovations which always meet social issues and needs. The Group effectively uses all the strengths acquired in our history and aims to grow into a housing material manufacturer that becomes an all-embracing company for building materials and thus creates new value.



History of DAIKEN CORPORATION

- 1941** | C. Itoh & CO., Marubeni Shoten, Ltd., 1954 | Established Nagoya plant for manufacturing special plywood and Kishimoto Shoten, Ltd. have merged to form Sanko Kabushiki Kaisha
- 1944** | Sanko Kabushiki Kaisha, Ltd., Kureha Cotton Spinning Co., Ltd., and Daido Boeki Kaisha, Ltd. merged to form Daiken Co., Ltd.
- 1945** | Founded Daiken Mokuzai Kogyo Co., Ltd., at the Inami plant in Toyama acquiring all the business of the Forestry Department at Daiken Co., Ltd.
- 1958** | Built Okayama plant and started manufacturing Insulation board

- 1967** | Changed the company name to DAIKEN CORPORATION

- 1970** |
 - Started manufacturing WPC flooring at the Nagoya plant
 - Established Toyama plant for manufacturing special plywood

- 1977** | Expanded insulation board business Built Takahagi plant

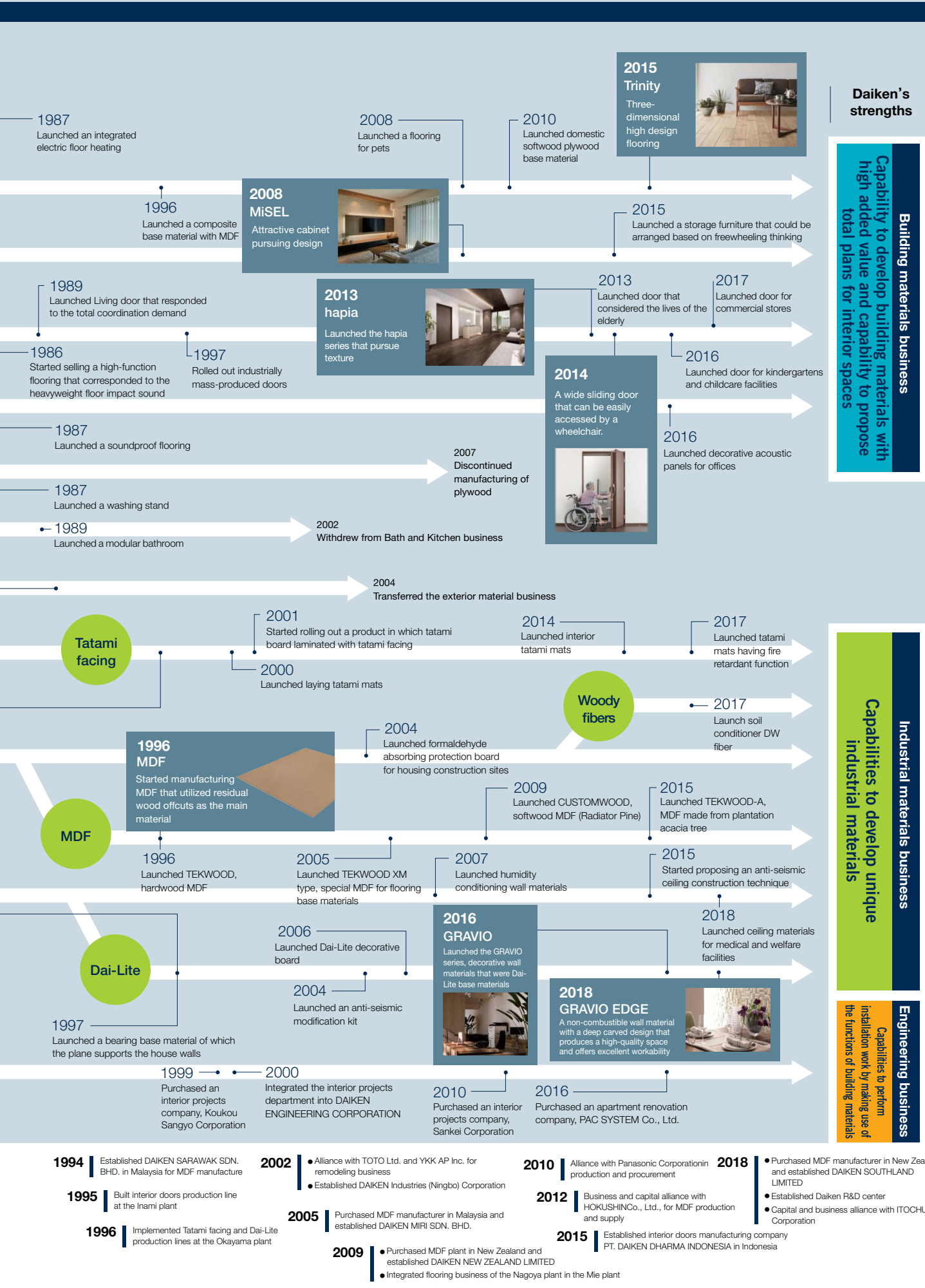
- 1987** | Expanded flooring business Established Mie Daiken Co., Ltd. (currently, Mie plant)

- 1989** |
 - Started manufacturing housing products, such as doors and stairs, at the Inami plant
 - Started manufacturing of cladding at the Takahagi plant

Foundation

Expansion

Growing



Foundation of Value Creation

Vision and Strategy of Value Creation

ESG Information

Data

Daiken's strengths

Building materials business

Capability to develop building materials with high added value and capability to propose total plans for interior spaces

Industrial materials business

Capabilities to develop unique industrial materials

Engineering business

Capabilities to perform installation work by making use of the functions of building materials

Selection and Concentration

New Challenge Challenge to achieve the long-term vision GP25

Product Development Uses Strengths

The Daiken Group cultivated its technologies throughout our seventy-year history and continues to offer products that are valuable for society and customers.

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

Industrial Materials Business

Developing and offering highly functional industrial materials

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











	Effective use of wood materials			Effective use of mineral materials	
Overview	Insulation board Wooden fiberboard using none-used wooden waste for main raw material and molded into a board  Wood chips 	MDF Wooden fiberboard using cut-off materials from saw mills and molded into a board  Wood chips 	Tatami facing Tatami mat surface made from straw twisted Japanese Washi paper and resin coating  Machine-made Japanese Washi paper (strings) 	Dai-Lotone Mineral fiberboard using slug wool which is by product of steel production  Rock wool 	Dai-Lite An inorganic material molded into a board using an unused resource, Shirasu (volcanic ash), and rock wool  Rock wool and Shirasu 
	<ul style="list-style-type: none"> Heat insulation Moisture conditioning Cushioning properties Lightweight 	<ul style="list-style-type: none"> Dimensional stability Surface smoothness Workability Water resistance 	<ul style="list-style-type: none"> Water resistance Water repellent Moisture conditioning Color variations 	<ul style="list-style-type: none"> Non-combustibility Lightweight Sound absorbing Workability 	<ul style="list-style-type: none"> Non-combustibility Lightweight High strength Workability Moisture permeability Insect repellent Antiseptic
	Major applications Inner part of a tatami mat  Insulation board Protection board 	Materials for flooring  MDF Base materials for building and furniture (Substrate of door, storage, and window frame)  MDF	Tatami mats  For houses  For accommodation	Ceiling materials  For houses  For office	Wall base materials  Base material for house external walls Wall materials  Non-combustible wall materials

Building Materials Business

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

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



	For houses	For public spaces and commercial facilities
Flooring	A flooring of ultimate beauty A lineup that is particular about surface texture, damage resistance, long-lasting beauty, design, high function, high performance, etc. 	A flooring for heavy duty areas A complete line of flooring that can be used in heavy duty areas, including those made of natural wood resistant to damage, sound-proofing materials, and those that reduce the impact when a person falls 
Door	Great range of design and variations Interior door which is highly functional and easy to use, and can be coordinated flexibly 	Functional door suitable for facility applications Interior doors with particular functionality for the nursing homes, kindergartens, childcare facilities, and stores 
Cabinet	Storage improvement A complete line up of cabinets equipped with abundant storage capacity, space-saving and other features to fit for individual spaces 	Cabinets inspired by consideration to users Cabinets mitigate the various risks to users for comfortable use 
Sound products	Space for enjoying sound A complete line up to meet the sound environment and sound quality needs of a variety of venues, including home theaters, musical instrument practice rooms, and audio rooms 	Creating comfortable sound environment A complete line up suitable for sound-proofing and other specific purpose 

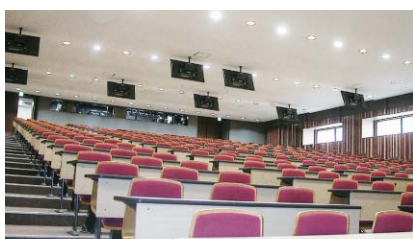
Engineering Business

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

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



Our project



Kansai University



Nippon Seinenkan, Japan Sport Council Head Office




Recital Hall at Nagano City Arts Center

Process of Creating Value

The Daiken Group aims for the realization of a sustainable society and the creation of economic and social value by contributing to solving social issues, such as Sustainable Development Goals (SDGs) through business activities that make use of our unique strengths. The Group also united CSR activities based on Environment, Social, and Governance (ESG) to make our businesses robust.

Social issues and needs

SDGs*



- Realization of low-carbon society
- Building a recycling-oriented society
- Measures for water resources
- Measures for biodiversity
- Conservation of tropical timber
- Decrease in labor force
- Promotion of diversity
- Promotion of workstyle reform
- Development of local communities
- Revitalization of the domestic forest products industry
- Preparation for natural disasters
- Improvement of the safe, secure, healthy, and comfortable living environment
- Response to the super-aging society



Creation of economic

Creating shared value (CSV) by

- Promoting the use of domestic timber
- Recycling of wood resources
- Reduction of CO₂ emissions
- Creating a safe, secure, healthy, and comfortable space
- Effective utilization of unused resources
- Promotion of anti-seismic performance
- Saving construction time and work

R&D and Innovation
▶ P.25

Strengthen the foundation

Optimized financial foundation

Management foundation

GP25 2

and social value

Daiken businesses



of value creation

Firm and flexible business infrastructure

enhanced by ESG

Management goals

Financial indicators

- Net sales 225 billion yen
- Operating profit 12 billion yen
- Operating profit ratio 5.3%
- Profit attributable to owners of parent 7 billion yen
- ROE 10%
- ROA 7%
- Shareholder equity ratio 40%
- Dividend payout ratio 30% or more

Nonfinancial indicators

- Total CO₂ emissions in Japan (26%) (compared to fiscal 2014)
- Total diversity index* +20pt
- Serious quality accidents and violations 0
- Degree of penetration of the +10pt Group Corporate Philosophy*

*Our own indices in which the eight diversity items, such as the female manager ratio, were indexed as compared to fiscal 2019

*Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed as compared to fiscal 2018

Achieve the vision of the Group Corporate Philosophy

Achieve the Long-Term Vision GP25

Investment to build the foundation for further value creation

* SDGs

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

Value Creation by Businesses

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

01 Promotion of the use of domestic timber



Social issues and needs

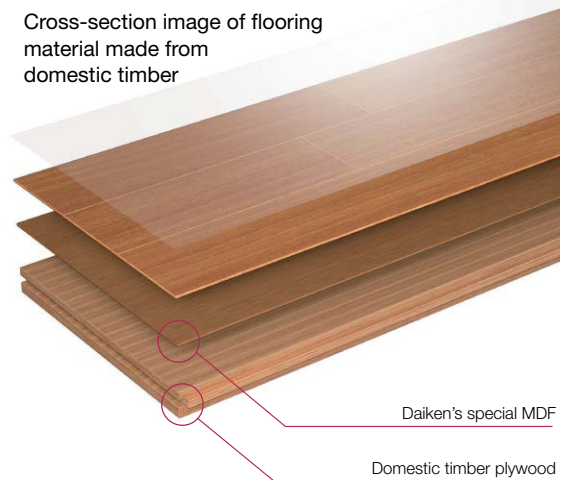
Japan is one of the world's most forested countries with about two-thirds of the land covered in forest. Therefore, domestic wood should be more actively used in order to foster healthy forests that fulfill various needs such as absorbing CO₂ and prevention of landslide disasters. The Japanese government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

Daiken's strengths and value creation 1

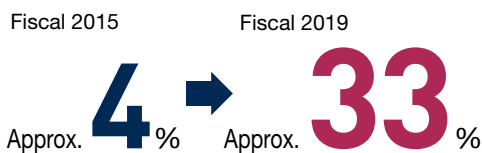
Promotion of the use of domestic timber with special MDF that offers excellent water resistance

The Daiken Group took advantage of the expertise cultivated as the leading flooring manufacturer and Daiken's unique MDF technology that offers excellent water resistance and surface smoothness and developed flooring base materials combined with domestic wood. The group had made many improvements and increased the use of domestic timber for flooring materials, which was approx. 4% in fiscal 2015, to approx. 33% in fiscal 2019. The group will continuously proceed with product development that will draw out the appeal of domestic timber and further promote the use of domestic timbers.

Cross-section image of flooring material made from domestic timber



Utilization of domestic timber for flooring materials



Daiken's strengths and value creation 2

Expanding the scenes to utilize domestic timbers with the wood hardening technology

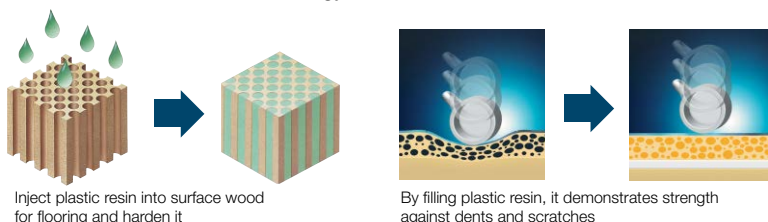
With Daiken's unique WPC* technology to harden wooden tissues by injecting plastic resin into and filling the tissues, it has become possible to offer flooring with excellent surface strength that uses domestic natural wood for surface decorative materials. Because many domestic tree species are soft materials, low durability in using them as flooring was an issue, but by taking advantage of this technology, we will expand the use of domestic timber while meeting the needs of using local materials.

Results of the commercialization of local materials with the WPC technology

22 prefectures

*WPC = An abbreviation of Wood Plastics Combination

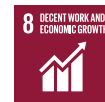
Mechanism of the WPC technology



Case of adopting WPC flooring

02 Recycling of wood resources

03 Reduction of CO₂ emissions



| Social issues and needs |

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

Daiken's strengths and value creation

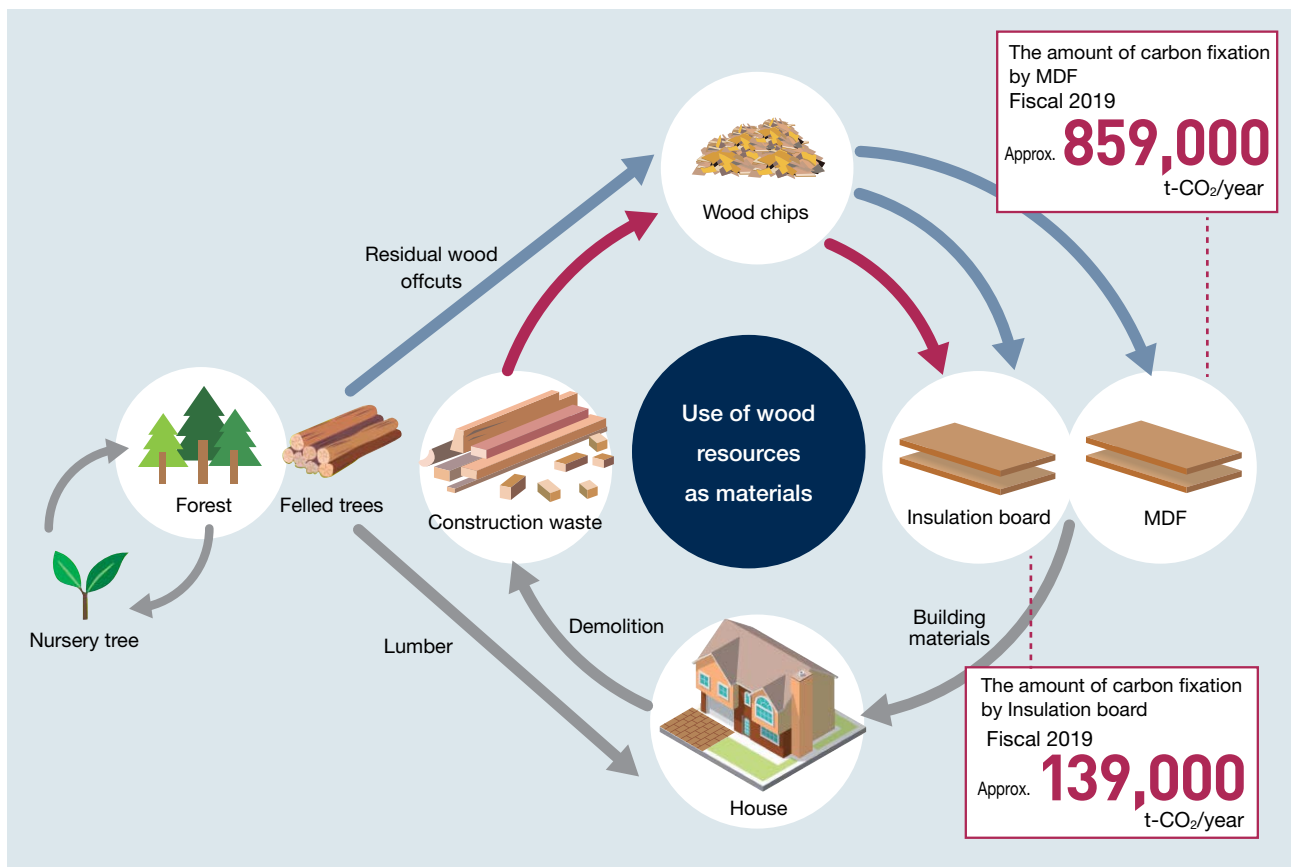
Prolongation of the carbon fixation period by using wood resources for materials

The Daiken Group has been manufacturing materials that effectively use wood resources, such as MDF using cutoff materials from sawmills and insulation boards reusing construction waste that used to be discarded or used as fuel. Trees have a function to absorb CO₂ in the atmosphere in the growth process and keep storing it by fixing it as carbon. Using wood as materials as long as possible instead of burning will not only reduce waste but also keep storing carbon in wood, and as a result, it will lead to reducing CO₂ emissions to the atmosphere. Our group focuses on this function, continues to use wood resources in a wide variety of scenes as materials with zero waste, and contributes to the formation of a recycling-oriented society and the prevention of global warming.

The amount of carbon fixation by MDF and insulation board
Fiscal 2019

Approx. **998,000** t-CO₂/year

* Reference: fiscal 2019
CO₂ emissions from domestic production bases: 96,600t-CO₂/year



04 Creating a safe, secure, healthy, and comfortable space



Social issues and needs

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

Daiken's strengths and value creation 1

Creating a safe space to live together with the elderly

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

Product variations

Approx. **30,000** items

Daiken pursues the creation of excellent and pleasant spaces using products that are safe, secure, and functional for peoples' lives.



Case of adopting products for residential homes that are considerate of nursing needs and home care



Ceiling material that makes it easy to hear sound and has deodorization function



Humidity conditioning wall material that maintains comfortable humidity



Building material with antivirus function

Social issues and needs

With the increase in the female employment rate in recent years, entrance applications to childcare facilities have increased, and the number of children on the waiting list in fiscal 2019 was 47,198 (as of October 1, 2018), which was still at a high level. While the cases of leaving children aged 0 to 3 in childcare facilities have been increasing more than ever, a design that is more considerate of safety and the environmental aspect is required for these facilities. Lack of human resources engaged in childcare is also one of the major causes of the problem of children on the waiting list, and it is imperative to reduce nursery teachers' burden and create a pleasant working environment.

Daiken's strengths and value creation 2

Creating spaces where children can spend the time safely

We thoroughly examined the performance required for the area around a door in a childcare facility where the risk of injury is particularly high and developed the door dedicated to kindergartens and childcare facilities, while taking advantage of the expertise in door manufacturing cultivated from past houses and elderly facilities. We will support a wide variety of problem solutions required for childcare facilities, such as safety, comfort, and a reduction in the burden of nursery teachers, using Daiken's unique technologies and diverse products.

The door dedicated to kindergartens and childcare facilities won the Kids' Design Award* (Fiscal 2018)

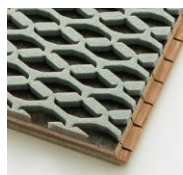
* Design category that will contribute to the safety and security of children



Doors that consider safety by assuming that children use them



Tatami mats made from machine-made Washi paper that are stain-resistant and highly water-resistant, durable, and resistant to fungus



Meshed cushion on the back of flooring disperses the impact and reduces the risk of getting injured



Decorative flooring dedicated to washroom that is not slippery when getting wet

05

Effective use of unused resources

06

Promotion of anti-seismic performance



Social issues and needs

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

Daiken's strengths and value creation

Promotion of anti-seismic performance of wooden houses using non-combustible materials that offer excellent durability

Daiken developed Dai-Lite, the world's first new industrial material using an unused resource, Shirasu (volcanic ash) as the major raw material. It has all of the performance required for an inorganic bearing surface, such as lightweight, high strength, high durability, fireproof, and workability, that could not be realized with conventional inorganic materials. Daiken has contributed to a recycling-oriented society by finding value in a resource that was untapped and by expanding applications as the product and by becoming popular as the leading brand for an inorganic bearing surface for houses, and it has contributed to improving aseismic performance of Japanese wooden houses. By promoting the lineup of the anti-seismic products for existing houses, it promotes further upgrading of the anti-seismic performance of wooden housing.

Number of households installing Dai-Lite (cumulative)

Approx.

880,000

*Reference: Number of wooden independent house starts
Approx. 390,000 (fiscal 2019)



Dai-Lite



Anti-seismic wall



Shirasu, an unused resource available in natural world

07

Saving construction time and work



Social issues and needs

Because of the special demand for the restoration projects and Tokyo Olympics and Paralympics, in addition to decreasing productive-age population ratio associated with the low birthrate and longevity, a shortage of workers has become an aggravated problem in the construction industry. While the Building Standards Act revised after the Great East Japan Earthquake requires higher aseismic performance of the ceilings of large public buildings, there was an issue that it requires much time and labor in making existing ceilings anti-seismic.

Daiken's strengths and value creation

Contributing to the anti-seismic ceiling by developing the labor-saving construction technique

To respond to the growing needs of making the ceiling anti-seismic after the Great East Japan Earthquake, Daiken developed a unique new construction technique, which makes it possible to make the ceiling anti-seismic with the saving construction time and work. With this construction technique, we could reduce construction time and labor by approx. 25% compared to making the conventional ceiling anti-seismic. We will aim to further realize the saving construction time and work for not only ceilings but also building materials for renovation from the perspective of a new construction technique.



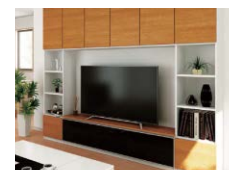
Our own anti-seismic ceiling construction technique

Rate of reduction of construction time and labor compared to making the conventional ceiling anti-seismic:

Approx. 25%

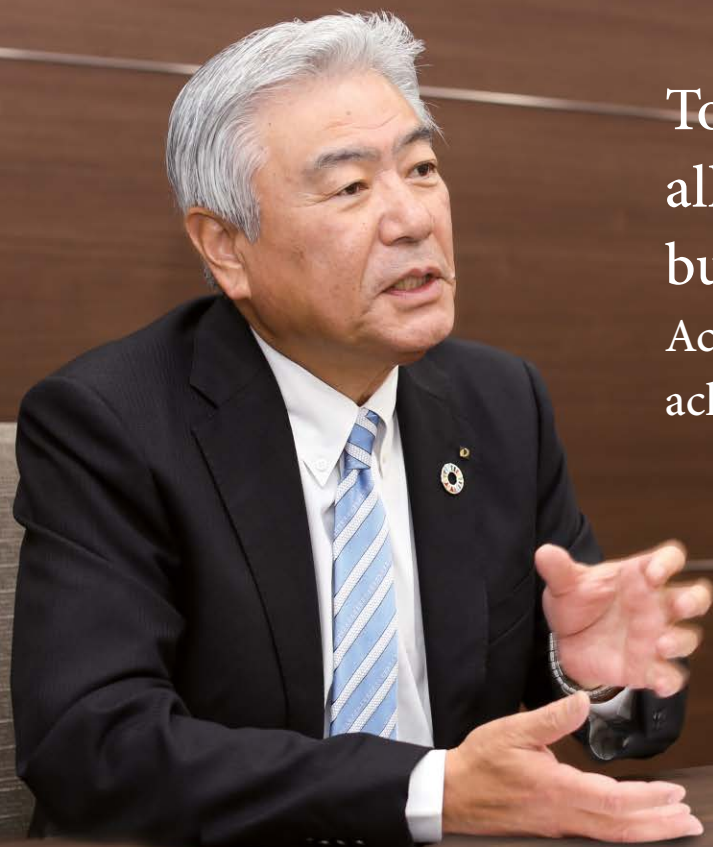


Flooring for renovation that can be easily constructed in a short construction period



MISEL Wall cabinet corresponding to the on-board construction technique that can omit substrate work and shorten the construction period

Interview with Top Management



Toward becoming an
all-embracing company for
building materials
Acceleration of the growth strategy to
achieve the long-term vision GP25

Representative director,
President

Masanori Okuda

At the completion of the previous medium-term management plan

Q Could you summarize the achievements and requirements of the previous medium-term management plan GP25 1st Stage?

