Annual Report 2010

For the year ended March 31, 2010

DAIKEN CORPORATION

Company Profile

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

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

Contents

Financial Highlights

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