The previous medium-term management plan GP25 1st Stage was designed for the first three years when we set out to realize the long-term vision GP25 for ten years into the future, on the 70th anniversary of the Company. While some quantitative targets remain unachieved, we achieved a profitable structure by improving the average return on investment (ROE) to 10% level and an operating profit ratio of 4% level over the three years of the plan. As a result, we achieved the highest ever operating profit, ordinary profit, and net profit in the first year. Over the course of the last year, we attained the managerial targets for sales and net profit, which we consider impressive achievements. I believe that “*taking the first step to become an all-embracing company for building materials*” as our corporate image and long-term vision has been established. This has been achieved through M&A that raised the presence of MDF as the core of our industrial materials business, aggressive investments that led to the development of new applications, enhanced product lines for public and commercial buildings, the opening of an R&D center, and other initiatives.

On the other hand, our greatest problem over the past year was

our short comings in material procurement, order placement and receiving systems, which caused considerable problems for customers. We failed to achieve some of the managerial targets of operating profit of 7 billion yen, ordinary profit of 7 billion yen, and ROE of 8% primarily due to the issues above. We must sincerely face these issues and take the initiative to convert these problems into strengths. Therefore, we strengthened the organizational structure by establishing the IT and Logistics Division across all departments in February 2019. In addition to implementing short-term corrective and improvement actions as basic measures, we will fundamentally review our systems from the medium-term and long-term viewpoints, thereby optimizing our supply systems ranging from order placement and receiving systems to logistics.

Initiatives in the three priority markets

Q How do you feel achievements in the three priority markets for reform into business management that will be less dependent on new housing construction starts in Japan?

Public and commercial buildings

We focused on public and commercial buildings as a priority market because the new home market in Japan as our conventional mainstay is expected to shrink. We failed to achieve the final targets, but our sales steadily increased over the past three years.

Taking into account shifts in the sales force were delayed because of relatively steady sales of the new home market, I believe that real achievements were made. In the metropolitan district, we opened a technical space targeted at customers who were professional users, which established a flow on effect to the home renovation market. We also proactively marketed new products, such as doors for the elderly, kindergartens, and nurseries; floor materials using local materials; and well-designed wall materials using the proprietary non-combustible material Dai-Lite as flagship products. These new products completed our portfolio of functional building materials that could be used in multiple situation for use in various facilities. This achievement will lead to future expansion.

■ Global market

If we only look at the figures, we have certainly made progress in global market as was planned in the 1st Stage. However, our progress is steady in some aspects but has problems in others. The steady aspects include the industrial materials business where we focused on MDF for which we newly acquired a new plant in New Zealand. The new structure now consists of four plants—two in Malaysia and two in New Zealand, which will increase production by 30% and expand sales channels overseas. Sales to Japan also increased, and our market share in Japan including HOKUSHIN Co., Ltd. establishing Daiken as the dominant MDF supplier in Japan.

Conversely expansion was delayed in Indonesia and China. While profitability has yet to be realized in Indonesia, manufacturing systems have been established in plants, and we have steadily advanced toward production increases. In the coming years, we will establish a structure to achieve increased sales and profitability through collaboration with local companies. In China, continued improvement would be implemented according to how the Chinese market develops. We will continue to provide products to Japanese companies and promote increased sales through agents. We will use ITOCHU Corporation network with which we established a capital and business alliance in September 2018 to address the above problems and expand into global markets.

■ Home renovation market

The home renovation market has been considered to replace the shortfall in new home sales, but these two markets are actually correlated as the data suggests. From this viewpoint, we implemented measures in a slightly different aspect for the renovation market.

One of the measures was to shift focus from building new to decorating styles and renovation of living in showrooms that we jointly operate at eight sites in Japan with TOTO Ltd. and YKK AP Inc. This shift from things to styles has taken root as a new form of proposal making. It cannot be denied that growth has been slow if we only look at the sales of products because the number of direct customers is decreasing from the lack of successors to construc-

tion companies and other reasons. Therefore, we also started the condominium refurbishment business in the metropolitan district in October 2016 as an initiative to expand construction projects in addition to the sale of products. With the expansion of the engineering business, we are also promoting the development of products with a short construction period and small construction projects linked to the functionalities provided by manufacturers.

These initiatives are gradually taking effect. We have also made steady achievements in other areas including the opening of R&D center for strengthening and accelerating R&D activities, which is essential for the medium-term and long-term growth strategies, reducing CO₂ emissions by proactively utilizing wood biomass boilers from the ESG viewpoint, and promoting diversity measures that include workstyle reforms and enhanced opportunities for female employees.

Regarding finance, we succeeded in increasing our financial soundness by generating additional cash from profits for new investment over and above our M&A requirement and purchase of new equipment. I think it is worth stating that we are currently enjoying the strongest financial structure experienced over the past 10 years or so.

Positioning of the new medium-term management plan

Q What do you want to achieve over the three years of the new medium-term management plan GP25 2nd Stage?

Please share how you position the plan and its key points.

In the first year of the GP25 2nd Stage, the consumption tax will be raised in October 2019, which will undoubtedly lead to a significant reduction in new housing starts. To change this high risk into an opportunity, we wish to position the 2nd Stage as a three-year period of acceleration of growth strategies and will pursue targeted sales of 225 billion yen and operating profit of 12 billion yen. The targeted profit and sales are the highest since foundation. Our final target of 250 billion yen in the long-term vision, we will substantially upgrade our stage.

To this end, we will make aggressive investments to expand the business scale and strengthen profitability by leveraging cash generated 1st Stage.

In the meantime, we have undertaken business activities that emphasize CSR and ESG. We will further pursue the *resolution of social issues through business* in the 2nd Stage through enhanced corporate values.

In this sense, we will clarify the relationship between our businesses and SDGs as *global standards for social issues*, with each employee undertaking activities emphasizing that relationship.

Accelerating growth strategies

Q What growth strategies do you have for the global market and for the domestic market?

Global market

The core of growth strategies in the global market will be expansion of the industrial materials business in global market, in particular North America. We recently invested in the LVL and veneer businesses in North America. ITOCHU Corporation originally launched these businesses, established their local positions, and produced solid achievements. I believe that when our company joins these businesses, enhanced efficiency can be gained as a manufacturer, and opportunities can be found to expand through innovative ideas, such as the development of new products. The U.S. housing market is the largest in the world and supplies approximately 1.2 million homes annually according to recent data. Taking into account the floor area per home and substantial market growth, this provides scaling of two to three times current market share. In addition, the population is expected to increase by approximately two million per year, which is rare among developed countries. Demand for LVL is mostly linked to the number of housing construction starts in the United States which in turn is influenced by long-term interest rates and housing starts. While uncertainties remain in the short-term, stable demand can be expected over the medium and long-term. It is also a characteristic that most houses are constructed of wood and therefore have a high correlation to the industrial materials and building materials businesses that we operate in Japan. Our business model incorporates technology and added value industrial materials. Daiken will expand in the North America market by deploying this business model.

We will focus on industrial materials and expect to expand into the building materials business. We continue to pursue opportunities for expansion in the MDF market in North America. By promoting these initiatives, we plan to increase the share of global market sales from 11% to about 23%.



Domestic market

Even though the new house market is shrinking, we will increase revenue in the domestic market by increasing sales of competitive products including floor materials where we have a dominant share. This expansion will be into public and commercial buildings and the home renovation market. Among other domestic markets, public and commercial buildings will be a priority. Based on the product portfolio developed in the 1st Stage, we will categorize facilities into four groups: elderly and healthcare facilities, where steady demand is expected due to the aging population; public, educational, and kindergarten/nursery facilities that need to be renovated at certain intervals; accommodations and commercial facilities that will be in high demand by inbound tourists; and buildings and offices that are continuously developed in urban areas. We will pursue expansion by proposing functional building materials for floors, walls, ceilings, and doors for each group and category.

In addition, through the full-scale expansion of the joint venture with TO Holdings Corporation, we will broaden the range of proposals by including solid floor materials that have not traditionally been part of our market range. This will enhance business opportunities, due to the on-going requirement because of the persistent need for solid floor materials, particularly by educational facilities. In these initiatives for expansion, we will proactively utilize external resources, including M&A and collaboration with other companies, without relying on internal resources alone.

Enhancement of the management foundation

Q The policy states the enhancement of the management foundation from the three perspectives of business infrastructure, financial, and ESG. Please share your ideas from each perspective.

Restructure business infrastructure

This is included in our policy as a requirement due to the issues we encountered in material procurement, order placement and sales recovering over the past fiscal year. Through these problems, we recognized the importance of IT supply systems and logistics that operate every day. Through this experience, we will review *our foundation to be continuously chosen* in the 2nd Stage.

The specific initiative is to establish systems that enhance service to customers. We have aimed at systems that are easy to use by customers, but they need to be upgraded to achieve enhanced convenience. Such upgraded systems will become powerful tools in strengthening the relationship with customers. We will identify all requirements and establish optimal systems that range from IT and logistics functions to manufacturing in pursuit of increased competitiveness in the medium and long-term. In the meantime, we will reduce the workforce for routine internal operations by proactively using AI, IoT, and other advanced technologies so that we can place human resources in new positions that become necessary through the development of new businesses and markets.

■Optimize our financial foundation

In the 1st Stage, we invested in large-scale M&A and new products, as well as in the opening of an R&D center and other initiatives that will lead to growth. While maintaining the dividend payout ratio of at least 30% as a return to stockholders, we improved the capital adequacy ratio and D/E ratio, thereby strengthening our financial structure.

In the 2nd Stage, we plan to improve profitability for the next stage and further enhance our cash position. Based on cash generation through these initiatives, we will invest 5 billion yen per year on average for normal maintenance and renewal, and 40 billion yen in strategic initiatives for the North American industrial materials business. Through these investments of 55 billion yen in total, we will pursue further growth and infrastructural establishment. According to our plan and despite these investments, if we improve profitability and asset efficiency as targeted, we will maintain the dividend payout ratio of at least 30% large and achieve a D/E ratio of about 0.5 times with a capital adequacy ratio of approximately 40%. Large investments will exhaust our operating cash flow. We will need to draw down on corporate bonds and loans to cover the short fall.

■Practice of ESG management

We have proactively promoted ESG. Particularly in the environmental space, I believe that business activities since our foundation, such as CO₂ emissions reduction, timber recycling, and the cascading use of wood products, have contributed to the environment. In this regard, we will continue to promote these initiatives rather than implementing any new measures, at this stage.

As a specific initiative, we intend to achieve the CO₂ reduction target announced by the Japanese government based on the Paris Agreement, *a reduction of 26% from fiscal 2014 by 2030*, but in fiscal 2022 the final year of the 2nd Stage, which is earlier than requested by the government, as our contribution to countermeasures for the most significant climate change risks. In addition to high public interest in water resources, chemical substances, waste, and compliance with environmental laws, we have also selected environmental contribution in fields that characterize our businesses, such as carbon fixation through the wood industrial materials business, and the increased share of use of domestic timbers in materials for flooring manufacturing.

In social aspects, we would like to focus on *product quality* and *human resources*, which are vital elements for a manufacturer. As the social responsibilities of a manufacturer, the guaranteeing of product quality is particularly important for customers. We will strengthen the structure by ensuring we continuously and promptly respond to public and customer quality and safety concerns. For human resources, we selected diversity, workstyle reforms, human resource development, and occupational safety and health as the four aspects we will promote. Particularly in human resource development, we will not only promote skill upgrading but also substantially enhance training programs in particular for executive managers who will be with the business over the medium to long

term. In addition, the highest priority will be placed on enhanced opportunities for female employees in everyday operations, as was the care in 1st Stage. In the 2nd Stage, targets will be set and balanced from a multitude of perspectives. This will include harmony with long-term care requirements and security of employment for veteran employees assessed on an impartial and bias free manner.

Regarding governance, the dissemination of the group corporate philosophy was selected, in addition to compliance and risk management. Our company faces a historic turning point where the domestic new home market as our conventional market will start shrinking. We must survive this severe market environment by realizing our long-term vision and growth strategies as presented by the medium-term management plan. To this end, it is essential that all employees in the group participate and exercise their skills. The mission of the group corporate philosophy is that *We will create a wonderful future with our technology, ideas, and passion*. *Create a wonderful future* here signifies the realization of a sustainable society and our contribution to SDGs as social issues. Dissemination of the group corporate philosophy to each employee will provide the basis for our contribution to the resolution of social issues and for the success of our business. Unfortunately, this philosophy was not fully disseminated throughout our group in the 1st Stage. We will seek further dissemination in the 2nd Stage until the philosophy takes root and employees understand not only the literal phrase but also that it is at the core of Daiken group corporate philosophy.

Toward the achievement of the new medium-term management plan

Q Please share your mind about the new medium-term management plan GP25 2nd Stage.

I regard the 2nd Stage as the most important stage for the realization of the long-term vision. First, we must definitely attain the targets in the 2nd Stage by pushing forward the achievements made in the 1st Stage. Our ultimate goal is the long-term vision GP25 be attained in fiscal 2026. Toward its realization, we must take an additional leap in the 3rd Stage, which will start in fiscal 2023. In this sense, we need not only attain the targets of the 2nd Stage but also steadily sow seeds for the next leap in the 3rd Stage.

One of the requirements to this end is to find the fourth pillar after industrial materials, building materials, and engineering. At present, our company mainly operates businesses in the new housing and renovation markets in Japan. In the global market we operate in the public and commercial buildings, industrial materials and building materials market. I believe that now opportunities exist in aligned business. We will define and enhance our direction over the next three years using our strength and experience achieved through 70 years trading. Through these measures, we plan to achieve our long-term vision of the highest level of sales and profit since foundation.

Positioning of the Long-Term Vision and New Medium-Term Management Plan

In 2015, the year of the 70th anniversary of DAIKEN CORPORATION, we established the long-term vision GP25, describing our ideal situation in 10 years.

To further accelerate growth strategies toward the realization of the vision, we launched a new medium-term management plan GP25 2nd Stage in fiscal 2020.

All employees of the Group are working together to make progress toward steadily achieving the goals.

GP25 3rd Stage

Fiscal 2023-2026

Grow & Glow

Become an all-embracing company for building materials

New Medium-Term Management plan

GP25 2nd Stage

Fiscal 2020 to 2022

Accelerate growth strategies to become an all-embracing company for building materials

FY 2022

FY 2021

FY 2020

Previous Medium-Term Management Plan

GP25 1st Stage

Fiscal 2017-2019

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

2025 Long-Term Vision GP25

Grow / Glow Plan 25

Grow

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

Glow

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

Significance of Existence and Ambitions

- 1 Contribute to the building of a sustainable society by efficiently using limited resources
- 2 Enrich peoples' minds by creating more comfortable and secure spaces

How we should be in 2025

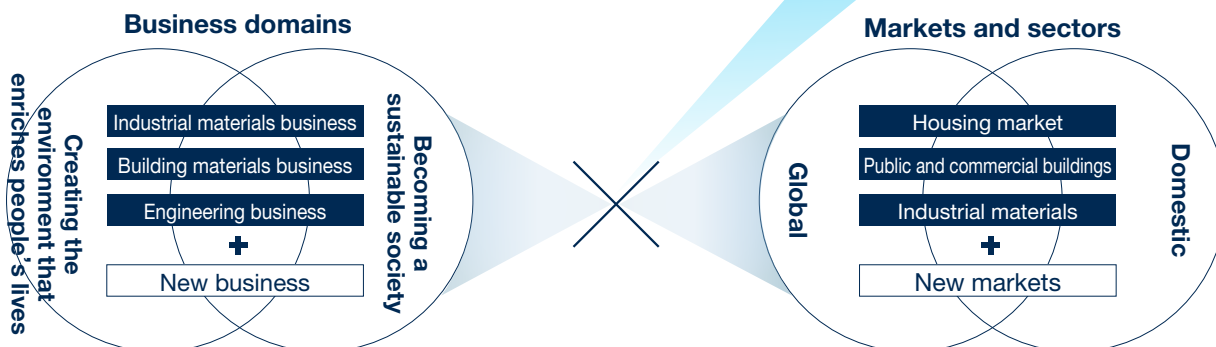
- 1 Leading global company for industrial materials, building materials, and engineering
- 2 Continue to challenge new business areas and grow the fourth pillar
- 3 Earn a great reputation among professionals for consumer-oriented product development, proposal capabilities, problem-solving skills, and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

Business domains, markets, and sectors targeting the long-term vision GP25

From the current image as a housing materials manufacturer to the following:

- Supply building materials and industrial materials for building materials as well as construction
- Expand business areas from housing to public and commercial buildings, and industrial materials
- Expand into global market

Toward becoming an all-embracing company for building materials



CSR Basic Policy

Vision

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

Policy

- 1 With CSR and CSV* as the key axes, we will improve our corporate value and enhance our competitiveness to realize GP25
- 2 Using CSR as an activity to enhance our ability to respond to and earn the trust of society, we will systematically pursue CSR with our responses to the environment, society, and governance as key axes
- 3 Positioning CSV* as one of our management strategies, we encourage activities voluntarily and actively through the whole business process

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

CSV Theme

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

Previous Medium-Term Management Plan Looking Back on GP25 1st Stage

In fiscal 2019, we completed the final fiscal year of the medium-term management plan GP25 1st Stage, which was the first step toward the realization of a long-term vision GP25. While steadily proceeding with the establishment of the foundation that we aimed as the 1st Stage, there were still some issues remained in the business infrastructure. We will make use of the foundation we established in the 1st Stage, lead the issues to innovative changes, and make progress toward the next stage of growth.

Summary of the previous medium-term management plan GP25 1st stage (fiscal 2017-2019)

- As for the management goals, we achieved the goals in terms of net sales and net profit.
- As for operating profit, we increased profitability over the past three years and achieved the goal for two consecutive years; however, issues had come to the surface in raw material procurement and the ordering and order receiving system, and we could not achieve the goal in the final fiscal year and issues remained in the business infrastructure.
- We actively made investments, such as M&A to enhance industrial materials business, expansion of the product lineup by launching products on a large scale, establishment of the R&D center, and the addition of the biomass boiler, and steadily executed measures to lead to the next stage of growth.
- Regarding shareholder return, we followed the policy of the dividend payout ratio at 30% or more and improved shareholder return.

Status of achievement of management goals

(¥100 million)

Management goals	Benchmark	Goal
	Fiscal 2016	Fiscal 2019
Net sales	1,681	1,800
Operating profit	55	70
Ordinary profit	52	70
Profit attributable to owners of parent	39	43
ROE	9.8%	8%
Dividend payout ratio	30.4%	30% or more

Result		
Fiscal 2017	Fiscal 2018	Fiscal 2019
1,688	1,705	1,829
85	75	57
90	87	68
51	58	44
11.7%	11.7%	7.8%
30.1%	30.3%	42.4%

Topics in GP25 1st stage

Launched GRAVIO EDGE, a new flagship product to reinforce wall materials

In June, 2018, to enhance our proposal capabilities for interior spaces, we launched GRAVIO EDGE, a deep carved-style non-combustible wall material using our unique non-combustible material Dai-Lite as part of wall materials business. This material will produce a high-quality space as accent walls in living rooms and bedrooms in houses, entrance halls of public and commercial facilities.



Added the woody biomass boiler that actively uses renewable energy

In July 2016, we aimed to reduce environmental burden in the production process and added a biomass boiler in the Okayama plant, which was in the largest scale in our company. By shifting from LNG (natural gas) that had been used to woody biomass energy, which is renewable energy, greenhouse gas emissions (CO₂) have been reduced.



Established Daiken R&D center, which is the place for co-creation toward the realization of the long-term vision

In October 2018, we established the Daiken R&D center on the premises of the Okayama plant as the R&D base. For our unique R&D and as the place for co-creation to create technologies with various external partners, we will strengthen and accelerate R&D capabilities toward the realization of the long-term vision GP25.



Status of the efforts on the focused three markets (results and issues)

In preparation for the decrease in new housing starts in the future and to transform into the management structure that is insulated from the influence of the decrease, we set the public and commercial building field, global market, and home renovation market as the three priority markets and have made progress in efforts for expansion.

(¥100 million)

Net sales for three priority markets	Benchmark	
	Fiscal 2016	Fiscal 2019
Public and commercial buildings	166	285
Global market	96	143
Home renovation market	283	299
Total	545	727

Result		
Fiscal 2017	Fiscal 2018	Fiscal 2019
168	199	211
110	123	192
288	290	284
566	612	687

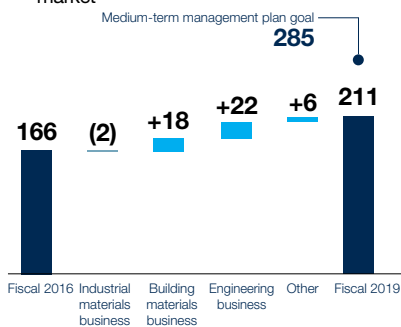
Public and commercial buildings

Results

- Expansion of the product lineup including the new flagship wall material product
- Proposals of making use of the showrooms for professional users and development of the activities to incorporate specifications
- New development into solid wood flooring through business alliance

Issues

- Non-achievement of the expansion of construction areas and capabilities
- Delay in shifting sales from the housing market



Expansion of the interior door series with the functions required for each facility

In addition to the improvement of the product for elderly facilities, we actively introduced new products, such as the door for kindergartens and childcare facilities, and for commercial stores to which functions required for each facility, such as safety and durability, are given and broadened the range of our proposals.



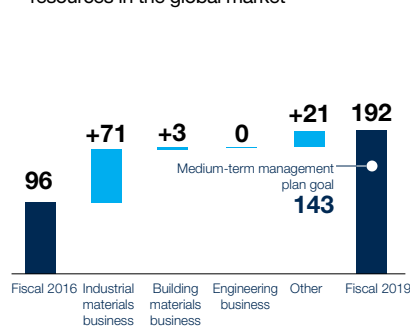
Global market

Results

- Enhancement of the supply system and expansion of sales channels by adding the MDF plant in New Zealand in our group
- Increase in industrial materials sales by developing sales channels
- Making a decision on the investment in the North American industrial materials business

Issues

- Sluggish growth of building materials business in China and Indonesia
- Development of management human resources in the global market



Enhancement of overseas industrial materials business deployment Addition of the MDF plant in New Zealand in our group

In April, 2018, we added DAIKEN SOUTHLAND LIMITED in New Zealand in our group, which was the fourth base as our group's MDF plant. By enhancing the supply system and expanding sales channels to the global market in addition to synergy with DAIKEN NEW ZEALAND LIMITED, which is an MDF plant in the country, we further improved the presence of MDF business, which is a core of industrial materials business.



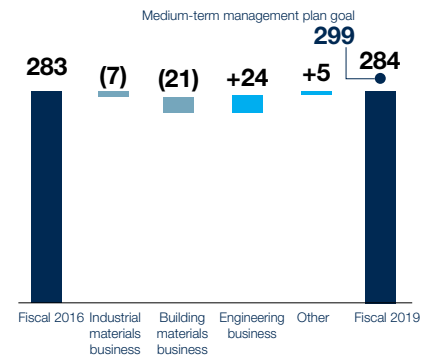
Home renovation market

Results

- Condominium renovation business deployment (Cooperation with the product development for renovation)
- Improvement of the eight-base system for the TDY collaborated showrooms that cover major cities

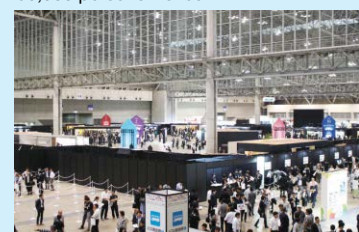
Issues

- Expansion of the products for renovation and brand power



Appealed attractiveness of remodeling in a large-scale fair TDY Remodeling Collection 2018 was held

In May, 2018, we took advantage of the alliance with TOTO Ltd. and YKK AP Inc. and held a large-scale TDY Remodeling Collection 2018 at Makuhari Messe in order for people to experience attractiveness of remodeling. By combining the fairs concurrently held in the collaborated showrooms across Japan by the three companies of TDY, a total of approx. 50,000 persons visited.



Medium-Term Management Plan GP25 2nd Stage

Basic policy and management goals

Basic policy

Based on firm management foundation, pursue the resolution of social issues through our business, thereby accelerating growth strategies toward becoming an all-embracing company for building materials.

I. Accelerating growth strategies

Domestic: Review of the business (market) portfolio
Global: Expand the business through aggressive investments and entry into new markets

II. Enhancement of the management foundation

- ① Optimize our financial foundation
- ② Restructure firm and flexible business infrastructure
- ③ Practice of ESG management

Management goals

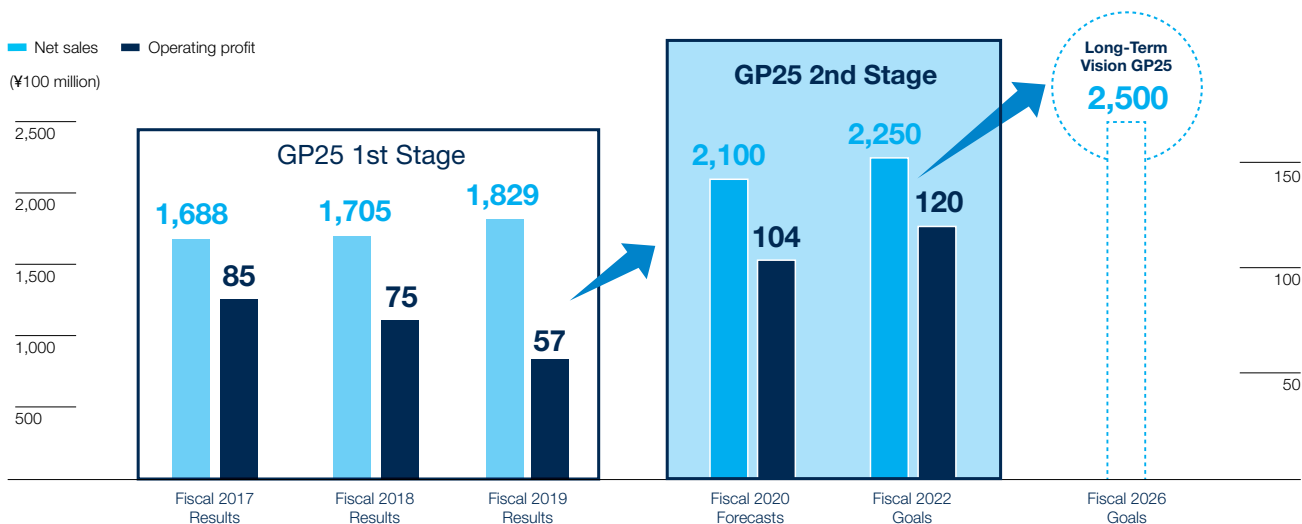
I. Accelerating growth strategies

	Benchmark Fiscal 2019	Forecast Fiscal 2020	Goal Fiscal 2022	Increase / Decrease
Net sales	1,829	2,100	2,250	+421
Domestic market	1,637	1,720	1,730	+93
Global market	192	380	520	+328
Operating profit	57	104	120	+63
Operating profit ratio	3.1%	5.0%	5.3%	+2.2pt
Profit attributable to owners of parent	44	60	70	+26

II. Enhancement of the management foundation

Financial indices	Goal Fiscal 2022	Non-financial indices	Goal Fiscal 2022
Efficiency		E Total CO₂ emissions in Japan^{*1}	(26%)
ROE	10%	S Total diversity index^{*2}	+20pt
ROA	7%	S Serious quality accidents and violations	0
Soundness		G Degree of penetration of the group corporate philosophy^{*3}	+10pt
Shareholder equity ratio	40%		
Shareholder return			
Dividend payout ratio	30% or more		

^{*1}: Compared to fiscal 2014 ^{*2}: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed as compared to fiscal 2019 ^{*3}: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed as compared to fiscal 2018



I. Accelerating growth strategies

Business and market strategies

Strategies and goals by business segment

Industrial materials business

Globally expand the markets and applications by taking advantage of sustainability and functionality and maximize the fixed asset efficiency

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Pursue optimization of the production system
- Accelerate application development centering on the resolution of social issues
 - Start the non-combustible business for wood materials
 - Consider commercialization of wood material use for the agricultural and gardening markets
 - Consider commercialization of new wood materials

Building materials business

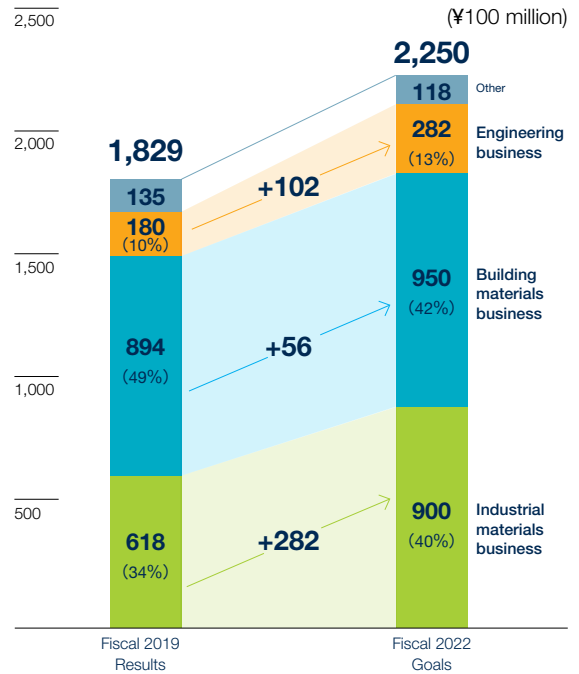
By taking advantage of the industrial materials business and functional and construction saving-type building materials, increase our share in the housing market and expand in the public and commercial building fields

- Further expand the differentiated products that can keep getting chosen
- Expand the product/sales networks by actively utilizing M&A and external resources

Engineering business

Expand the construction domains, areas, and order sources by M&A and cooperation with other companies

- Expand the construction company's business targeting the priority markets (public and commercial buildings, remodeling, and renovation)



Market strategies and goal

Global market

Accelerate global expansion with a focus on the industrial materials business through aggressive investments

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Continuously expand wood industrial materials with a focus on MDF
- Put the Chinese and Indonesian building materials businesses on a path toward stable growth and shift to the growth strategy

Public and commercial buildings

Expand investments including M&A and accelerate growth

- Expand the product lineup (The medical field will be the new focused target)
- Improve infrastructure for the expansion of the markets, such as logistics, correspondence of drawings, and the sales structure
- Expand the product and sales networks, including cooperation with other companies and M&A

Industrial materials

Cover the decrease in these for housing with application development and expand industrial materials business

- Focus on application development for the new markets and fields
- Promote the development of and search the applications of new materials and R&D products

Home renovation market

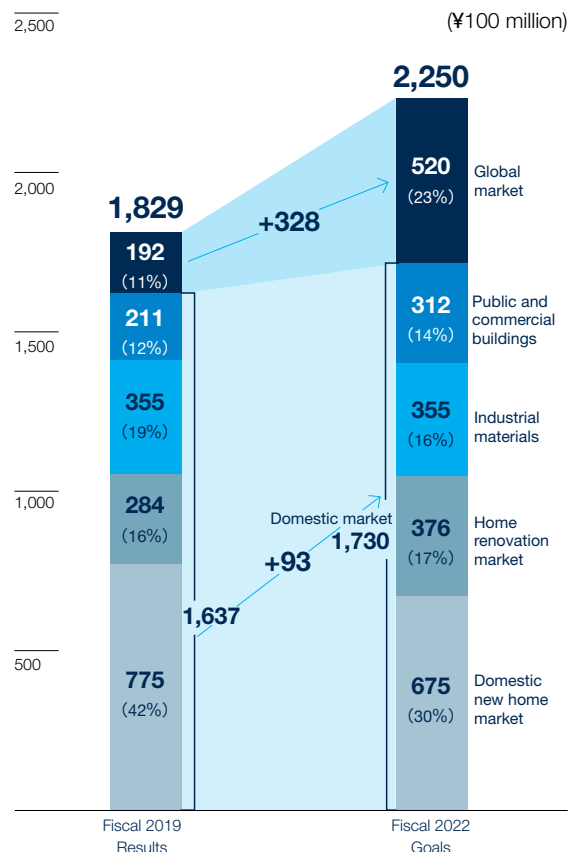
Expand in the renovation market from a perspective of development of functional products and methods

- Expand the renovated properties and renovation work in the Tokyo metropolitan area
- Focus on the expansion of the products for renovation, such as construction savings and waste savings

Domestic new home market

Restructure the sales structure in response to changes in the market and customer needs, and increase our share

- Continuously enhance the products and proposals from the perspective of functionality, such as soundproofing and construction work saving
- Enhance the collaborative system with key distribution companies as well as a system to make proposal to key customers



Development into North American wood industrial materials business

Objectives and background

With a view to expansion in the global market and enhancement of industrial materials business aimed in the long-term vision GP25, our company respectively acquired a 51% stake in CIPA Lumber Co. Ltd. (CIPA), which is a veneer plant in British Columbia, Canada, and is a consolidated subsidiary of ITOCHU Corporation that we are in the capital and business alliance with and PACIFIC WOODTECH CORPORATION (PWT), which is an LVL plant in Washington, U.S.A., and added them as our group companies in June 2019. CIPA was established as a saw-mill in 1968, which was a joint venture between ITOCHU Corporation and the local capital. Later, it became a 100%-owned company of ITOCHU Corporation in 1978 and started the current veneer business in 1993 after the transformation of business. PWT was established in 1998 as the LVL manufacturing base to effectively use the veneers manufactured by CIPA. ITOCHU Corporation's policy to want to enhance the production and development aspects in order to expand profits by further expanding CIPA's and PWT's businesses and improving productivity and our policy that we have been considering to acquire new products to expand global business and expand into a new market matched, and we have decided to proceed with joint business development in the North American market.



CIPA Lumber Co. Ltd. (CIPA)

Founding April 30, 1968
 Location Delta City, British Columbia, Canada
 Capital stock 23 million Canadian dollars (1.995 billion yen)
 (At a rate of 85 yen per Canadian dollar)
 Business description Veneer manufacturing and wood material sorting



PACIFIC WOODTECH CORPORATION (PWT)

Founding January 7, 1998
 Location Burlington City, Washington, U.S.A.
 Capital stock 26 million U.S. dollars (2.86 billion yen)
 (At a rate of 110 yen per U.S. dollar)
 Business description Manufacturing and sale of structural LVL and Wood I-Joist

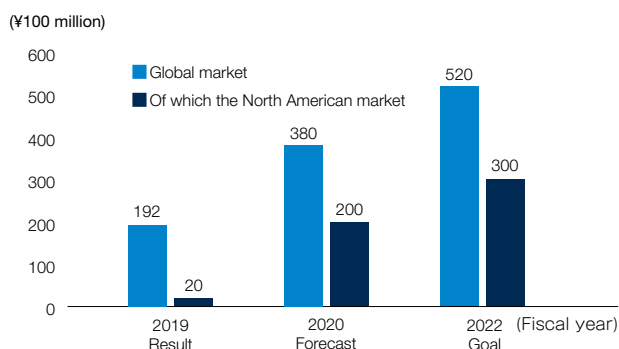


Business description and future development

CIPA manufactures LVL made from high-strength Douglas fir (Oregon pine) and veneer for plywood. PWT purchases veneer from CIPA and other companies, and manufactures LVL. Furthermore, they manufacture I-Joist, a structural material made by processing LVL, and these products are widely used for wooden houses in North America and Australia, such as being used for flooring for wooden construction, joists, and bridging joists that support ceilings. Our company has an advantage that we will be able to expand into the North American wooden housing market where we can expect stable growth while controlling the investment risk because of the joint business development with ITOCHU Corporation that had managed both companies for years. Because of the addition of CIPA and PWT in our group this time, a new product of LVL is added and we will expand into the trading area, the North American market, which is the world's largest wooden housing market. We will set these businesses as the point of origin in expanding in the North American market and by conducting active business development, we will drastically proceed with the globalization of the industrial materials business and the sales expansion in the global market.

We will take advantage of our strengths that we have expanded businesses by introducing technologies in industrial materials and increasing added value, increase added value in the North American industrial materials business as well, take advantage of the affinity with interior building materials for wooden houses that we have worked in Japan, and by eyeing the development into building materials business, we will pursue the possibility of business expansion in the future.

Sales goals in the global market and North American market

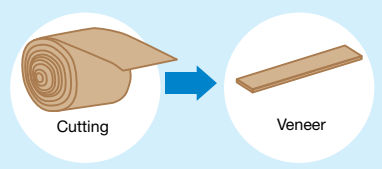


Business flow

Veneer manufacturing (CIPA)

Veneer: Thin wood board made by cutting a log in manner of rotary cutting (Thin board that is 2-4 mm thick: veneer) This is used for manufacturing plywood and surface decorative materials for furniture and building materials. Douglas fir (Oregon pine) hewed out from forest that is appropriately managed to ensure sustainable wood supply is used as the raw material. It is rich in cumulative dosage, the trunk is straight grain, and it offers excellent uniformity and high durability; therefore, manufacturing LVL with high strength will become possible.

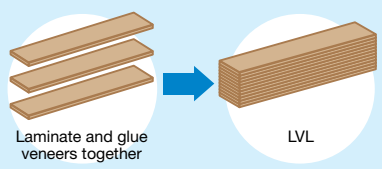
Veneer manufacturing process



LVL manufacturing (PWT)

Laminated Veneer Lumber (LVL): A fabricated wood product manufactured by laminating veneers all parallelized in the fiber direction and gluing them together. It has advantages, such as dimensional stability, being excellent in accuracy, being able to obtain long size materials, stable quality, and being able to offer products in dimensions according to use applications, and is used for posts and beams of a house, frame materials for furniture, staircase set, door frames, and door cores.

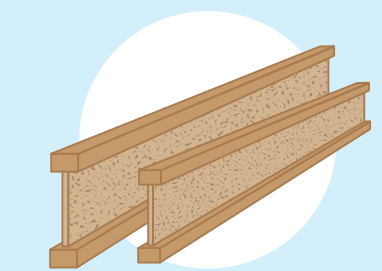
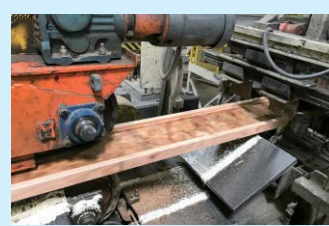
LVL manufacturing process



I-Joist manufacturing (PWT)

I-Joist: A structural material, which is a composite material of Oriented Strand Board (OSB): A structural wooden board made by laying a thin rectangular wood piece cut from raw wood upon another in a way that the surface layer and core layer cross at right angles in the fiber direction and compressed at high temperature, LVL, and lumber. Its structure is that square logs are combined on the both edges of an OSB reinforcing board and PWT uses LVL that they manufacture as square logs. By making it a composite member, it will have higher strength and accuracy than solid wood with the same dimensions. It is lightweight, offers excellent workability, and is used as the structural material mainly for floor framing and roof framing.

I-Joist manufacturing process



Major applications in the North American housing market

I-Joist rafters

I-Joist

LVL header

LVL beams

The scene of I-Joist work

Research & Development

Core mission

- Create new business that will become the fourth pillar after industrial materials, building materials, and engineering using new technology development focusing primarily on the resolution of social issues
- Develop the existing businesses and newly conduct advanced R&D to use as the driving force for business expansion
- Embody the product strategies fused together with each business' strengths

<Focused measures>

- Utilize R&D center and promote co-creation with those outside the company (Open innovation)
- Expand investments in R&D
- With the company-wide medium- to long-term development direction, promote company-wide product development



Industrial materials

Further improvement of the existing industrial materials and development of industrial materials that will become a key to capturing new markets

- High functionality of the wooden boards and inorganic boards
- Wood building material utilization development in the new field
- Technology development to use unused resources
- R&D of industrial materials for new markets other than building materials



Building materials

Development of new secure and safe building materials that will be needed by society in the future

- Development of environment-conscious building materials
- Development of new construction technique for building materials
- Development of high functional paints and painting technology
- Adding a high value to wood building materials



R&D theme

Promote R&D that will contribute to a sustainable society by working on Ecology and Qualitative improvement of a space



Spatial environment

Development of spaces and building materials that will realize a comfortable life

- Development of energy-saving and indoor environment improvement technologies
- Simulation of the thermal, humidity, and cross-ventilation environment
- Development of the indoor air quality improvement technology



Assay evaluation

Various measurements and analyses of spaces and building materials using the expertise cultivated in R&D

- Measurement of air quality
- Building materials' heat generation test
- Sound insulation performance evaluation
- Asbestos analysis
- Measurement of ticks and fungi

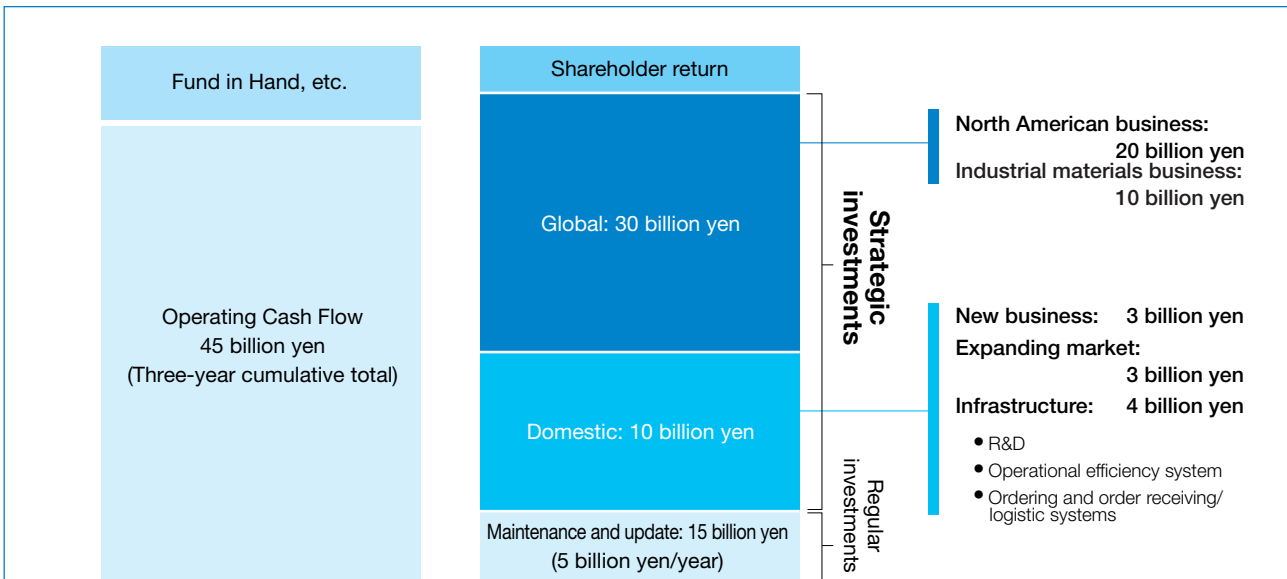


II. Enhancement of the management foundation

Optimize our financial foundation

Investments toward the enhancement of growth and foundation

- Make it a top priority implement growth investments toward the realization of the long-term vision GP25
- Select investments by reflecting risk and return as well as the cost of capital
- Aggressively utilize advanced technologies such as AI and IoT, to lead for improvements in efficiency and productivity



Optimize our financial foundation

Efficiency goal

ROA: 7% **ROE: 10%**

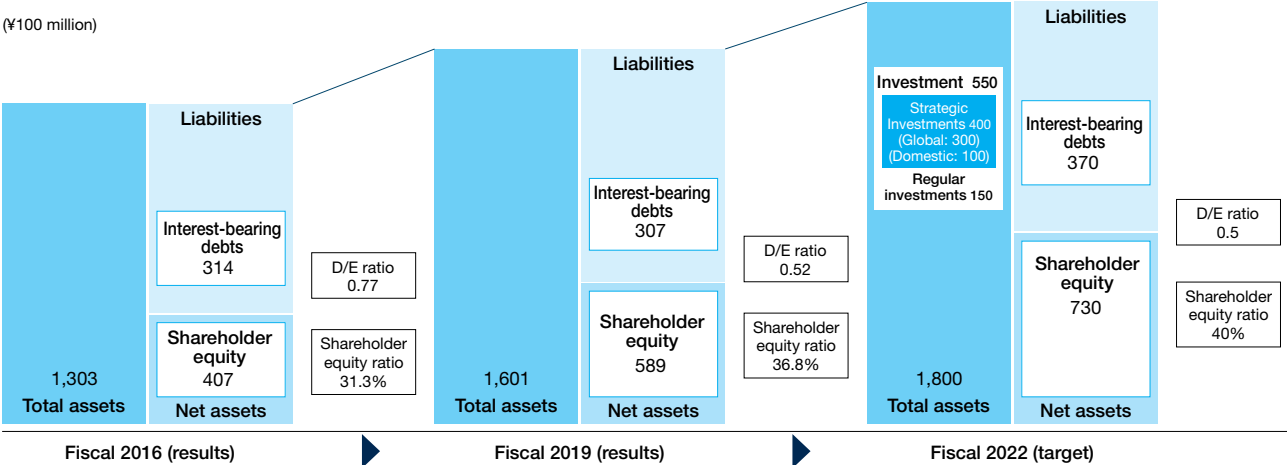
- Improvement of the fixed asset turnover ratio (Reduction in inefficient assets and stringent selection of capital investment)
- Improvement of the working capital turnover ratio (Inventory optimization that gives consideration to BCP)

Soundness goal

Shareholder equity ratio: 40% **D/E ratio: 0.5 times**

- Balance sheet management to maintain the optimum balance
- Procurement of funds for investment that will support growth

Target balance sheet



Practice of ESG management

The background and idea of the formulation

In formulating the medium-term management plan GP25 2nd Stage, we determined the areas and themes of ESG that are particularly considered to be important in achieving management strategies through deliberations in various projects and the CSR committee while being based on the expectations from stakeholders, our vision, and values that we consider important. For each theme, we set specific goals toward fiscal 2022, which is the final fiscal year of the medium-term management plan, will proceed with our efforts, and lead to the enhancement of the management foundation. To further improve the linkage, we set important items in each ESG theme as the non-financial management goals for the medium-term management plan GP25 2nd Stage.



CSR (ESG)-related policy structure Policies established and revised in fiscal 2019

Field	Policy	
CSR (ESG)	CSR Basic Policy	
E Environment	Daiken Group Environment Policy	
S	Product quality and safety	Basic Policy on Product Safety
	Fair transactions	Daiken Procurement Policy
		Group Conduct Guidelines (item 2)
	Human resources	Daiken Diversity Promotion Policy (Established)
		Daiken Workstyle Reform Promotion Policy (Established)
		Daiken Human Resource Development Policy (Established)
Human rights	Daiken Safety Basic Policy (Revised)	
	Daiken Human Rights Policy (Established)	
Coexistence with local communities	Daiken Social Contribution Activity Policy (Established)	
G Governance	The Basic Policy on Corporate Governance The Basic Policy on the Building of the Internal Control System	

Medium-Term ESG Plan

Field	Area and theme	Focused points in management strategies	
E Environment	Realization of low-carbon society	Aggressive approach to greenhouse gas reductions	
	Contribution for a recycling-oriented society	Pursuit of the material and thermal recycle of woody resources	
	Reduction of environmental burden	Reduction of environmental burden in business processes	
	Consideration of biodiversity	Promoting the use of domestically produced wood	
	Environment management	Continuous improvement of the environmental management system	
	S Social	Product quality and safety	Quality and technological capabilities to keep responding to confidence
Fair transactions		Promotion of CSR procurement transactions Ensuring fair competition and transactions	Maximization of added value by collaborating with suppliers
Human resources		Promotion of diversity Promotion of workstyle reform Enhancement of the human resources development Enhancement of the occupational safety and health	Fusion of diverse skills and ideas Pursuit of highly productive job performance Development of human resources who will play roles in the new market expansion and medium- to long-term growth Improvement of the safe working environment that will become the foundation of success
Human rights		Promotion of support for human rights that is significant from a global perspective	
Coexistence with local communities		Establishment of stable business foundation supported by local communities	
G Governance		Enhancement of the governance system	All employees share the group corporate philosophy and realize the growth strategies
	Promotion of risk management	Reconstruction of the supply system that the markets will keep choosing	
	Strict compliance	A high sense of ethics that will be trusted by the markets	

Set a target for each item

Field	Theme	Goal	
E Environment	Greenhouse gas emissions reduction	Total greenhouse gas emissions in Japan in fiscal 2022: 26% reduction (compared to fiscal 2014)	
	Promotion of the use of renewable energy	Renewable energy utilization ratio: 50% or more	  
	Promotion of carbon fixation	Amount of carbon fixation by the wood material business: 1,100,000 t-CO ₂ /year	
	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	 
	Promotion of effective use of water resources	Water resource input: 3% reduction (As compared to fiscal 2019)	 
	Appropriate management and reduction of chemical substances	Release amount of substances subject to the PRTR law: 70% reduction (As compared to fiscal 2019)	 
	Procure wood in a biodiversity friendly way	Utilization of domestic timber for flooring materials: 45%	 
	Strengthen environmental risk management	Number of environmental accidents and violations: 0 (Those with administrative guidance or penal charge)	
S Social	Enhancement of the Quality Control Structure	Serious product accidents: 0 Product safety and quality improvement education execution rate: 100% Product audit implementation cover rate: 100%	
	Fair transactions	Rate of acquisition of the agreement on the CSR procurement standards at home and abroad: 100% Serious violations of the Anti-Monopoly Act and Subcontract Act: 0	  
	Promotion of diversity	Total diversity index ^{*1} : +20 pt	  
	Promotion of workstyle reform	Total work time reduction rate: 3% Rate of taking annual paid leave: 70% Employee satisfaction ^{*2} : +5 pt	
	Enhancement of the human resources development	Job separation rate within three years: Within 15% Young employees' career plan training attendance rate: 100% Focused market enhancement program attendance rate: 50% Management staff training program attendance rate: 70%	 
	Enhancement of the occupational safety and health	Serious disaster: 0 Plant mutual safety diagnosis execution rate: 100%	 
	Human rights promotion activities	Human rights enlightenment training attendance rate: 100% Supervisor harassment training execution rate: 100%	
	Social contribution activities by cooperating with local communities	Holding of the event planned by cooperating with local communities: Once a year in each group production base	 
G Governance	Enhancement of the governance system	Group corporate philosophy penetration program execution rate: 100% Degree of penetration of the group corporate philosophy ^{*3} : +10pt	
	Promotion of risk management	System BCP 3-year proactive measure completion rate: 100% Procurement BCP 3-year proactive measure completion rate: 100%	
	Strict compliance	Serious compliance violations: 0 Compliance consciousness degree ^{*4} : +5pt	

*1: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed compared to fiscal 2019
 *2: Our own indices in which employees' actual feeling for satisfaction and job satisfaction in the workplace were indexed compared to fiscal 2020
 *3: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed compared to fiscal 2018
 *4: Our own indices to measure employee's compliance consciousness degree from the perspectives of legal compliance, a sense of ethics, structure, and corporate culture compared to fiscal 2020

Special Interview on SDGs

Pursuing New Value Creation by Leveraging SDGs

DAIKEN

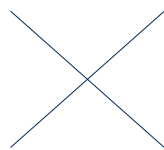
Masanori Okuda

Representative director,
President

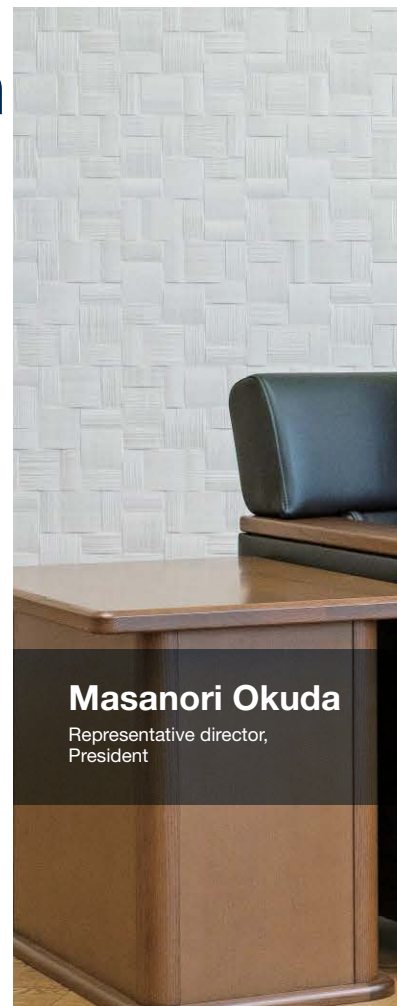


Mr. Hidemitsu Sasaya

Visiting Professor, The Graduate
School of Information &
Communication
CSR/SDG Consultant



Since the adoption of SDGs by the United Nations in 2015, expectations have increased for contributions by companies through business activities for the resolution of social issues on a global scale, such as environmental problems. We invited Mr. Hidemitsu Sasaya (title omitted hereinafter), a consultant knowledgeable in SDGs, to the Daiken R&D center, our R&D facility that opened in October 2018, to speak with Masanori Okuda, our representative director, president, concerning future contributions to SDGs through business activities and how to turn such contributions into improvements in corporate value.



Masanori Okuda

Representative director,
President

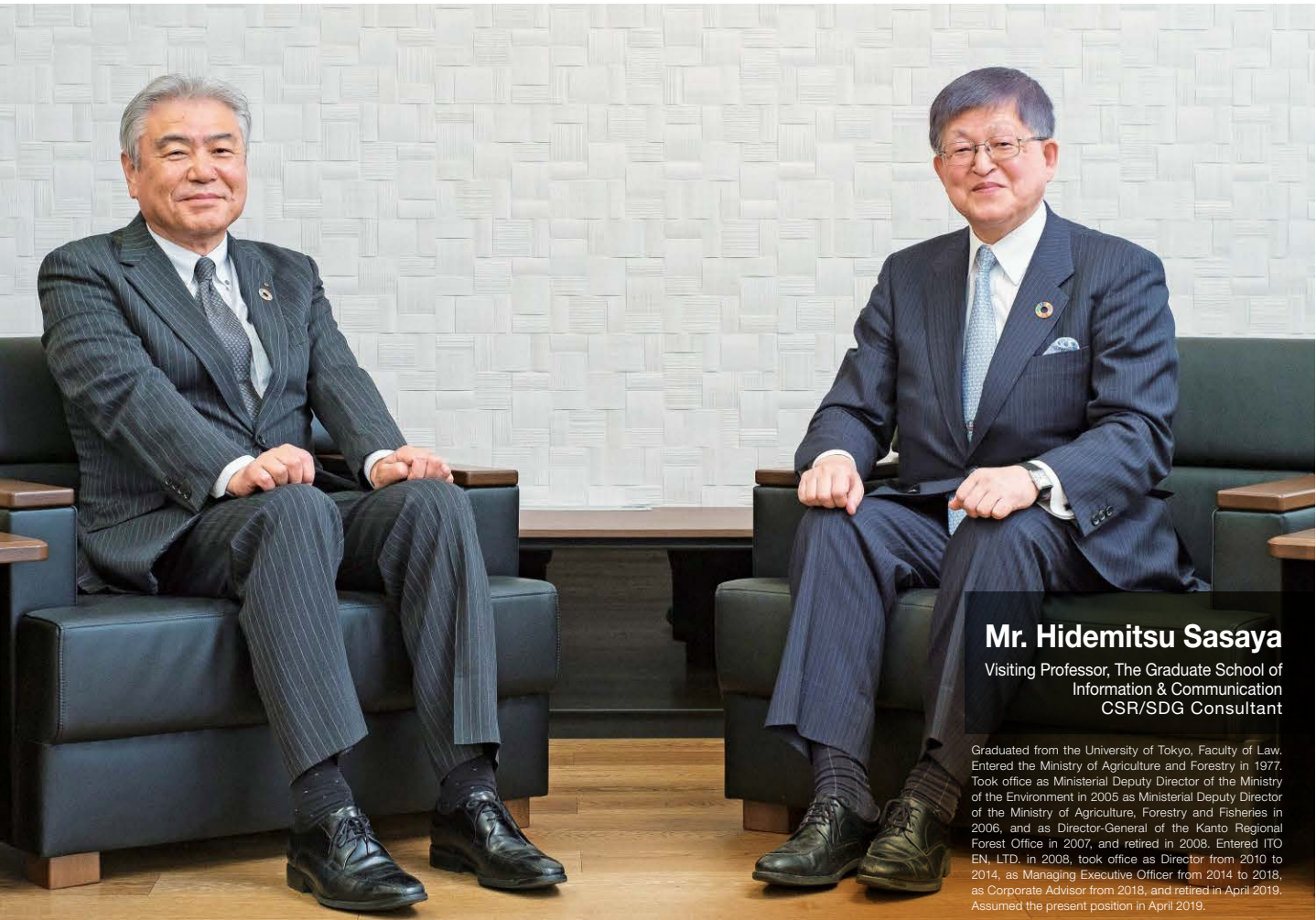
Maintaining attitude to face social issues since foundation

Okuda: Our company was founded in Toyama in September 1945 soon after the end of World War II. The company started with the wood processing business in the hope of contributing to Japan's restoration from post-war devastation by using wood as a material to replace iron, which was in short supply in those days. Since our foundation, our goal was to use wood as a valuable resource without any waste. Through the effective use of scrap wood from demolished houses, and offcuts, we developed a technology that would create new added value. Therefore, I think our company has been pursuing SDGs since its origin without knowing it.

Sasaya: SDGs consist of 17 global goals toward the realization of a sustainable world based on the analysis of global issues that have become increasingly more serious. These 17 goals are clearly the pursuit of respect for humans, protection of the global environment, and other themes through partnerships. These goals were

not generated suddenly but were crystallized as a summary of a long history. This process overlaps the long course that the DAIKEN CORPORATION has taken since its foundation during which the company has pursued the resolution of various social issues.

Okuda: The first business that our company handled was plywood. We developed technology to improve water resistance and durability in order to use plywood in vehicles and vessels, and primarily handled special plywood that overcame the weakness of wood. Subsequently, in 1958, we established a plant for the use of unused resources in Okayama City, where this R&D center is located, for the expansion into new businesses. Wood fiberboard and Insulation boards (IB) that we produced here use scrap wood from demolished houses, and offcuts, thereby extending the carbon fixation period and contributing to the SDGs 17 "Responsible consumption and production" and the SDGs 13 "Climate action". Our Dai-Lotone, which uses slag as a by-product from steel manufacturing also contributes to SDGs 12, while Dai-Lite, which uses the volcanic ash called Shirasu as a raw material, links to SDGs 11 "Sustainable cities and communities" because it contributes to quake-proof housing. In



Mr. Hidemitsu Sasaya

Visiting Professor, The Graduate School of Information & Communication
CSR/SDG Consultant

Graduated from the University of Tokyo, Faculty of Law. Entered the Ministry of Agriculture and Forestry in 1977. Took office as Ministerial Deputy Director of the Ministry of the Environment in 2005 as Ministerial Deputy Director of the Ministry of Agriculture, Forestry and Fisheries in 2006, and as Director-General of the Kanto Regional Forest Office in 2007, and retired in 2008. Entered ITO EN, LTD. in 2008, took office as Director from 2010 to 2014, as Managing Executive Officer from 2014 to 2018, as Corporate Advisor from 2018, and retired in April 2019. Assumed the present position in April 2019.

this way, many of our present businesses and products are linked to SDGs.

Sasaya: The 17 SDGs were presented in a clear and orderly form to your company that originally had a SDGs-oriented attitude. A look at the relationship between the businesses of DAIKEN CORPORATION and SDGs will enable the recognition of its business value and provide stakeholders with an opportunity to learn of the potential of the company.

Okuda: SDGs had yet to be defined when we started the individual businesses, but the concept of SDGs to contribute to the resolution of social issues toward sustainability seems to match our past initiatives and future goals. As stated in our group corporate philosophy: *We will create a wonderful future with our technology, ideas, and passion, and As a company respected by everyone, we will give the highest priority to harmonizing an affluent society with the environment.* This is why we must make continuous efforts to contribute to a sustainable society and enhance public trust. The recognition of SDGs clarifies the measures that our company should implement at present and into the future.

Sasaya: It is natural that there are commonalities between SDGs and businesses that have been promoted under a social philosophy. DAIKEN CORPORATION may well be surprised that SDGs have not been defined much earlier.

Leading innovations at the R&D center

Sasaya: While sustainability is extremely important in business, there is one more "S" that is critical: Scaling. Good practice needs to be expanded. In Japan, there is the idea of *good for everyone*, which urges that business should be good for the seller, good for the buyer, and good for the public. I propose a version of *good for everyone*, adding output to the concept above. Through outputs, partners who share the same idea gather, and their gathering leads to innovation. The R&D center is equipped with an exhibition space under the concept of open innovation, which presents outputs concerning your products and technological power.

Okuda: When the R&D center first opened, experts were invited from



R&D center

universities across Japan to tour the inside of the facilities. In the coming years, we plan to invite students and dispatch our researchers to universities, thereby deepening exchanges and leading to technological innovation that will create new value through industry-administration-academia collaborations.

Sasaya: Okayama City, where the R&D center is located, has been selected as one of the SDGs Future Cities, which promote initiatives for the attainment of SDGs. Interested persons frequently visit the city from other countries. The high technology of the DAIKEN CORPORATION will be recognized by such people through promotional measures. I believe that the DAIKEN CORPORATION has established an environment for leading to open innovations through the increased output power.

Okuda: In terms of innovation, we expect R&D and business activities to indicate specific resolutions to be developed toward the goals specified in the SDGs. I hope that the R&D and business departments will identify goals toward which our company can exercise its strengths, think outside the box, and pursue development with a challenging spirit. Development personnel are



encouraged to leverage SDGs in diverse ways, such as presenting ideas for development, sharing visions with partners, and examining the sustainability of business models.

Establish a research environment and maximize the value of human resources

Sasaya: Through what you said, I recognized that DAIKEN CORPORATION has further motivated technological development personnel by establishing the R&D environment in the R&D center. In the center, I found a board on which each researcher of the center stated their future ideals. It is wonderful that you are proceeding toward the future with a participatory approach that enhances motivation. The efficient use of human resources is essential for fully exercising technological expertise and for creating business models with high added value. It will require an environment that is pleasant to work in as well as proper governance. I hope that you will continue to establish a suitable infrastructure.

Okuda: I also believe that *human resources* are at the center of innovative movements leveraging SDGs. I urge employees to deepen their ties to society, absorb a wide variety of knowledge, and promote development that will facilitate social participation. We established the R&D center, provided an environment, and defined milestones. The development team is moving toward those milestones. I expect that they will maintain a challenging spirit to move further ahead without dwelling on these checkpoints.

Sasaya: I consider DAIKEN CORPORATION to have high human resource power. I hope that you will emphasize the process in which you, President Okuda, will *visualize* your philosophy, formulate the flow for value creation, and disseminate it to individual departments. According to the latest survey, SDGs have been disseminated to 60% of corporate management executives but only to about 20% of middle managers and employees. SDGs will become the mainstream of society. I hope that the president will share direct messages so that the understanding of SDGs will be further deepened throughout the DAIKEN CORPORATION.

Okuda: Business activities are promoted by *humans* not by anything else. Our company invests in humans and endeavors to maximize human resource value. I believe that contribution to the resolution of social issues by the company will lead to improved corporate value.

Sasaya: Partnerships for the goals and the spirit of harmonization as represented by SDGs 17 will enable people to connect to diverse issues and enhance their motivation for work.

Okuda: I strongly hope that all employees recognize such partnerships and that we can proceed hand in hand.

Expand future-oriented business through development under SDGs

Sasaya: DAIKEN CORPORATION has already been linked to social issues through SDGs. I suppose that you have come to the stage where you should consider how to enhance such links. In the ongoing process of global expansion, it is recommended to effectively leverage SDGs for *visualization*. Because SDGs are a common global language, they will facilitate the sharing of your vision with global partners. You will be more easily accepted as a company that proactively leverages SDGs.

Okuda: Regarding global expansion, we have two plants in New Zealand that manufacture wood fiberboard MDF. We will examine how limited local wood resources can be leveraged. The longer wood is used in the form of wood fiberboard without burning, the more extended the carbon fixation period will become. Therefore, I believe that the expansion of this business will contribute to the prevention of global warming. We will further expand such wood material businesses overseas.

Sasaya: The technological power that DAIKEN CORPORATION has accumulated over its long history, as well as its business models for industries of high added value based on that technological power, will definitely be accepted throughout the world. The Tokyo Olympics and Paralympics are drawing near. Sustainability is particularly emphasized in these SDGs-oriented Olympics/Paralympics, and sustainability is required for energy sources and materials to be used. Interest in SDGs will substantially rise among the general public. Along with the Osaka, Kansai Expo 2025, it will become a good opportunity to advertise business expansion linked to SDGs through such international events.

Okuda: While SDGs are set for 2030, I do not regard it as the year of the goal. Our company will celebrate its 80th anniversary in 2025, when the Osaka, Kansai Expo 2025 will be held. We will also target at the 100th anniversary beyond that. We must envision our goal toward those major milestones. Strategies for the next stage of development are required, while the market environment has substantially changed with new housing starts on a declining trend in Japan. At present, our focus is on the expansion from industrial materials to building materials. When we are headed toward a new market, we should return to industrial materials as our starting point and continuously face social issues and needs in the new era. It is also possible that a substantially different business will become our core business further shifting away from building materials.

Sasaya: DAIKEN CORPORATION has the power of technological innovation to create new products based on its accumulated technology. Its corporate message, *Toward the future going beyond the functions of yesterday*, represents your power of technological



innovation. This phrase is amphibious, meaning both history up until yesterday and enhanced functions. Leading social issues up until yesterday toward resolution with new functions - SDGs and DAIKEN CORPORATION share the same future-oriented approach.

Okuda: As an example of a specific initiative for the future, we are promoting the development of culture soil by applying wood processing technology. This initiative is aimed at replacing culture soil for plants with wood chips as a material for wood fiberboard. If such a material can be used for greening infertile deserts, it will contribute to SDGs 2, "Zero hunger". If, for another example, Japanese paper used for the surface of tatami mats can be processed for other purposes, it will lead to deplasticization and may contribute to SDGs 14 "Life below water".

Sasaya: SDGs have *leverage points* that will lead to the resolution of more than one issue. In the case of DAIKEN CORPORATION, SDGs 9 "Industry, Innovation, and Infrastructure" and SDGs 17 "Partnerships for the goals" will be its leverage points. Innovations led under SDGs 9 will be linked to solutions to various goals and will be extensively distributed through partnerships under SDGs 17. In this way, I hope that DAIKEN CORPORATION will increasingly become an *all-embracing company for building materials* on a global basis.

Okuda: I believe that SDGs will become the very themes of development in coming years. It depends on the ideas and enthusiasm of individual members of the group, including me at the top, executive officers, heads of departments, and employees, how those social issues and needs can be identified and leveraged. We would like to further deepen the existing technologies, promote development activities that will contribute to society, and enhance our corporate value through the resolution of social issues. Thank you for time.

G Governance

Basic Approach

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

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

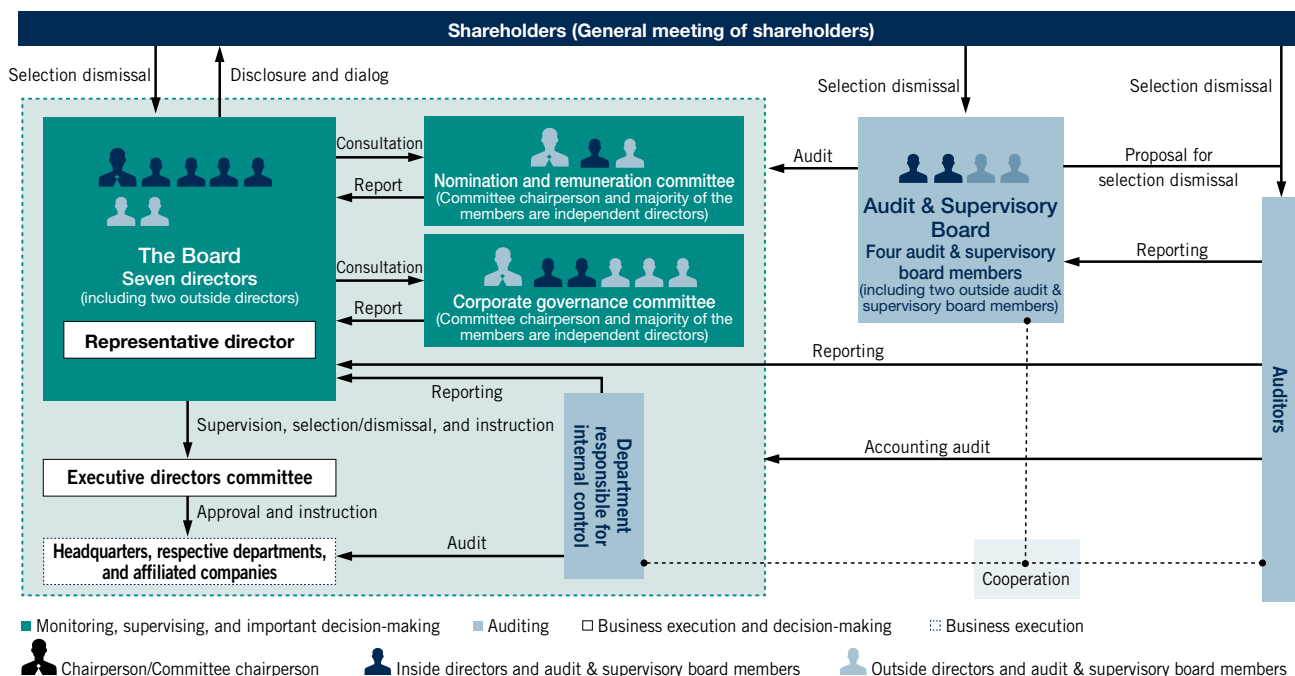
Key Initiatives for the Reinforcement of Corporate Governance

2002	Made the shift to the chief executive officer system.	2015	Outside directors increased from one to two. The Basic Policy on Corporate Governance was established.
2003	The Compliance Committee was established.		The Nomination and Remuneration Committee and the Corporate Governance Committee were established.
2008	Reorganized to the Risk & Compliance Management Committee for reinforcement.	2016	The effectiveness evaluation of the Board was started.
2010	Reduced the number of directors from 11 to 9.	2018	A female outside audit & supervisory board member was selected.
2011	Outside directors are selected.		Introduction of the transfer restricted stock-based compensation system.
2012	The term for the directors was reduced from two years to one year.	2019	Reduced the number of directors from 9 to 7.

Quick Reference of Corporate Governance Organization

Main items	Details
Design of the organization	Company with Board of company audit & supervisory board members
Number of Directors (outside directors)	7 (2)
Number of audit & supervisory board members (outside audit & supervisory board members)	4 (2)
Number of the Board convened (fiscal 2019)	15 times
(Average attendance rate of outside directors)	(100%)
(Average attendance rate of outside audit & supervisory board members)	(97%)
Number of audit & supervisory board convened (fiscal 2019)	14 times
(Average attendance rate of outside audit & supervisory board members)	(100%)
The term for directors	1 year
The executive officer system	Adopted
Voluntary committee of the Board	<ul style="list-style-type: none"> Nomination and remuneration committee: Deliberate on human affairs and the remuneration of directors and executive officers Number of the committee convened in fiscal 2019: 4 times Corporate governance committee: Evaluate the effectiveness of the Board and deliberate the matters related to establishment of the governance system Number of the committee convened in fiscal 2019: 3 times
Auditors	Gyosei & Co.

Corporate Governance Framework



Outside Directors and Audit & Supervisory Board Members

	Name	Reason for selection	Attendance			
			Fiscal 2018		Fiscal 2019	
			The Board	Audit & supervisory board	The Board	Audit & supervisory board
Outside director	Koji Mizuno	He actively provides advice and suggestions supported by the high expertise as a professor and contributes to securing appropriate decisions by the Board. Also, his affluent knowledge about corporate management is considered essential for the improvement of governance of the company.	12/12 (100%)	—	15/15 (100%)	—
	Kiyoshi Furube	He has been involved in the management of TOTO as a director for a long period of time and actively provides advice and suggestions based on his rich experience. Also, his affluent experience and wide range of knowledge about corporate management is considered to contribute to improving our corporate value. He is from TOTO, which is our client company, but the percentages of the transaction amounts with the said company in consolidated sales or purchase amount in the current fiscal year are less than 1% respectively.	8/9 (88%)	—	15/15 (100%)	—
Outside audit & supervisory board member	Masafumi Inoue	He is considered to use his high expertise as a professor, experience and wide range of knowledge as an examiner of the Cabinet Office and a research officer of the Ministry of Education, Culture, Sports, Science and Technology in the audits of our company.	12/12 (100%)	13/13 (100%)	14/15 (93%)	14/14 (100%)
	Yuko Katsuo	In addition to her high expertise as a professor in the Department of Economics, she held several positions as a committee member in the Ministry of Finance, Financial Services Agency, etc. and is considered to reflect her affluent knowledge on finance and accounting cultivated through such experiences into the audits of our company.	—	—	12/12 (100%)	10/10 (100%)

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

The Effectiveness Evaluation of The Board

The past effectiveness evaluations of the Board and improvement responses for the issues

To increase the effectiveness of the Board and to improve corporate value, the Daiken Group has implemented the effectiveness evaluation of the Board once a year since March 2016, and three years have passed. The results of analyzing and evaluating the effectiveness of the Board in each period confirmed that each director and audit & supervisory board member are committed to presenting and deliberating their opinions actively while ensuring the independence 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. On the other hand, regarding the issues that had been confirmed in each period in aiming for more effective Board operation, they have been continuously put effort into the improvement responses.

Fiscal year ended March 2016	Issues	Improvement responses
1	Regarding management strategies and various important policies, conduct more effective engagements in the PDCA process through the annual or interim evaluations and verifications.	To measure the degree of penetration of the group corporate philosophy established in April 2017, a survey on the degree of penetration was implemented in January 2018. After reporting the results to the Board in March 2018, issues for the penetration were confirmed and measures, such as the enhancement of the transmission, were executed.
2	Improve the provision of training opportunities for directors and audit & supervisory board members.	The Director Human Resource Development Program was set in June 2016 and training for new and incumbent directors was implemented. Nomination and remuneration committee is also involved in the selection of executive officers, and the personnel rotation for the development of the next generation has been implemented.
3	In order for the outside directors to be able to deepen their understanding on our businesses and sufficiently examine agendas beforehand, improve information provision.	Matters to deliberate in the management meeting are reported to outside directors in the regular debrief session by the Corporate Planning Department and the said matters are reported to outside audit & supervisory board member in the audit & supervisory board by the said department.
4	Improve feedbacks to the Board regarding information obtained from IR activities, CSR activities, etc.	To feed back the opinions obtained in dialogs with investors, the director responsible for IR has been continuously reporting IR activities in the Board (scheduled for once a quarter).

Fiscal year ended March 2017	Issues	Improvement responses
1	Evaluate the degree of penetration and progress of important issues in regard to the management strategies and various important policies, etc. in the Board.	Based on the survey on the degree of penetration implemented in January 2018, we started operating group corporate philosophy penetration program in August 2018 to improve the degree of penetration.
2	In deliberating important agendas, improve information provision to the outside directors in order for them to deepen their understanding on the effects, risks, and issues beforehand and further deepen discussions in the Board.	We have been improving the information provision to deepen discussions in regard to high-risk acquisition cases, such as conducting deliberations in the Board held several times, in addition to distribution of materials including deliberation results on the executive officer side and prior explanations.
3	Improve the support system in order for the directors and audit & supervisory board members to be able to actively collect information in and outside the company.	To secure sufficient verification time, we hold an office visit for the outside directors in order for them to deepen their understanding on business descriptions in addition to the distribution of the Board materials at least one week before and continuous implementation of the regular debrief session.

Fiscal year ended March 2018	Issues	Improvement responses
1	Enhance the Board's involvement particularly in the CA process (analyses, issue organization, and execution of countermeasures and improvement measures) in the PDCA process in the management strategies.	In the process to formulate the new medium-term management plan from fiscal 2020, we reported the results and issues of the previous medium-term management plan in the Board and deliberated from the draft stage the business and market strategies as well as the concept of the enhancement of the management foundation.
2	Review decision-making authority, delegate part of the matters to be resolved concerning decision-making to the executive officer side, and improve the Board's supervisory function.	To streamline the Board, the Board's rules have been revised, and the scope to be delegated to the executive officer side has partly been expanded in fiscal 2020.
3	For stakeholders including shareholders, improve the structure to promote a constructive dialog and transmit helpful information.	In creating the integrated report, the Board has been actively involved, such as implementing a questionnaire survey to the directors, individual meeting with outside directors, from the fiscal 2019 edition.

Results of the Board effectiveness evaluation in the fiscal year ended March 2019 and response to the future issues

The Board's effectiveness evaluation implemented in the fiscal year ended March 2019 confirmed that each director and audit & supervisory board member are committed to representing 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 particular, we improved prior information provision to outside directors, and important agendas were explained several times on the Board; therefore, we evaluated that sufficient discussions were made before making decisions. On the other hand, future issues to further enhance the effectiveness of the Board were confirmed, such as the need for further involvement in internal control and risk management in the entire group, including subsidiaries, and evaluation monitoring for information provision to stakeholders.

Future issues and response

- Enhance involvement, such as conducting specific verifications, by the Board in regard to internal control and risk management in the entire group including subsidiaries.
- To improve information transmission to stakeholders, such as shareholders, the Board will monitor the evaluations by the recipients of the information.
- To be effectively involved in the PDCA process for the management strategies, review report content, such as execution of operation, by the Board.

Message

Message from
the outside director



By fulfilling supervisory function,
build the effectiveness governance
system and contribute to sustainable
improvement in its corporate value.

Koji Mizuno

Chair, Corporate governance committee
Chair, Nomination and remuneration committee
Outside Director

1. Characteristics and effects of the effectiveness evaluation of the Board at the company

Over the past few years since 2015, when I took office as outside director, discussions by the Board of the company have become increasingly vigorous each year. I believe that this is primarily due to the effect of the effectiveness evaluation by the Board conducted in a self-evaluation method by the directors and audit & supervisory board members. Many opinions are freely stated in the effectiveness evaluation at the company, and all of the provided opinions are reviewed by the Board. Problems are recognized and improved in this process, and the PDCA cycle for operational improvement has started to proceed.

For example, when an important issue is to be deliberated, preparatory materials are distributed that contain the results of reviews by the executives so that understanding can be deepened in advance concerning the significance, effect, and risk of the managerial strategy. In addition, preliminary briefing sessions may be held in order to provide adequate information to outside directors and outside audit & supervisory board members. In this manner, I think that the company endeavors to promote discussions, rather than explanations, through deliberations at Board meetings. The frequent personal meetings with persons in charge also suggest the attitude of executives for accountability, which seems to be another effect of effectiveness evaluation.

In the fiscal year ending in March 2019, there was a large M&A project to purchase the North American wood industrial materials business. The final decision was made through discussions in repeated sessions by the Board, which concerned the positioning of global business in the company's future managerial strategies. In this project, they took time to carefully examine the conditions, including the adequacy of the purchase price, because the contract provided the transfer of stocks with ITOCHU Corporation as the company's largest stockholder.

2. Effectiveness evaluation and future requirements

The primary future requirement is the development of successors. The nomination and remuneration committee was engaged in the process, including the selection of executive officers, and allocated officers in an impartial manner by taking into account the next generation. This is expected to enable the establishment of a successor planning process, through the broadened horizon for successor development not only through training but also in practice.

Global expansion through M&A and other means is essential for growth strategies. Under these circumstances, we recognize that it is also important to bolster local internal control and risk management.

3. Expectations for initiatives in ESG and SDGs

In the new medium-term management plan that started in fiscal 2020, non-financial managerial targets were set for the first time. In particular, comprehensive indexes were specified concerning diversity items, including enhanced opportunities for female employees, as an effort for target management. I believe that this effort is worth evaluating as an attempt to improve corporate value through human resources.

I also expect that competitive product development will be accelerated in the contributions for ESG and SDGs, through R&D activities that are promoted through the opening of an R&D center. The value of ESG-related initiatives may be difficult to visualize but can be organized through reference to SDGs.

In this way, corporate value will be improved with the value created by the company becoming more visible to society and consumers.

I will continue to play my role by fulfilling my supervisory function in a balanced way from a broad perspective and thereby supporting the company's growth strategies and contributing to sustainable improvement in corporate value.

Executive Remuneration

Policy of Executive Remuneration

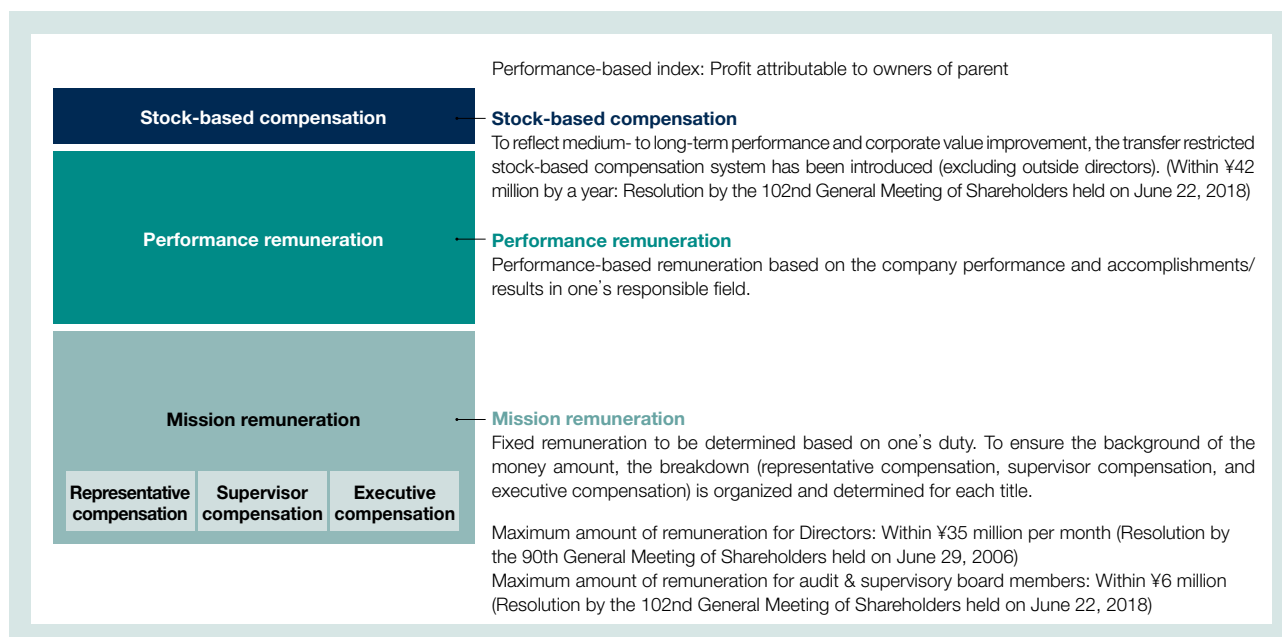
- 1 The remuneration system shall be based on the practice of the group corporate philosophy.
- 2 The remuneration system shall be designed reflecting the long vision GP25 and the medium-term management plan, prevent too great an emphasis on short-term inclinations, and motivate the improvement of medium-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

Procedure

The Board has the authority to make decisions on the policy concerning the amounts and the method to calculate executive remunerations, and the authority is delegated to the representative director meeting by a Board resolution. In determining remuneration, to secure transparency, fairness, and objectivity, remuneration is determined by the representative director meeting after deliberations and recommendations by the nomination and remuneration committee in which the independent outside director is a chairperson and independent outside directors account for more than half of the members.

Composition

Executive remuneration is composed of executive remuneration as fixed remuneration, performance remuneration as the performance-based remuneration, and stock-based compensation. The proportion of the performance-based remuneration in the remuneration is around 40% and is designed to fluctuate according to performance.



Executive remuneration for the fiscal year ended March 2019

The total amount of remuneration according to each executive classification, the total amount of remuneration by type, and number of target executives are as follows.

Executive classification	Total amount of remunerations, etc. (¥million)	Total amount of remunerations, etc. by type (¥million)				Number of target executives
		Mission remuneration	Performance remuneration	Stock-based compensation	Retirement benefits	
Directors ^{*1}	265	144	111	8	–	8
Audit & supervisory board members ^{*2}	40	40	–	–	–	2
Outside directors	22	22	–	–	–	5

*1: Except for outside directors *2: Except for outside audit & supervisory board members

Message

Message from new Outside Audit & Supervisory Board Member



Shingo Ishizaki

Outside Audit & Supervisory Board Member

Profile	
April 1979	Joined Yamaichi Securities Co., Ltd.
April 1998	Joined Merrill Lynch Japan Securities Company
July 2001	Joined UFJ Capital Markets Securities (present Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
October 2004	Joined Mizuho Securities Co., Ltd. as the general manager of the investment bank group
April 2009	Managing executive officer of the company above and director of the Kansai investment bank group
April 2010	Managing executive officer of the company above and director of the Kansai and West Japan investment bank group
June 2015	Special advisor in Sekisui House, Ltd.
June 2015	Special advisor in Sekisui Plastics Co., Ltd.
April 2018	CEO and president of SI. Management Co., Ltd. (present)
June 2019	Outside Audit & Supervisory Board Member of Daiken (present)

Corporate governance for coming years

Corporate governance refers to corporate management systems aimed at preventing dishonest acts within and by the company and improving competitiveness and profitability toward increases in long-term corporate value.

Among the relevant methods, governance through management organization is well known. For example, if a management executive acts in any way that conflicts with the interest of stockholders, the stockholders can dismiss the management executive in a general stockholders' meeting. Such a system has the effect of controlling the behavior of management executives. At the same time, governance through the stock market must not be forgotten. If a company performs poorly and is not profitable, more stockholders sell its stocks in the market. This results in declined stock prices and decreased market capitalization. This causes cuts in the rating and compromised trust from financial institutions, which will make funding the company difficult. In this way, governance in this aspect also controls management execu-

tives. Therefore, it is important to monitor trends in the market from the perspective of corporate governance.

In Japan, the national government and Keidanren (Japan Business Federation) proactively promote sustainable development goals (SDGs). In the meantime, activities are taking impetus toward environment, society and governance (ESG) investments, led by the Government Pension Investment Fund (GPIF). Because DAIKEN CORPORATION envisions proactive global expansion, it is extremely important to focus on these aspects.

I will leverage my experience in investment bank operations to monitor trends in the market, recognize what investors should learn and understand about a company, and make efforts to establish corporate governance in DAIKEN CORPORATION that will enable its sustainable development and response to social trust.

Reasons for selection

He has been engaged in investment bank operations at securities companies over many years. We believe that his abundant knowledge concerning finance and accounting, accumulated through his experience, will contribute to further strengthening governance at our company. He satisfies the Independence Assessment Standards established by our company, because there is no potential conflict of interest between him and other general stockholders of our company, in terms of his human relationship, capital relationship, trade relationship, and other relationships of interest with our company.

Directors and Audit & Supervisory Board Members (as of July 1, 2019)



Masanori Okuda

Representative Director,
President

April 1974 Joined Daiken
April 2007 Executive officer
General manager of Tobu Juken sales control
April 2008 Senior executive officer
Manager of Juken sales control and general manager of Tobu sales control
June 2008 Director and senior executive officer
April 2009 Director and managing executive officer
Tokyo representative and manager of Juken sales control
April 2010 General manager of Juken Sales
June 2011 General manager of sales, manager of new development sales, and general manager of the Tokyo office
April 2012 Director and senior managing executive officer
General manager of the Tokyo office
June 2013 Representative director, senior managing director
Senior managing executive officer
October 2013 General manager of procurement innovation and general manager of the Tokyo office
April 2014 Representative director, representative president and executive officer
June 2018 Representative director, president (present)



Takashi Aihara

Representative Director,
Senior Managing Executive Officer

April 2001 Professor of School and Graduate School of Law and Politics, KWANSEI GAKUIN UNIVERSITY
August 2003 Takara Printing Co., Ltd.
Director and manager of IR planning
March 2006 Urban Life Co., Ltd.
Outside audit & supervisory board member
August 2006 Takara Printing Co., Ltd.
Director and executive officer responsible for IR business development
February 2008 Registered lawyer (Tokyo Bar Association) (present)
June 2010 Outside audit & supervisory board member of Daiken
January 2011 Member of the ninth tender monitoring committee, Ministry of Finance
April 2011 Member of the Committee of Monitoring Mint Contracts (Independent Administrative Institution)
June 2011 Outside director
June 2017 Representative director, senior managing director and senior managing executive officer
June 2018 Representative director, senior managing executive officer (present)
February 2019 Responsible for business administration (Head Office), ISO, crisis management, information management, compliance, and IR (present)



Hiroshi Sekino

Director

April 1987 Joined ITOCHU Corporation
April 1997 Industrial Materials Section, Lumber Department No. 2 (ITOCHU)
April 2004 Industrial Materials section chief, Wood Materials and Building Materials Department (ITOCHU)
April 2007 Loan to ITOCHU Kenzai Corporation
April 2009 Wood Materials and Building Materials Department, ITOCHU Corporation
April 2010 Industrial Materials section chief, Wood Materials and Building Materials Department (ITOCHU)
April 2015 Acting Manager of Wood Materials and Building Materials, Industrial Materials section chief, Wood Materials and Building Materials Department, and Planning and Administration Department, General Products and Realty
June 2015 Acting Manager of Wood Materials and Building Materials Department and Planning and Administration Department, General Products and Realty (ITOCHU)
April 2016 Loan to ITOCHU Kenzai Corporation
April 2019 Manager of Construction and Building Material Department, ITOCHU Corporation (present)
Director, ITOCHU Kenzai Corporation (present)
June 2019 Director of Daiken (present)



Koji Mizuno

Outside director

April 1991
March 2006
April 2006
April 2010
April 2011
June 2011
April 2014
June 2015
April 2016
April 2018



Takashi Terubayashi

Audit & supervisory board member

April 1980 Joined Daiken
April 2005 Manager of Hokkaido sales
April 2008 Manager of marketing department
April 2010 Manager of general affairs and HR
April 2011 Executive officer
April 2012 Senior executive officer
Manager of general affairs and HR and manager of the secretarial office
April 2013 Managing executive officer
Manager of management planning department and manager of the secretarial office
June 2013 Director and managing executive officer
April 2014 Manager of management planning department, manager of the new business development office, and manager of the secretarial office
April 2015 Manager of finance and accounting
April 2017 Director, senior managing executive officer
June 2017 Representative director, senior managing director and senior managing executive officer
June 2018 Representative director, senior managing executive officer
February 2019 Responsible for IT and logistics reforms
June 2019 Audit & supervisory board member (present)



Toshio Fuyuki

Audit & supervisory board member

April 1980 Joined Daiken
April 2000 Manager of Dai-Lite product development, Dai-Lite business department
April 2003 Manager of R&D center
April 2010 Executive officer
Manager of Seibu eco business, eco business department and president of Okayama Daiken
April 2011 Senior executive officer
General manager of eco business and manager of Seibu eco business
April 2013 Managing executive officer
October 2013 Manager of development planning
April 2014 Manager of general R&D center
April 2015 Manager of quality assurance
June 2017 Audit & supervisory board member (present)



Tomoaki Kato
Representative Director,
Senior Managing Executive Officer

April 1980 Joined ITOCHU Corporation
 April 2003 Manager of wood materials and building materials department (ITOCHU)
 June 2009 Representative director of Daiken
 April 2011 ITOCHU Corporation manager of forest products and general merchandise and chemicals management plan department
 March 2012 Resigned ITOCHU
 April 2012 Director and managing executive officer of Daiken
 October 2012 General manager of MDF business, general manager of overseas business, and manager of overseas sales
 June 2013 Outside director of HOKUSHIN Co., Ltd.
 April 2014 General manager of MDF business, general manager of overseas business, and general manager of the Tokyo office of Daiken
 April 2016 Director and senior managing executive officer
 General manager of overseas and overseas business and general manager of the Tokyo office
 June 2016 Representative director, Senior managing director and senior managing executive officer
 April 2017 Responsible for overseas business and general manager of the Tokyo office (present)
 June 2018 Director and senior managing executive officer (present)
 February 2019 Responsible for research and development, information service, and business in Japan (production) (present)
 June 2019 Responsible for IT and logistics reforms (present)



Tetsuo Harima
Director, Senior Managing Executive Officer

April 1981 Joined Daiken
 April 2004 Manager of Kyushu sales
 April 2006 Manager of Kinki sales
 April 2009 Assistant general manager of Seibu sales control
 April 2010 Assistant general manager of Tobu Juken sales control
 April 2011 Executive officer
 Manager of Juken sales control
 April 2012 Senior executive officer
 April 2013 Managing executive officer
 October 2013 General manager of eco business
 April 2015 General manager of engineering business and general manager of special demand sales
 June 2016 Director, managing executive officer
 October 2017 General manager of engineering business, general manager of special demand sales, and president of DAIKEN HOME & SERVICE Co., Ltd.
 April 2018 Director, senior managing executive officer (present)
 Responsible for sales in Japan (present)
 March 2019 President of DAIKEN ENGINEERING CORPORATION (present)

Joined Nanto Bank Co., Ltd.
 Resigned Nanto Bank
 Full-time instructor, Faculty of Management, Otemon Gakuin University
 Assistant professor of the same university
 Advisor to the Organization for Small and Medium Enterprises and Regional Innovation (the Independent Administrative Institution) (present)
 Outside audit & supervisory board member of Daiken
 Assistant professor, Graduate School of Business Administration, Faculty of Management, Otemon Gakuin University
 Outside director of Daiken (present)
 Professor, Graduate School of Business Administration, Faculty of Management, Otemon Gakuin University
 General manager of the Venture Business Study Center of the same university (present)
 Dean and professor, Faculty of Management, Otemon Gakuin University (present)
 Professor, Graduate School in Economics and Business Administration of the same university (present)



Kiyoshi Furube
Outside director

April 1977 Joined TOTO Kiki Ltd. (present TOTO Ltd.)
 October 2003 Manager of sales promotion group in Shikoku (TOTO)
 April 2008 General manager of sales promotion group (TOTO)
 June 2008 Executive officer, general manager of sales promotion group (TOTO)
 June 2010 Director, executive officer, general manager of sales promotion group and sales control (TOTO)
 April 2011 Director, managing executive officer, responsible for the sales promotion group (TOTO)
 April 2012 Director, senior managing executive officer, responsible for the sales promotion group (TOTO)
 April 2014 Representative director, executive vice president, responsible for all sales related departments (TOTO)
 April 2017 Representative director (TOTO)
 June 2017 Outside director of Daiken (present)
 Advisor of TOTO LTD. (present)



Yuko Katsuo
Outside audit &
supervisory board member

April 2000 Full-time instructor, Faculty of Economics, Gakushuin University
 February 2002 Member of performance report project, Accounting Standards Board of Japan
 April 2003 Assistant professor, Faculty of Economics, Gakushuin University
 April 2008 Professor, Faculty of Economics, Gakushuin University (present)
 February 2010 Member of the Evaluation Committee for Incorporated Administrative Agency (independent administrative institution), Ministry of Finance
 Acting chairman of the work group of the Organization for Small and Medium Enterprises and Regional Innovation of the same committee
 February 2012 Temporary member of the Business Accounting Council, the Financial Services Agency
 April 2012 Subcommittee of establishment of university, council of establishment of university and incorporated educational institution, Ministry of Education, Culture, Sports, Science and Technology
 Member of the advisory committee of economics
 April 2014 Vice president, Gakushuin University
 June 2018 Outside audit & supervisory board member of Daiken (present)



Shingo Ishizaki
Outside audit &
supervisory board member

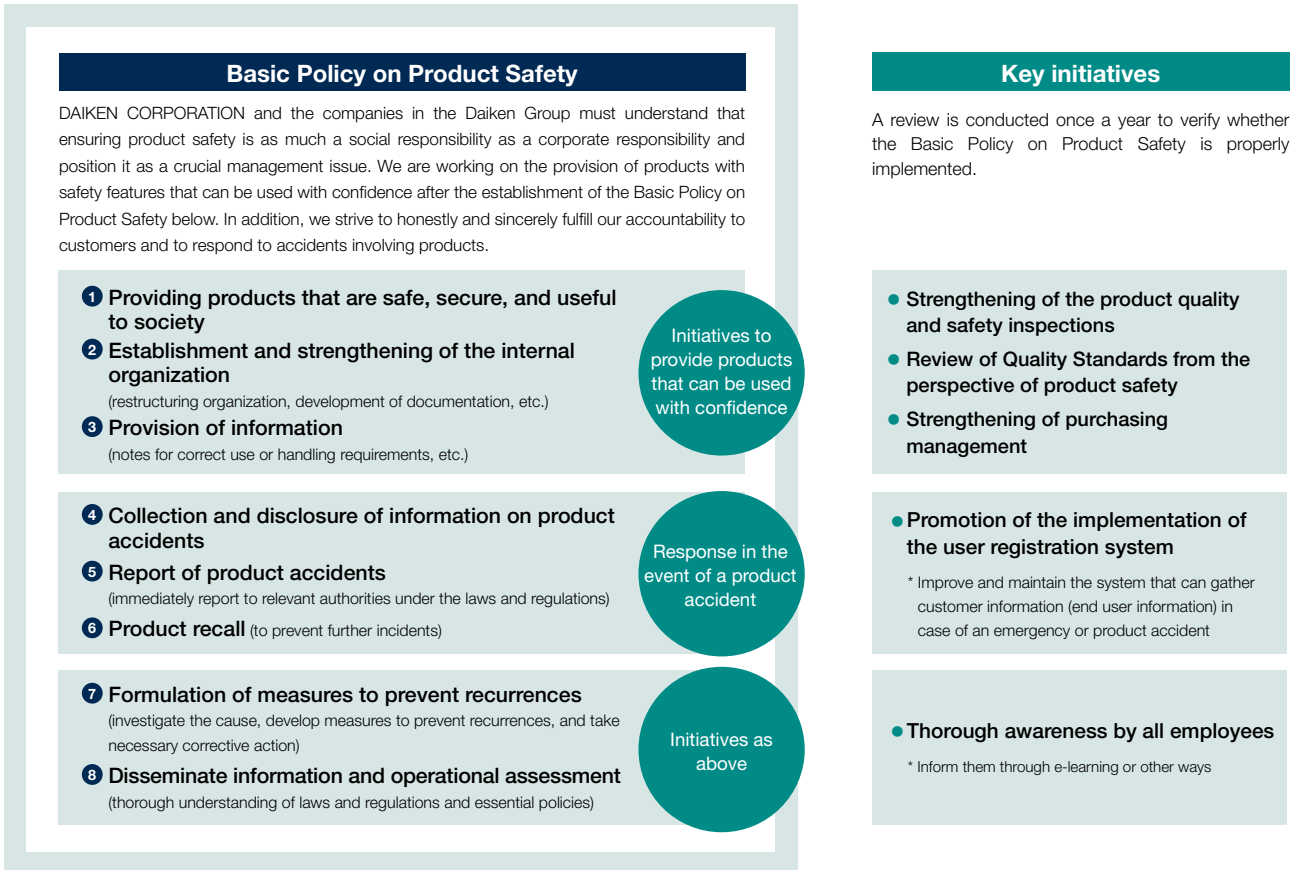
April 1979 Joined Yamaichi Securities Co., Ltd.
 April 1998 Joined Merrill Lynch Japan Securities Co., Ltd.
 July 2001 Joined UFJ Capital Markets Securities Co., Ltd. (present Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.)
 October 2004 Joined Mizuho Securities Co., Ltd.
 Executive Manager of Investment Banking Group
 April 2009 Managing Executive Officer (Mizuho Securities)
 Kansai Investment Banking Group Leader
 April 2010 Managing Executive Officer (Mizuho Securities)
 Kansai and Western Japan Investment Banking Group Leader
 June 2015 Special Adviser, Sekisui House, Ltd.
 June 2015 Sekisui Plastics Co., Ltd.
 Special Adviser
 April 2018 System Integration Management Co., Ltd.
 President and Representative Director, CEO (present)
 June 2019 Outside audit & supervisory board member of Daiken (present)

S Social

Product Quality and Safety

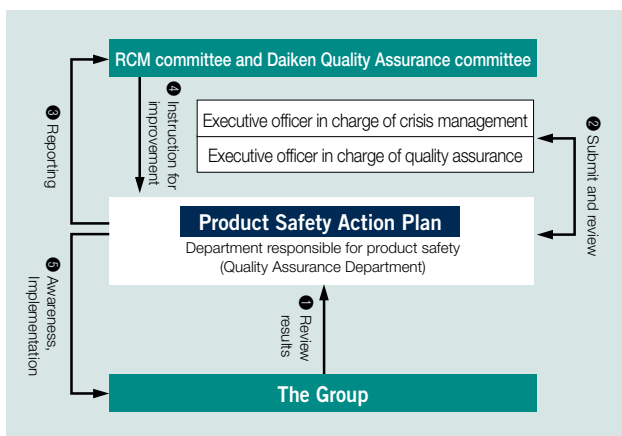
Initiatives for Product Safety

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



Structure to Promote Product Safety

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

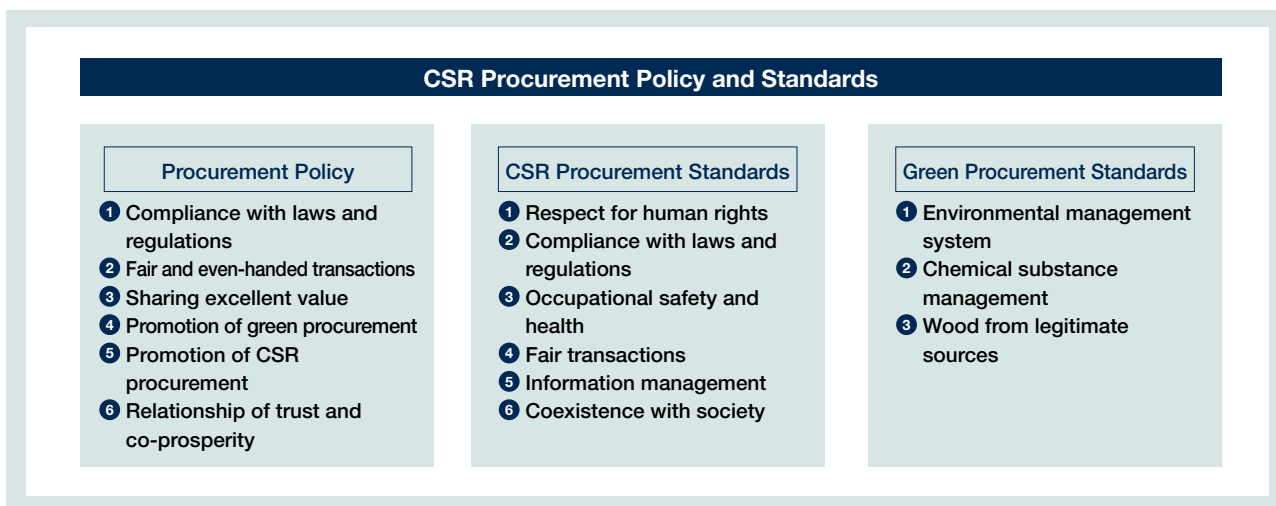


- 1 The department must review whether the operation is following the Product Safety Action Plan (hereinafter referred to as the "Plan") that was established by the Daiken Group and submit the report of its results to the department responsible for product safety (Quality Assurance Department).
- 2 The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

Supply Chains

Promotion of CSR Procurement

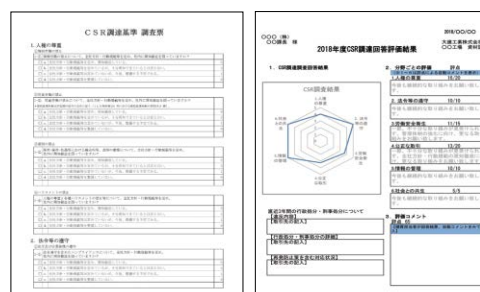
The Daiken Group states that the Promotion of CSR procurement is one of the important commitments under the procurement policy which was established in 2015. We aim to provide products and services meeting the expectations of our customers and for a sustainable society in which people and the environment can coexist. Under these circumstances, we are implementing procurement activities with the cooperation of our business partners based on the following fundamental concepts.



Suppliers

Carry out the CSR questionnaire for the plants and manufacturing subsidiaries in Japan

The Daiken Group has been carrying out the CSR questionnaire for suppliers following the Procurement Policy and CSR Procurement Standards since fiscal 2016. We expanded the scope of the questionnaire in fiscal 2019 from four plants in Japan to manufacturing subsidiaries in Japan in which 363 companies subjected to Green procurement standards (235 companies in the previous year) were targeted and carried out the questionnaire. Questionnaire results are fed back to suppliers and for the companies where the evaluation points have been continuously low, we encourage them for correction and improvement. With their cooperation, we will work together and promote procurement activities that consider CSR in the future.



Sample of CSR questionnaire

Example of feedback to the CSR questionnaire results

Customers

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

The Daiken Group holds an annual management policy briefing session to strengthen relations with business partners, suppliers, and logistics companies. In fiscal 2019, the session was held in 11 venues across Japan and 245 people from 161 major business partners participated in the briefing session held in Tokyo in June. From the Daiken Group, 39 people, including President Okuda, executive officers, and department managers, attended. President Okuda explained about the management policy in fiscal 2019 and the initiative for workstyle reform, etc. and then Marketing Department promoted new products in fiscal 2019. After that, a meeting was held to exchange information between our business partners to deepen communication.

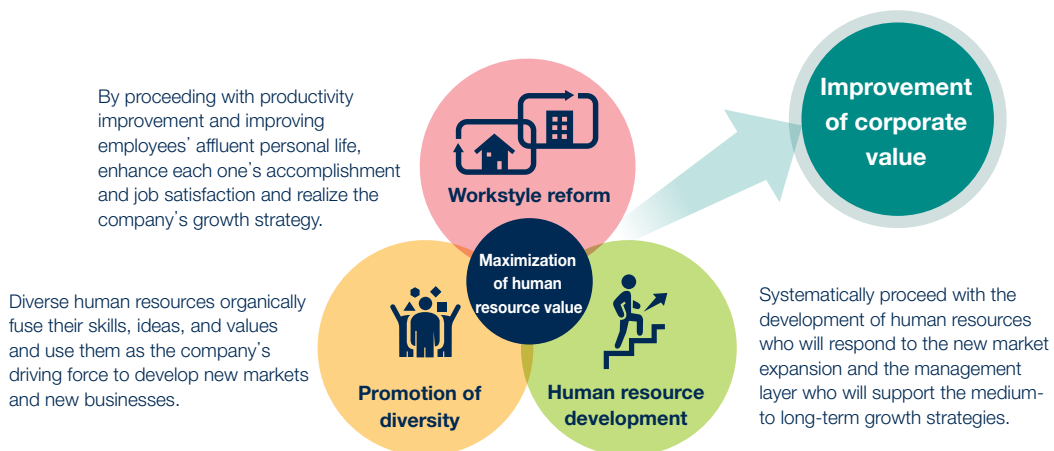


Management policy briefing session

Human Resources

Basic Approach

In order for our employees to be able to feel Happy to be the members of our group, the Daiken Group aims to be a company where every one can fully exercise their diverse values and abilities and has been promoting initiatives from the perspectives of Workstyle reform, Promotion of diversity, and Human resource development. By continuously promoting initiatives from these three perspectives, we will create a virtuous cycle and lead to maximization of human resource value through the improvement of individual performance and improvement of the entire group's corporate value.



Promotion of diversity

To be able to respond to the stakeholders' expectations and further contribute to society, the Daiken Group aims to become a company where human resources having a wide variety of characteristics and values can fully exercise their abilities and keep creating new value and focuses on the promotion of diversity. Particularly in recent years, we have held an exchange meeting as the place to foster career awareness in order for women who are the most familiar persons to be able to further exercise their abilities and implemented skill improvement training intended for our employees who had fewer opportunities for training as well as leader candidate development training. Because the work-life balance is important in women's active participation, we also focus on providing support for maintaining the balance. Regarding childcare, we distribute a guidebook that focuses on the ways of working after returning to work and implement interviews with those who took childcare leave with their superior's present. Regarding nursing care, we published a guidebook that encourages advance preparations. Furthermore, we continue to hold briefing sessions to promote co-workers'

understanding of the support system for work and family-life balance and keep Ikuboss declarations by the President, executive officers, and all managerial positions to cultivate a corporate culture where it is easy for everyone to play active roles. In the future, we will promote initiatives for young employees to grow with a medium- to long-term perspective and keep playing active roles by providing opportunities for them to think about their careers.



Leader candidate development training

Project to promote women's active participation



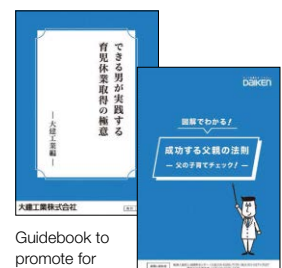
Female employees meeting



Work and nursing care balance support guidebook



Work and childcare balance support guidebook



Guidebook to promote for men to take a childcare leave



Workstyle reform

The Daiken Group promotes workstyle reform in order for everyone to be able to keep working with a feeling of rewards and job satisfaction and to feel happy to work in our group. We established the workstyle reform promotion project under the declaration by the top management in 2015, restricted long working hours by automatic PC shut-down before 7:00 a.m. and after 7:30 p.m., and launched a working team for each office organization to solve issues. By lending mobile PCs and smartphones, flexible responses in the visiting destination became possible. Other than project activities, we started the review meeting for a new sales style as the workstyle reform specific to the sales position where sales staff can continue their sales position even

if they have a time constraint due to childcare, nursing care, etc. With a view to breaking away from conventionalized behaviors and improving the free and flexible power of ideas and self-management skills, we started an initiative for a casual day where employees come to work in casual clothes every Friday in fiscal 2019 and have been putting effort into the promotion of a work-life balance from the perspective of awareness. In the future, we will implement the improvement of not only the ways of working but also the ways of taking a leave of absence and work on these matters for everyone to have time to refresh themselves and exhibit their higher performance in work.

The past key initiatives



2015-



Human resource development

Under the principle that the development of autonomous human resources is essential in accelerating growth strategies and realizing sustainable corporate value improvement, we set training aimed at acquiring a wide variety of knowledge and skills in a systematic manner according to service years, ranks, and job types. In fiscal 2019, we newly implemented training specific to the strengthening of sales skills and strengthened the capabilities to propose plans. Amid the situation where changes in society will further accelerate, we will aggressively invest in human resources by expanding training by job type to acquire the expertise necessary for the expansion of focused markets and the training by theme to enhance development of the management layer who will support medium- to long-term growth.



Training for the persons who are exclusively in charge of focused markets



Training to solve manufacturing problems

Key training structure

	Training by rank	Training by job type		Training by theme (Promotion of women's active participation)
		Manufacturing technology	Sales	
Department head class	<ul style="list-style-type: none"> Senior management candidate development training Training for department heads by theme Training for new department heads 	Enhancement of the development of the management layer		
Managerial position class	<ul style="list-style-type: none"> Follow-up training for the managerial position New manager/coaching training 	Training toward the expansion of the focused markets		Female manager training
Middle level Team Leader class	<ul style="list-style-type: none"> Leadership theories and practical training Basic training for management Training for those promoted to G2/A3 ranks 	Manufacturing manager training	Training for the persons who are exclusively in charge of focused markets Sales skill enhancement training (Application) Sales skill enhancement training (Basics) Basic training for product knowledge	Female leader candidate development training
Responsible person class	<ul style="list-style-type: none"> Logical thinking training 	Training to solve manufacturing problems		
Young employees	<ul style="list-style-type: none"> Step-up/follow-up training for those who are in the first to third year of their employment 	Follow-up training for young manufacturing employees		
	<ul style="list-style-type: none"> New employee orientation (Basics and practical operations) 	<ul style="list-style-type: none"> Manufacturing technology-related new employee orientation 		

Environment

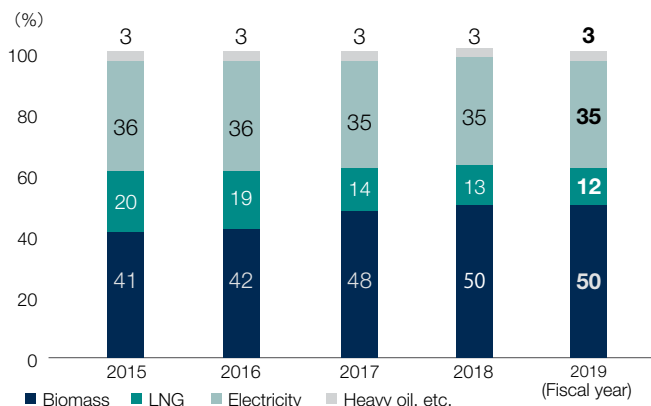
Initiatives Based on The Fifth Medium-Term Management Plan (Fiscal 2017 - 2019)

	Theme and content		Goal	Result	
			Fiscal 2019	Fiscal 2019	
E Environment	Eco-friendly products	Contribution for achieving sales targets in the final year of the medium-term plan (fiscal 2019) by expanding ecofriendly products and their sales	Development of ecofriendly products that contribute to reducing the environmental burden	Number of new products five items/year	8 items
	Contribution for building a low-carbon society	Introduce carbon fixation by using wood	Fixation through the supply of recycled wood boards	Volume of carbon fixation (CO ₂ equivalent) 800,000 t-CO ₂ /year	998,000t-CO ₂ /year (breakdown) MDF: 859,000 t-CO ₂ /year IB: 139,000t-CO ₂ /year
		Reduce CO ₂ * emissions from energy sources *CO ₂ 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 ₂ /¥100 million) or below (CO ₂ emission factors from electricity generation is fixed at the value of fiscal 2014)	55.0 (t-CO ₂ /¥100 million) (CO ₂ emission factor for electric power is fixed at the value of fiscal 2014)
			Promotion of energy savings through the introduction of energy-saving equipment and improvement of efficiency in equipment operation	Total emissions 110,000 t-CO ₂ or below/year (CO ₂ emission factors from electricity generation are fixed at the value of fiscal 2014)	100,600t-CO ₂ (CO ₂ emission factors from electricity generation are fixed at the value of fiscal 2014)
			Reduction of emissions from logistics and transport divisions (Improved modal shift rate and loading rate)	Unit of energy use 44.7 kl/million ton-kilo or below (reduction by more than 1% in annual average)	50.2 kl/million ton-kilo
Reduction of emissions from sales and administrative divisions (Thorough implementation of energy-saving measures)	CO ₂ emissions 1,500 t-CO ₂ or below		1,760t-CO ₂		
Contribution to creating a recycling oriented society	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	7.6%	
	Introduce the cascading use of wood	Material recycle of construction waste wood	Ratio of old material: 90%	90%	
		Use of wood biomass energy (internal use)	Input amount of woody biomass energy 1,350×10 ¹² J Use of fuel chip 95,000 t/year	1,440×10 ¹² J 100,000 t/year	
		Promotion of shift to biomass energy and other eco-friendly energy from heavy oil, LNG, etc.	Reduction of heavy oil (heat quantity equivalent) 35,000 kl/year	37,000 kl/year	
Contribution for biodiversity	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	11.3%	
	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%	
Strengthen environmental risk management	Identify, prevent, and minimize environmental risks	Operation and continuous improvement of environment management system	Environmental accident/violation: 0	0	
		Environmental education	Industrial waste training session <i>e-learning by year</i>	Completion of implementation	
	Improve our ability to satisfy regulations governing chemical substances	Establishment and operation of a system for appropriate management of chemical substances (The introduction of a management system is considered)	System operation	Introduced a management system and started operation with the new system	

Initiatives for prevention of global warming

In the past, the Daiken Group has shifted from fossil fuels, such as heavy oil, to biomass energy fueled by wood chips derived from building scraps in order to reduce greenhouse gas emissions. We also installed our largest biomass boiler at the Okayama plant in July 2016 leading to an increase in biomass energy to 50% of the total energy used in the production sites in Japan for fiscal 2019. With these efforts, we were able to reduce greenhouse gas emissions by 23% compared with fiscal 2014.

Trends in the energy used in production sites in Japan

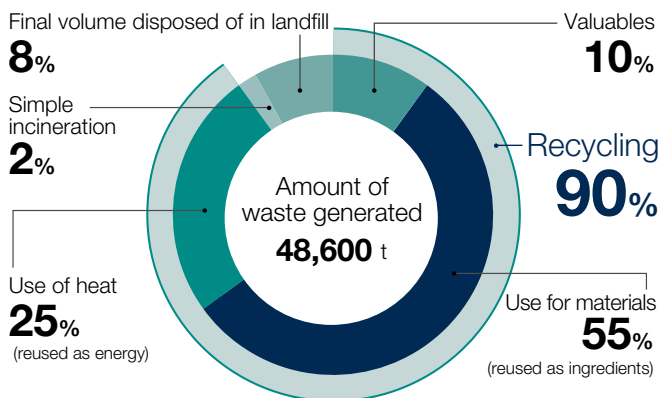


Recycling of waste materials

The Daiken Group aims to realize a recycling-oriented society and puts effort into recycling the waste, such as re-using defectives, generated in the manufacturing process as product materials, using those that cannot be used for product materials for heat. With these efforts, the amount of waste generated in fiscal 2019 was 48,600 tons and the recycling rate was 90%. We continue to further improve the recycling rate.

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

Breakdown of waste processing



Environmental education

To appropriately conduct waste management without legal violations from the perspective of strengthening environmental compliance and risk management, the Daiken Group periodically holds the Basic Waste Management Seminar by inviting an external lecturer. In fiscal 2019, a total of 92 persons in charge of waste management from each department participated in the seminar. Also, we have been continuously implementing the e-learning type training on the Waste Management and Public Cleansing Law intended for the employees with up to 5 years of employment every year. We will establish appropriate waste management.



The scene of the Basic waste management seminar

Special feature

Pursue new possibilities of the industrial materials business by comprehensively using wood in cooperation with local communities

Our company was established and started wood processing in 1945, and from 1958, we have been manufacturing the wood fiberboard Insulation board for which wood chips, such as residual wood offcuts, are effectively used in order to fully use wood as the precious resource at our flagship Okayama plant. We have been developing business activities centered on the industrial materials business that uses the wood resource as the raw material, such as developing MDF in the overseas plants in Malaysia and New Zealand.

By taking the opportunity of the 70th anniversary of its foundation in 2015, we upheld “Contribute to the building of a sustainable society by efficiently using limited resources” as one of the elements in the significance of our existence philosophy for the long-term vision GP25 in which our vision in 2025 was drawn, have been actively promoting the use of domestic timbers that are particularly requested by the state policy, and pursuing the possibilities of new use application development through the comprehensive use of wood toward the expansion of the industrial materials business.

As one of these initiatives, we established the Nichinan Total Cascading Use of Wood commercialization study project in November 2016 with Nichinan, Tottori Prefecture, that has been actively putting effort into the forestry industry and the wood processing industry, Nichinan Forestry Cooperative, and Orochi Co., Ltd., which is a local LVL manufacturer. As the first business project, we developed a soil improvement additive DW fiber and started proposing it in May 2017. Furthermore, as the second business project, we established Nichinan Daiken Co., Ltd. in March 2019, which is a company to process veneers for LVL, and started new development.

First project May 2017 **Developed a soil improvement additive DW fiber and started proposing it**

A soil improvement additive DW fiber is a soil improvement additive made of timber offcuts (wood chips) that are generated in manufacturing LVL by Orochi Co., Ltd., using wood that the Nichinan forestry cooperative hewed out and that are fibrillated and to which fulvic acid is added. It contributes to the greening of the soil and crop growth promotion, as well as post-disaster reconstruction, such as greening of the inclined plane after landslides and the regeneration of protective forest from tides and salty winds.



Case of greening by DW fiber



Soil improvement additive DW fiber

Second project March 2019 **Established Nichinan Daiken Co., Ltd., a company that processes veneer for LVL**

At Nichinan Daiken Co., Ltd., a plant will be newly established in Nichinan and business to give rot-proof and ant-proof treatment to veneers to be used for LVL as the previous process for LVL to be manufactured by Orochi Co., Ltd., will start. In the future, we will consider introducing facilities for non-combustible LVL and non-combustible wood, further develop use applications, and expand the industrial materials business. With these business deployments, we will enhance cooperation with local communities and contribute to revitalization of the local industry.



The scene of a signing ceremony for an agreement on the establishment (The second person from the right is President Okuda)

Development image of the total use of wood through regional cooperation

Regional precious wood resources will create value in various scenes by fresh ideas, technologies, and partnerships.



Conservation of forests

Appropriate management and operation of forest resources will grow healthy forests and contribute to ecosystem conservation



Business base for total cascading of wood



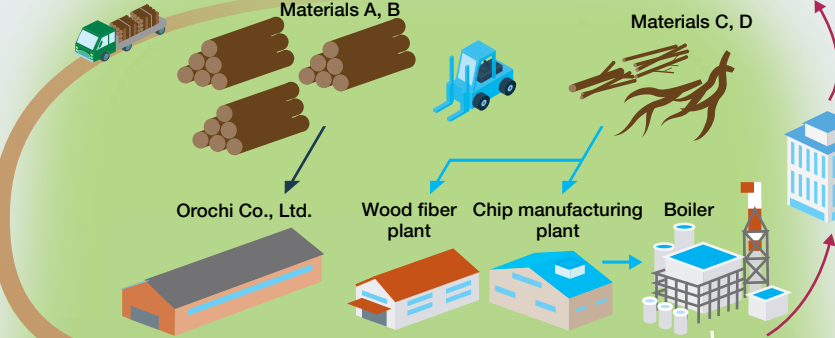
Promotion of the use of domestic timber

By developing wood products to which new value is added, promote the use of domestically produced wood



Regional development

Revitalization of the forest products industry using local resources will contribute to the development of local economy and employment creation

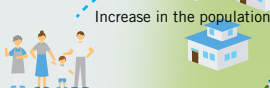


Research institute

- Development of tree trimming and planting techniques and human resources
- Utilization development
- Development of products with highly added value

Use of renewable energy

Use residual wood offcuts of lumber manufacturing as the fuel for the biomass boiler and fully and effectively use the resource



Greening promotion

DW fiber's excellent water-holding property and water permeability will improve plant growing environment and promote greening



Disaster restoration

DW fiber's soil buffering action will transform soil to the environment appropriate for plant growth and improve salt balance



Promotion of crop growth

DW fiber will promote soil aggregation, help roots grow, and promote crop growth

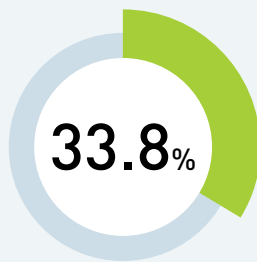


Summary of Business

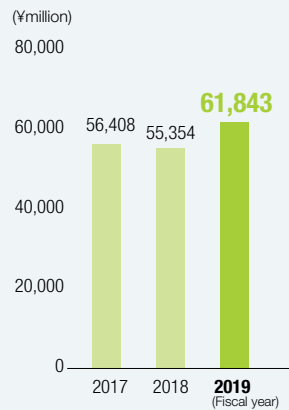
Industrial materials business

While achieving increased revenues due to the new consolidation effect of the MDF plant in New Zealand, profits declined due to the influences of the raw material price increase and troubles in procurement

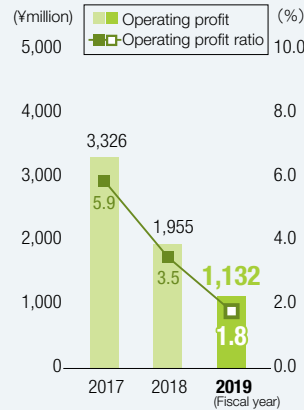
Sales breakdown by business sector



Net sales



Operating profit/Operating profit ratio



Production plants

Okayama plant
Takahagi plant

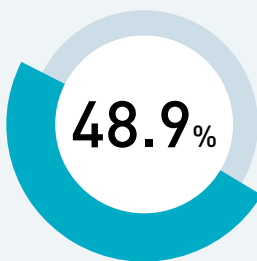
Subsidiaries part of the Group

Dai-tac Corporation
Aizu Daiken Corporation.
DAIKEN NEW ZEALAND LIMITED (New Zealand)
DAIKEN SOUTHLAND LIMITED (New Zealand)
DAIKEN SARAWAK SDN. BHD. (Malaysia)
DAIKEN MIRI SDN. BHD. (Malaysia)
Nichinan Daiken Co., Ltd.
C&H Co., Ltd.
Eco-Techno Co., Ltd.

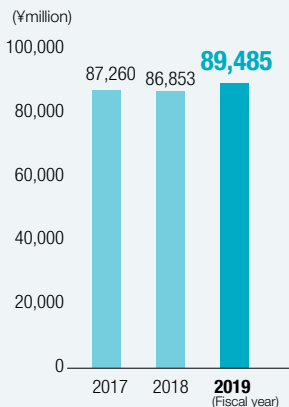
Building materials business

Although revenues increased by flooring, door, and acoustic products, etc., profits declined due to the increases in raw materials prices and logistics costs as well as system problems.

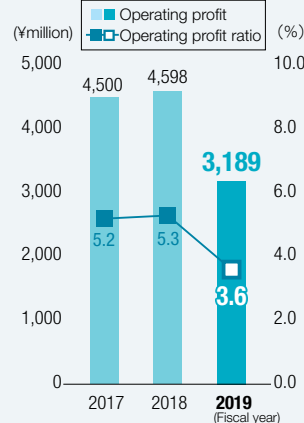
Sales breakdown by business sector



Net sales



Operating profit/Operating profit ratio



Production plants

Inami plant
Mie plant

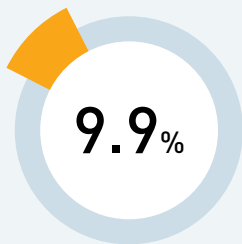
Subsidiaries part of the Group

Daifit Co., Ltd.
Dai-wood Corporation
Setouchi Kakoh Co., Ltd.
Toyama Juki Co., Ltd.
DAIKEN Industries (Ningbo) Corporation (China)
DAIKEN (Shanghai) Corporation (China)
PT. DAIKEN DHARMA INDONESIA (Indonesia)

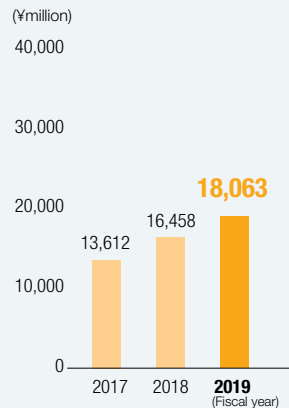
Engineering business

Profits increased by the expansion of renovation business and revenues increased by the increased profitability of interior finishing work for office buildings, etc.

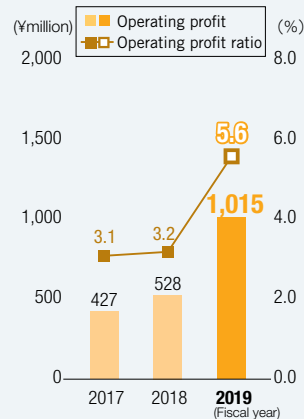
Sales breakdown by business sector



Net sales



Operating profit/Operating profit ratio



Subsidiaries part of the Group

DAIKEN ENGINEERING CORPORATION
Koukou Sangyo Corporation
Sankei Corporation
DAIKEN HOME & SERVICE CORPORATION
Smileup Co., Ltd.
PAC SYSTEM Co., Ltd.

(Note) Other Daiken businesses account for 7.4% in addition to the above.

Commentary and results for fiscal 2019

Regarding sales of the industrial materials business, there was a decrease in the shipping volume associated with the suspension of orders for Dai-Lite and Dai-Lotone due to the influence of troubles in procurement but due to the new consolidation effect of adding an MDF plant “DAIKEN SOUTHLAND LIMITED” in New Zealand in April 2018, revenues increased. Regarding profits, we could not fully absorb the increases in raw material prices for wood chips and logistics costs through streamlining and cost reductions. Besides, we also incurred the cost caused by the troubles in procurement and profits declined. As a result, in fiscal 2019, net sales amounted to ¥61,843 million (up 11.7% year-on-year), and operating profit amounted to ¥1,132 million (down 42.1% year-on-year).

Forecasts for fiscal 2020

In fiscal 2020, the building materials business is forecasted to post ¥82,900 million, up 34.1%. We will increase sales by strengthening proposals of tatami facing and wall materials, such as Dai-Lite base materials, in public and commercial buildings, in addition to the effect of new consolidation of North American industrial materials business that will be newly developed from fiscal 2020.



Commentary and results for fiscal 2019

Regarding sales of the building materials business, there were influences, such as delay in delivery caused by the ordering and order receiving system problems, but because sale of new products, soundproof related products, and flooring was on a good note and sales of Omoiari door, an interior door for elderly facilities, kindergartens, and childcare facilities, expanded, revenues increased. Regarding profits, we strived to secure profits by streamlining and expanding sales of the new products against the increases in raw materials prices and logistics cost; however, we could not fully absorb all of these increases in this fiscal year. In addition, we incurred the cost caused by system problems, and profits declined. As a result, in fiscal 2019, net sales amounted to ¥89,485 million (up 3.0% year-on-year), and operating profit amounted to ¥3,189 million (up 30.6% year-on-year).

Forecasts for fiscal 2020

In fiscal 2020, the building materials business is forecasted to post ¥93,800 million, up 4.8%. While a decrease in new housing starts in Japan is expected after the consumption tax increase that is scheduled in October 2019, we will increase our share in the new home market and expand in the public and commercial buildings including the new consolidation of solid flooring materials business.



Commentary and results for fiscal 2019

Regarding engineering business, because orders of interior finishing work for buildings and condominiums mainly in the Tokyo metropolitan area expanded and sales of condominium renovation business were on a good note, revenues increased. Regarding profits, we responded to the surge in personnel costs caused by the shortage of skilled craftsmen by securing skilled craftsmen and optimizing management for each construction site and profits increased. As a result, in fiscal 2019, net sales were ¥18,063 million (up 9.8% year-on-year), and operating profit was ¥1,015 million (up 92.3% year-on-year).

Forecasts for fiscal 2020

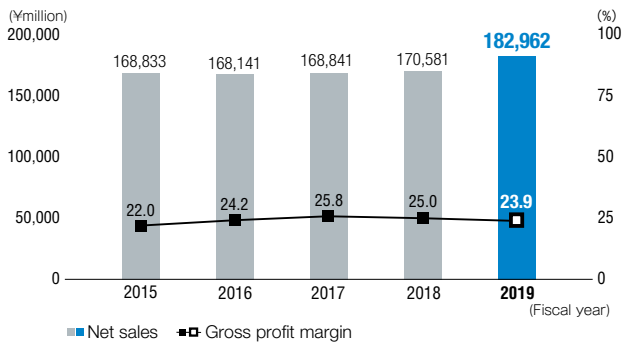
In fiscal 2020, the engineering business is forecasted to post net sales of ¥19,600 million, up 8.9%. Because the order receiving status for interior finishing work for office buildings has been going well and with the new consolidation of a renovation company and strengthening of condominium renovations, we will expand sales.



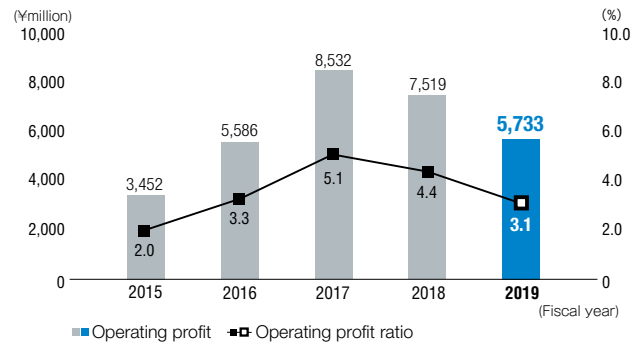
Highlight of Data

Financial indicators

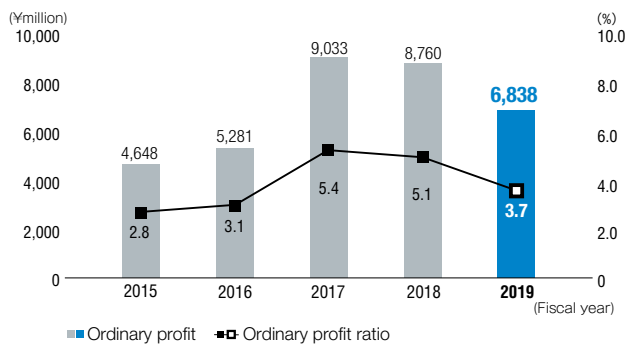
Net sales/Gross profit margin



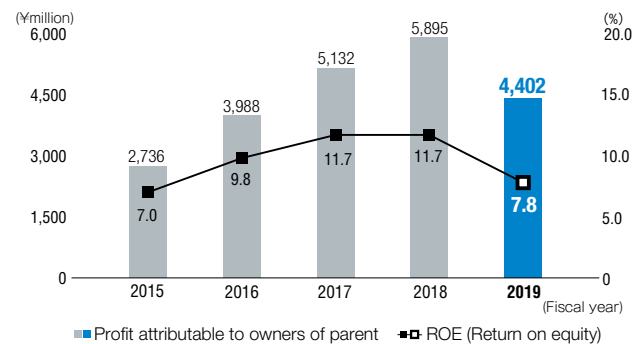
Operating profit/Operating profit ratio



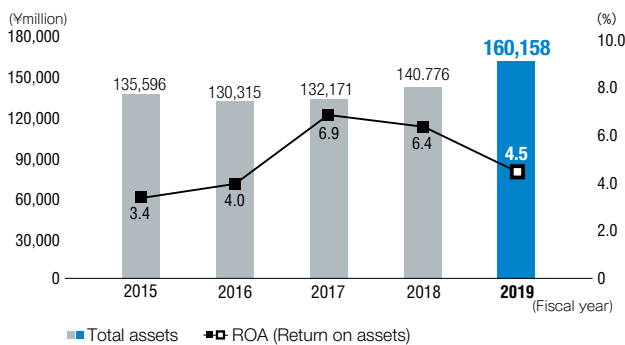
Ordinary profit / Ordinary profit ratio



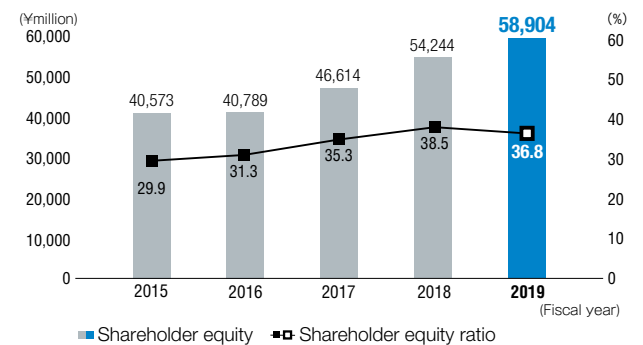
Profit attributable to owners of parent/ROE (Return on equity)



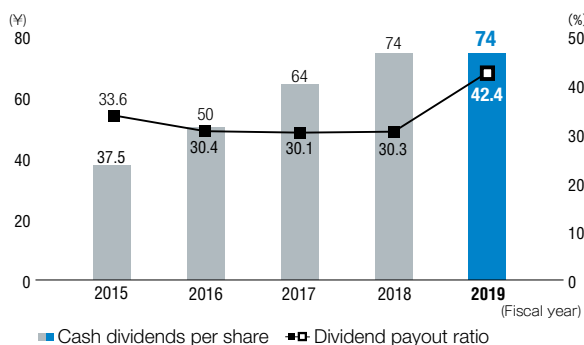
Total assets/ROA (Return on assets)



Shareholder equity/Shareholder equity ratio

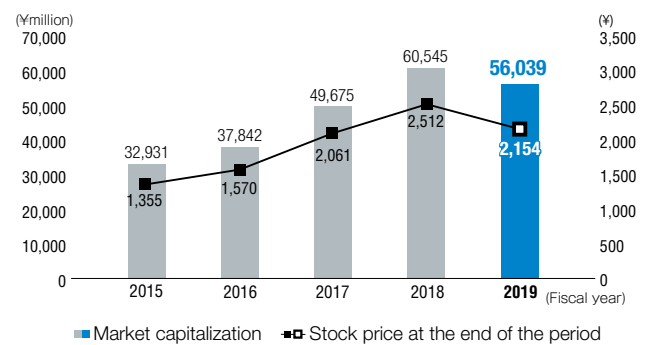


Cash dividends per share/Dividend payout ratio



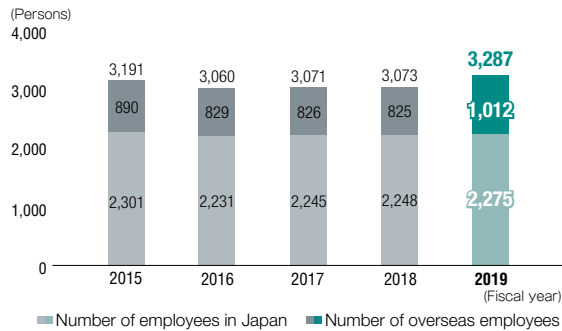
We set a target of our dividend payout ratio of 30% or more.

Market capitalization/Stock price at the end of the period

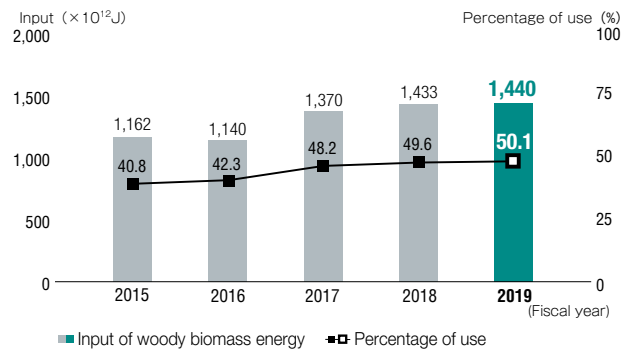


Nonfinancial indicators

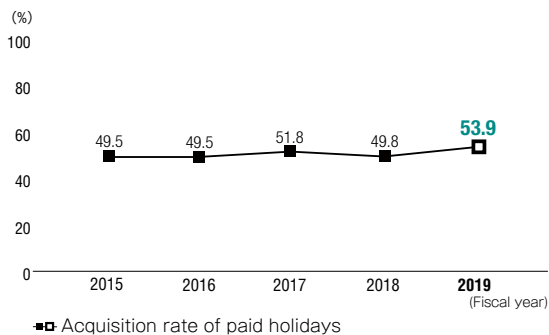
Number of employees in Japan and overseas



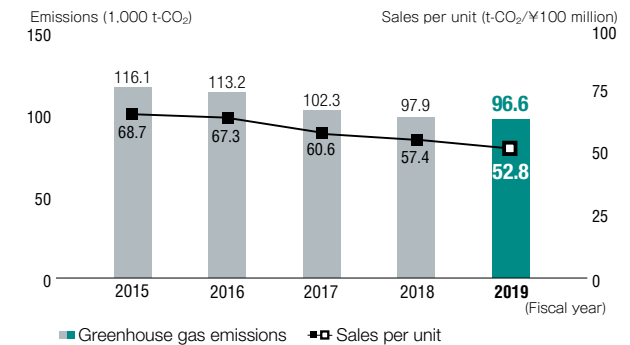
Input of woody biomass energy/Percentage of use^{2,3}



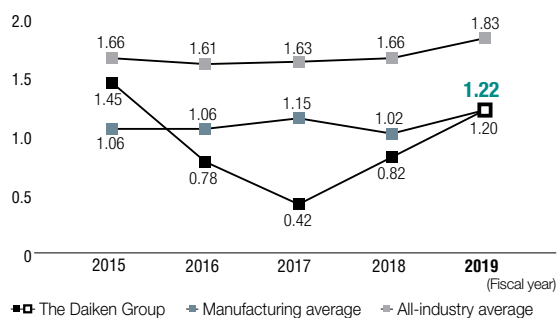
Acquisition rate of paid holidays¹



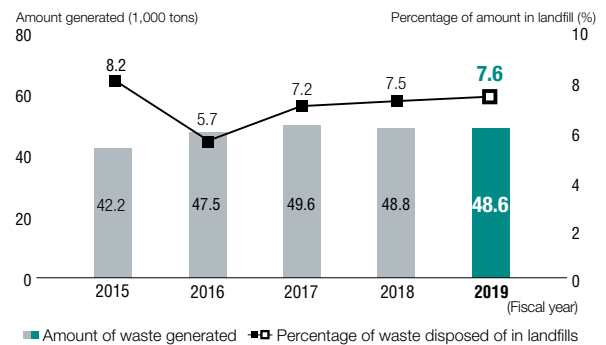
Greenhouse gas emissions/Sales per unit^{2,4,5}



Rate of lost-worktime injuries²



Amount of waste generated/Percentage of waste disposed of in landfills^{2,6}



*1. The data for fiscal 2015 include four subsidiaries absorbed in the absorption-type merger in April 2015.

*2. Total value at the Daiken Group's production bases in Japan.

*3. Woody biomass energy input as a percentage of total energy input.

*4. As the emission coefficient of electricity use associated with the calculation of greenhouse gas emissions, the real emission coefficient for the relevant fiscal year by electric power suppliers was used, provided that the latest figures were used when the real emission coefficients were undisclosed.

*5. Greenhouse gas emissions as a percentage of net sales.

*6. Waste disposed of in landfills as a percentage of the amount of waste generated.

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

Financial indicators

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

Nonfinancial indicators

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

Ten-Year Financial Summary

(¥million)

6,000

■ Profit attributable to owners of parent

■ ROE (Return on equity)

5,000

4,000

3,000

2,000

1,000

0

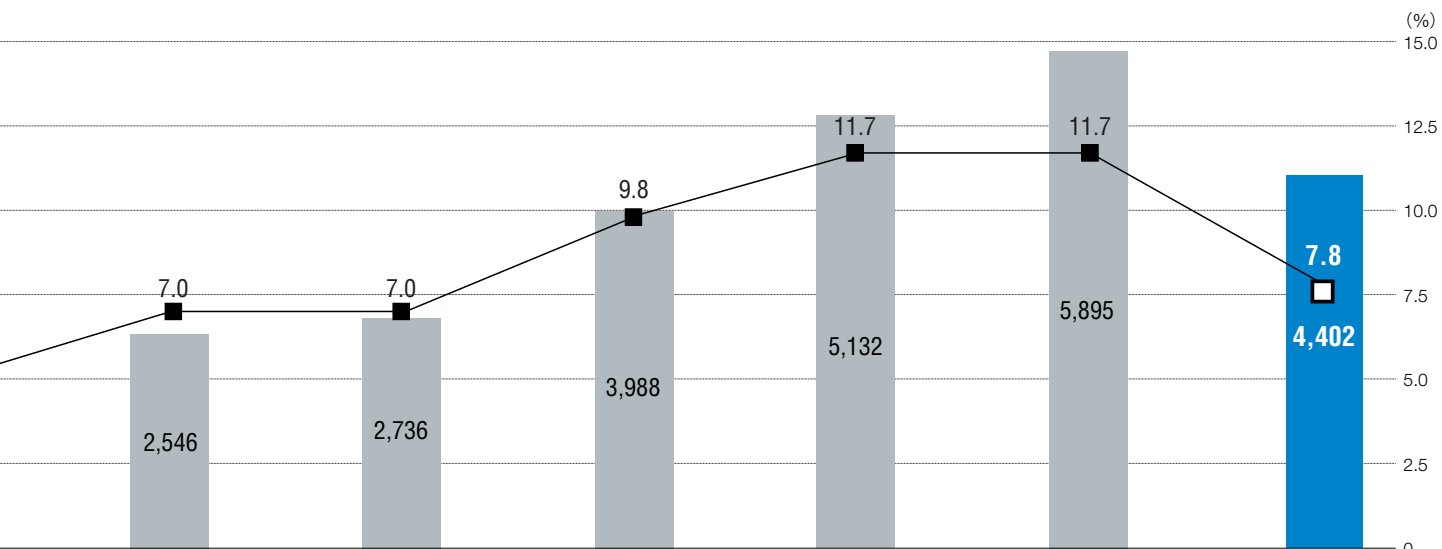
(¥million)	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Net sales	140,936	141,506	151,209	158,153
Cost of sales	104,325	102,345	113,189	119,121
Gross profit	36,610	39,161	38,020	39,031
Selling, general and administrative expenses	33,600	34,812	33,477	34,327
Operating profit	3,010	4,349	4,542	4,703
Ordinary profit	2,819	4,373	4,600	5,669
Profit before income taxes	79	3,464	1,893	2,373
Profit attributable to owners of parent	511	1,375	874	1,318
ROE (Return on equity)	1.6%	4.1%	2.6%	3.8%
ROA (Return on assets)	2.3%	3.6%	3.8%	4.4%
Gross profit margin	26.0%	27.7%	25.1%	24.7%
Selling, general and administrative expenses ratio	23.8%	24.6%	22.1%	21.7%
Operating profit ratio	2.1%	3.1%	3.0%	3.0%
Ordinary profit ratio	2.0%	3.1%	3.0%	3.6%
Cash flows from operating activities	3,141	4,438	9,074	2,624
Cash flows from investing activities	(3,286)	(2,618)	(3,218)	(2,033)
Cash flows from financing activities	1,135	(7,095)	(1,929)	224
Free cash flows	(145)	1,819	5,856	591
Capital investments	2,785	3,765	2,758	4,036
Depreciation	4,197	4,574	4,217	4,107
R&D expenses	1,471	1,464	1,470	1,453
Total assets	123,862	115,969	125,469	131,618
Net assets	36,663	36,839	36,949	39,870
Shareholder equity	33,213	33,306	33,569	36,002
Shareholder equity ratio	26.8%	28.7%	26.8%	27.4%
Interest-bearing debts	39,407	33,720	32,865	34,506
D/E ratio (multiple)	1.19	1.01	0.98	0.96
Book value per share (BPS) (¥)	1,302.61	1,327.08	1,337.57	1,434.53
Earnings per share (EPS) (¥)	20.04	54.41	34.83	52.53
Dividend per share (¥)	25.00	31.25	37.50	37.50
Dividend payout ratio	124.8%	57.4%	107.7%	71.4%
Total dividend	638	786	941	941
Market capitalization	32,764	38,650	35,888	32,249
Employees (Consolidated) (Persons)	3,255	3,189	3,183	3,194

(Note) 1. The Company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.

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

3. Free cash flows = Cash flows from operating activities + Cash flows from investing activities

4. Debt-equity ratio = Interest-bearing debts / shareholder equity (multiple)



	Fiscal 2014	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018	Fiscal 2019
	180,392	168,833	168,141	168,841	170,581	182,962
	137,693	131,657	127,452	125,201	127,946	139,289
	42,699	37,175	40,689	43,640	42,635	43,673
	39,121	33,722	35,102	35,108	35,116	37,940
	3,577	3,452	5,586	8,532	7,519	5,733
	5,025	4,648	5,281	9,033	8,760	6,838
	4,617	1,373	6,875	7,247	8,342	7,301
	2,546	2,736	3,988	5,132	5,895	4,402
	7.0%	7.0%	9.8%	11.7%	11.7%	7.8%
	3.8%	3.4%	4.0%	6.9%	6.4%	4.5%
	23.7%	22.0%	24.2%	25.8%	25.0%	23.9%
	21.7%	20.0%	20.9%	20.8%	20.6%	20.7%
	2.0%	2.0%	3.3%	5.1%	4.4%	3.1%
	2.8%	2.8%	3.1%	5.4%	5.1%	3.7%
	9,663	9,299	6,016	10,566	9,158	10,052
	(5,168)	(4,072)	(5,972)	(4,201)	(2,711)	(15,079)
	(1,054)	(2,635)	(5,486)	(6,734)	(6,342)	11,165
	4,494	5,227	43	6,364	6,447	(5,027)
	3,274	3,206	3,508	4,757	3,081	6,586
	3,990	4,093	4,068	3,506	3,768	4,134
	1,342	1,349	1,430	1,477	1,551	1,592
	135,890	135,596	130,315	132,171	140,776	160,158
	41,419	44,984	43,833	49,086	56,979	61,741
	37,154	40,573	40,789	46,614	54,244	58,904
	27.3%	29.9%	31.3%	35.3%	38.5%	36.8%
	34,599	34,204	31,438	26,338	21,952	30,784
	0.93	0.84	0.77	0.57	0.40	0.52
	1,480.47	1,669.47	1,692.28	1,933.99	2,250.58	2,264.10
	101.46	111.70	164.67	212.96	244.60	174.55
	37.50	37.50	50.00	64.00	74.00	74.00
	37.0%	33.6%	30.4%	30.1%	30.3%	42.4%
	941	914	1,210	1,542	1,783	1,925
	35,260	32,931	37,842	49,675	60,545	56,039
	3,141	3,191	3,060	3,071	3,073	3,287

Foundation of Value Creation

Vision and Strategy of Value Creation

ESG Information

Data

Consolidated Balance Sheet

	(¥million)			(¥million)	
	Previous consolidated fiscal year (March 31, 2018)	Current consolidated fiscal year (March 31, 2019)		Previous consolidated fiscal year (March 31, 2018)	Current consolidated fiscal year (March 31, 2019)
Assets			Liabilities		
Current assets			Current liabilities		
Cash and deposits	10,767	16,865	Notes and accounts payable-trade	20,620	22,902
Notes and accounts receivable-trade	40,533	43,012	Electronically recorded obligations-operating	5,778	7,671
Electronically recorded monetary claims-operating	6,985	7,499	Short-term loans payable	5,634	5,929
Securities	—	15	Current portion of bonds	—	400
Merchandise and finished goods	9,126	12,009	Current portion of long-term loans payable	2,963	3,414
Work in process	2,996	3,687	Lease obligations	38	37
Raw materials and supplies	4,677	5,667	Accounts payable-other	21,083	22,526
Other	2,153	2,915	Income taxes payable	603	2,021
Allowance for doubtful accounts	(110)	(120)	Accrued consumption taxes	397	60
Total current assets	77,130	91,553	Provision for bonuses	2,198	2,120
Non-current assets			Provision for product warranties	959	850
Property, plant and equipment			Other	3,754	4,002
Buildings and structures, net	8,099	10,744	Total current liabilities	64,032	71,938
Machinery, equipment and vehicles, net	10,946	13,344	Non-current liabilities		
Land	13,555	13,735	Bonds payable	10,400	10,000
Leased assets, net	106	70	Long-term loans payable	2,814	10,939
Construction in progress	2,124	1,416	Lease obligations	101	62
Other, net	2,014	2,009	Deferred tax liabilities	1,967	1,342
Total property, plant and equipment	36,847	41,321	Provision for product warranties	919	465
Intangible assets			Net defined benefit liability	3,415	3,508
Goodwill	149	4,473	Negative goodwill	33	23
Software	1,938	1,619	Other	114	137
Other	491	281	Total non-current liabilities	19,764	26,478
Total intangible assets	2,580	6,375	Total liabilities	83,797	98,416
Investments and other assets			Net assets		
Investment securities	19,631	16,761	Shareholders' equity		
Net defined benefit asset	2,331	1,795	Capital stock	13,150	15,300
Deferred tax assets	370	513	Capital surplus	11,943	14,071
Other	1,822	1,795	Retained earnings	23,007	25,507
Allowance for doubtful accounts	(43)	(34)	Treasury shares	(1,430)	(1,418)
Total investments and other assets	24,112	20,831	Total shareholders' equity	46,670	53,460
Total non-current assets	63,540	68,528	Accumulated other comprehensive income		
Deferred assets			Valuation difference on available-for-sale securities	6,897	5,161
Bond issuance cost	105	75	Deferred gains or losses on hedges	22	132
Total deferred assets	105	75	Foreign currency translation adjustment	245	(176)
Total assets	140,776	160,158	Remeasurements of defined benefit plans	409	326
			Total accumulated other comprehensive income	7,574	5,444
			Non-controlling interests	2,734	2,837
			Total net assets	56,979	61,741
			Total liabilities and net assets	140,776	160,158

Consolidated Statements of Income

(¥million)

	Previous consolidated fiscal year (April 1, 2017- March 31, 2018)	Current consolidated fiscal year (April 1, 2018- March 31, 2019)
Net sales	170,581	182,962
Cost of sales	127,946	139,289
Gross profit	42,635	43,673
Selling, general and administrative expenses	35,116	37,940
Operating profit	7,519	5,733
Non-operating profit		
Interest profit	66	63
Dividend income	427	454
Rent income	195	178
Dividend income of life insurance	34	48
Amortization of negative goodwill	10	10
Share of profit of entities accounted for using equity method	47	52
Exchange gain	360	39
Reversal of allowance for doubtful accounts	—	1
Miscellaneous profit	524	659
Total non-operating profit	1,666	1,506
Non-operating expenses		
Interest expenses	191	161
Sales discounts	129	128
Loss on sales of accounts receivable	17	7
Miscellaneous expenses	86	103
Total non-operating expenses	424	401
Ordinary profit	8,760	6,838
Extraordinary income		
Gain on sales of non-current assets	423	30
Gain on sales of investment securities	16	165
Compensation income	—	953
Total extraordinary profit	440	1,149
Extraordinary losses		
Loss on sale of non-current assets	4	13
Loss on retirement of non-current assets	228	220
Impairment loss	421	—
Loss on valuation of investment securities	2	104
Provision for product warranties	200	—
Compensation payments	—	347
Other	1	0
Total extraordinary losses	858	686
Profit before income taxes	8,342	7,301
Income taxes – current	1,065	2,195
Income taxes in the past fiscal year	—	681
Income taxes – deferred	1,253	(172)
Total income taxes	2,318	2,703
Profit	6,023	4,597
Profit attributable to non-controlling interests	128	195
Profit attributable to owners of parent	5,895	4,402

Consolidated Statements of Comprehensive Income

(¥million)

	Previous consolidated fiscal year (April 1, 2017- March 31, 2018)	Current consolidated fiscal year (April 1, 2018- March 31, 2019)
Profit	6,023	4,597
Other comprehensive income		
Valuation difference on available-for-sale securities	2,135	(1,738)
Deferred gains or losses on hedges	(57)	103
Foreign currency translation adjustment	617	(453)
Re-measurements of defined benefit plans, net of tax	1,019	(82)
Share of other comprehensive income of entities accounted for using equity method	0	(0)
Total other comprehensive income	3,714	(2,170)
Comprehensive income	9,738	2,427
(breakdown)		
Comprehensive income attributable to owners of parent	9,414	2,272
Comprehensive income attributable to non-controlling interests	324	154

Consolidated Statements of Changes in Net Assets

(¥million)

	Previous consolidated fiscal year (April 1, 2017- March 31, 2018)	Current consolidated fiscal year (April 1, 2018- March 31, 2019)
Shareholders' equity		
Capital stock		
Balance at beginning of current period	13,150	13,150
Issuance of new shares	—	2,149
Balance at end of current period	13,150	15,300
Capital surplus		
Balance at beginning of current period	11,943	11,943
Issuance of new shares	—	2,117
Disposal of treasury shares	—	10
Balance at end of current period	11,943	14,071
Retained earnings		
Balance at beginning of current period	18,896	23,007
Dividends of surplus	(1,783)	(1,902)
Profit attributable to owners of parent	5,895	4,402
Balance at end of current period	23,007	25,507
Treasury shares		
Balance at beginning of current period	(1,430)	(1,430)
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	—	12
Balance at end of current period	(1,430)	(1,418)
Total shareholders' equity		
Balance at beginning of current period	42,559	46,670
Issuance of new shares	—	4,267
Dividends of surplus	(1,783)	(1,902)
Profit attributable to owners of parent	5,895	4,402
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	—	22
Balance at end of current period	46,670	53,460
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at beginning of current period	4,762	6,897
Net changes of items other than shareholders' equity, net	2,135	(1,735)
Balance at end of current period	6,897	5,161
Deferred gains or losses on hedges		
Balance at beginning of current period	97	22
Net changes of items other than shareholders' equity, net	(75)	110
Balance at end of current period	22	132
Foreign currency translation adjustment		
Balance at beginning of current period	(194)	245
Net changes of items other than shareholders' equity, net	439	(421)
Balance at end of current period	245	(176)
Remeasurements of defined benefit plans		
Balance at beginning of current period	(609)	409
Net changes of items other than shareholders' equity, net	1,019	(82)
Balance at end of current period	409	326
Total accumulated other comprehensive income		
Balance at beginning of current period	4,055	7,574
Net changes of items other than shareholders' equity, net	3,518	(2,129)
Balance at end of current period	7,574	5,444
Non-controlling interests		
Net changes of items other than shareholders' equity, net	2,472	2,734
Balance at beginning of current period	261	102
Balance at end of current period	2,734	2,837
Total net assets		
Balance at beginning of current period	49,086	56,979
Issuance of new shares	—	4,267
Dividends of surplus	(1,783)	(1,902)
Profit attributable to owners of parent	5,895	4,402
Purchase of treasury shares	(0)	(0)
Disposal of treasury shares	—	22
Net changes of items other than shareholders' equity, net	3,780	(2,026)
Balance at end of current period	56,979	61,741

Consolidated Statements of Cash Flows

(¥million)

	Previous consolidated fiscal year (April 1, 2017- March 31, 2018)	Current consolidated fiscal year (April 1, 2018- March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	8,342	7,301
Depreciation	3,768	4,134
Impairment loss	421	—
Amortization of bond issuance cost	26	29
Loss on retirement of non-current assets	228	220
Loss (gain) on sales of non-current assets	(419)	(17)
Loss (gain) on sales of investment securities	(16)	(165)
Loss (gain) on valuation of investment securities	2	104
Amortization of goodwill	35	475
Increase (decrease) in allowance for doubtful accounts	2	0
Increase (decrease) in provision for bonuses	38	(76)
Increase (decrease) in provision for product warranties	(546)	(562)
Increase (decrease) in net defined benefit liability	(541)	629
Interest and dividend income	(494)	(517)
Interest expenses	191	161
Foreign exchange losses (gains)	17	64
Share of (profit) loss of entities accounted for using equity method	(47)	(52)
Decrease (increase) in notes and accounts receivable-trade	(5,457)	(2,438)
Decrease (increase) in inventories	(1,311)	(3,914)
Increase (decrease) in notes and accounts payable-trade	4,972	5,352
Decrease (increase) in consumption taxes refund receivable	(75)	(368)
Increase (decrease) in accrued consumption taxes	(310)	(336)
Other	1,483	1,117
小計	10,311	11,143
Interest and dividend income received	494	517
Interest expenses paid	(189)	(161)
Income taxes paid	(1,457)	(1,446)
Cash flows from operating activities	9,158	10,052
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,876)	(6,932)
Proceeds from sales of property, plant and equipment	1,809	40
Purchase of investment securities	(54)	(5)
Proceeds from sales and redemption of investment securities	228	466
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(8,237)
Other	(818)	(412)
Cash flows from investing activities	(2,711)	(15,079)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(630)	315
Proceeds from issuance of bonds	4,921	—
Redemption of bonds	(5,000)	—
Proceeds from long-term loans payable	400	12,200
Repayments of long-term loans payable	(4,143)	(3,623)
Repayments of finance lease obligations	(43)	(39)
Proceeds from share issuance	—	4,267
Proceeds from share issuance to non-controlling shareholders	—	9
Purchase of treasury shares	(0)	(0)
Cash dividends paid	(1,783)	(1,902)
Dividends paid to non-controlling interest	(62)	(60)
Cash flows from financing activities	(6,342)	11,165
Effect of exchange rate change on cash and cash equivalents	188	(40)
Net increase (decrease) in cash and cash equivalents	293	6,097
Cash and cash equivalents at beginning of period	10,474	10,767
Cash and cash equivalents at end of period	10,767	16,865

Stock Information (as of March 31, 2019)

Stock information

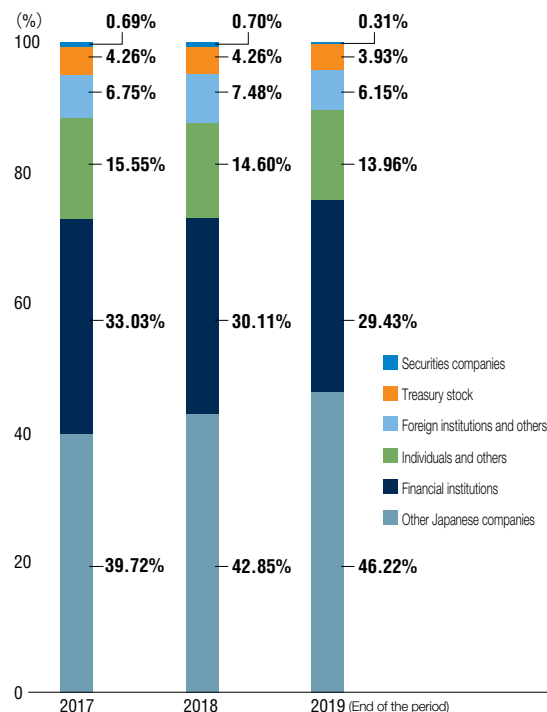
Total number of authorized shares	79,643,600
Total number of shares issued	27,080,043
Number of shareholders	3,942 shareholders
Shareholder registry administrator	Sumitomo Mitsui Trust Bank, Limited

Major shareholders

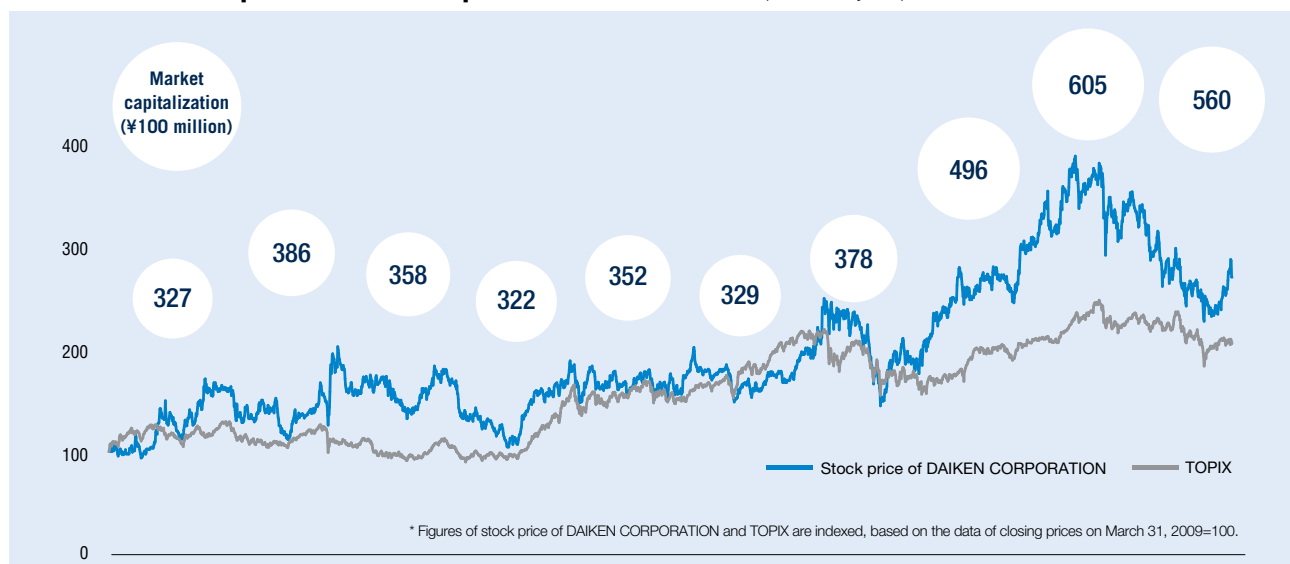
Name	Number of Shares	Ownership ratio (%)
ITOCHU Corporation	9,103,100	35.0
Sumitomo Mitsui Banking Corporation	986,980	3.8
SUMITOMO LIFE INSURANCE COMPANY	931,200	3.6
Japan Trustee Services Bank Ltd. (Trust Account)	824,400	3.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	811,200	3.1
DAIKEN CORPORATION Trading-Partner Shareholding Association	778,000	3.0
Sumitomo Mitsui Trust Bank, Limited	688,000	2.6
Sumitomo Forestry Co., Ltd.	638,200	2.5
Marubeni Corporation	564,388	2.2
Nippon Life Insurance Company	545,669	2.1

(Note) 1. DAIKEN CORPORATION is in possession of 1,063,389 treasury shares. However, the Company is excluded from the above list of major shareholders.
2. The ownership ratio is calculated excluding the treasury stock.

Breakdown of shares by type of shareholder



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



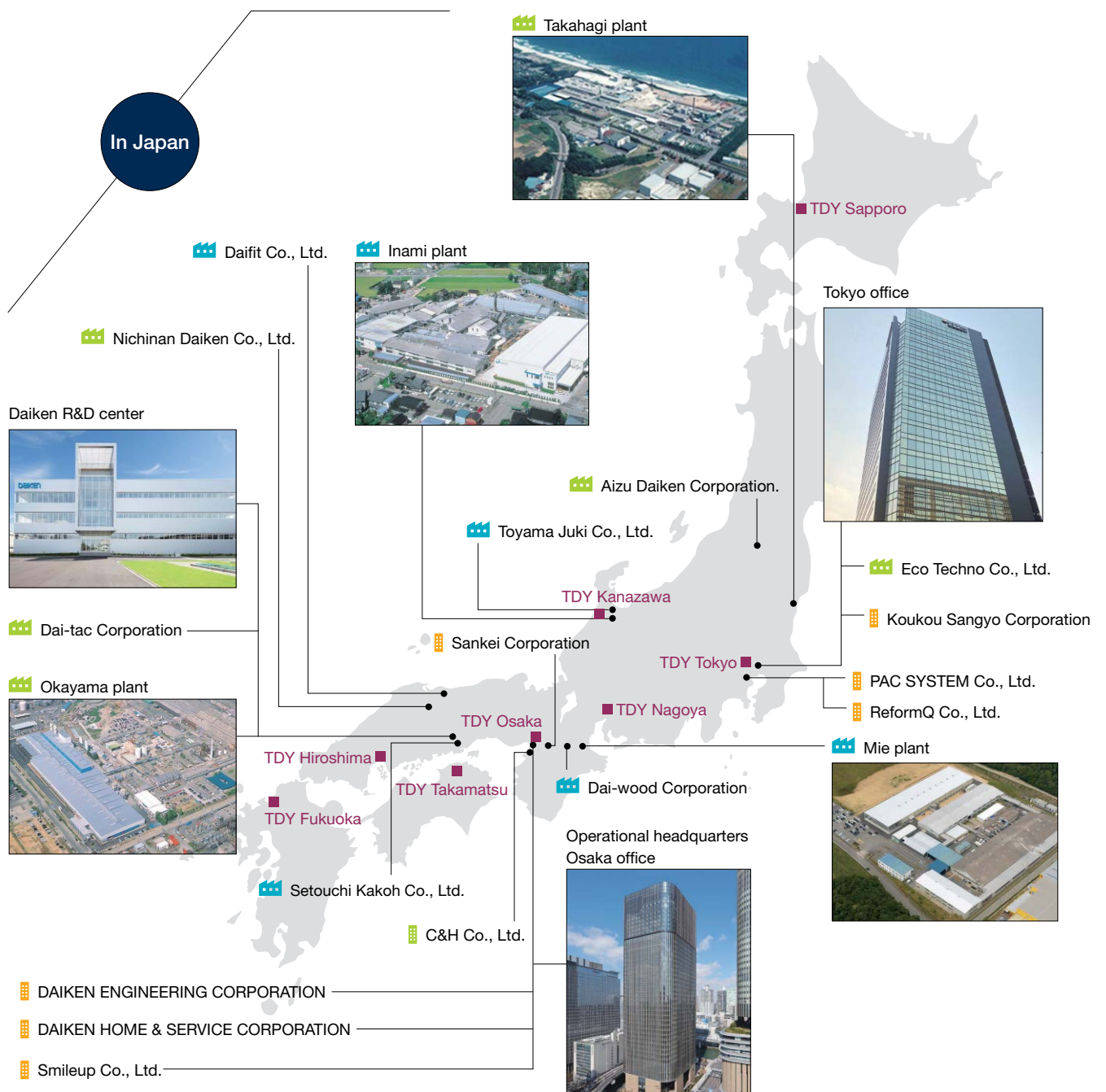
* Figures of stock price of DAIKEN CORPORATION and TOPIX are indexed, based on the data of closing prices on March 31, 2009=100.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (Fiscal year)
High (¥)	1,385	1,615	1,635	1,450	1,530	1,635	2,050	2,349	3,150	2,844
Low (¥)	745	885	1,045	830	1,135	1,180	1,130	1,918	1,950	1,747
Stock price at the end of the period (¥)	1,285	1,540	1,430	1,285	1,405	1,355	1,570	2,061	2,512	2,154
PER (multiple)	64.14	28.30	41.06	24.46	13.85	12.13	9.53	9.68	10.27	12.34
PBR (multiple)	0.99	1.16	1.07	0.90	0.95	0.81	0.93	1.07	1.12	0.95

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

Company Information (as of July 1, 2019)

Company name	DAIKEN CORPORATION	Registered Head Office	1-1, Inami, Nanto City, Toyama, Japan
Founding	September 26, 1945	Operational Headquarters	3-2-4 Nakanoshima, Kita-ku, Osaka, Japan
Capital stock	¥15,300,000,000	Tokyo Office	3-12-8 Sotokanda, Chiyoda-ku, Tokyo, Japan
Stock exchange listings	The first section of Tokyo Stock Exchange	Major sales offices	Sapporo, Sendai, Tokyo, Saitama, Kanazawa, Niigata, Nagoya, Osaka, Hiroshima, Takamatsu, Fukuoka and Singapore
Security code	7905	Production Plants	Inami Plant (Nanto City, Toyama Prefecture) Okayama Plant (Minami-ku, Okayama City) Takahagi Plant (Takahagi City, Ibaraki Prefecture) Mie Plant (Tsu City, Mie Prefecture)
Setting day	March 31		
General meeting of shareholders	June		

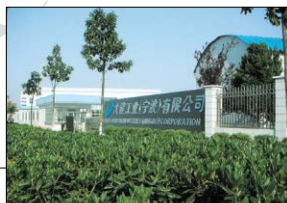


■ Subsidiaries part of the Group
 ■ Production base
 ■ Industrial Materials Business
 ■ Building Materials Business
 ■ Engineering Business

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

Overseas

■ DAIKEN (Shanghai) Corporation
 (Shanghai City, China)



■ DAIKEN Industries (Ningbo) Corporation
 (Zhejiang Province, China)



■ DAIKEN MIRI SDN.BHD.
 (Sarawak State, Malaysia)



■ PT.DAIKEN DHARMA INDONESIA
 (Jawa Timur Province, Indonesia)



■ DAIKEN SARAWAK SDN.BHD.
 (Sarawak State, Malaysia)

■ CIPA Lumber Co.Ltd.
 (Delta, British Columbia, Canada)



■ PACIFIC WOODTECH CORPORATION
 (Burlington, Washington, the U.S.A.)

Singapore branch

Indonesia office



■ DAIKEN SOUTHLAND LIMITED
 (Mataura Gore City, New Zealand)



■ DAIKEN NEW ZEALAND LIMITED
 (Rangiora City, New Zealand)

DAIKEN

DAIKEN CORPORATION

Head Office
14F Nakanoshima Festival Tower West,
3-2-4 Nakanoshima, Kita-ku, Osaka 530-8210
<https://www.daiken-ad.com/en/>



Issued in September 2019.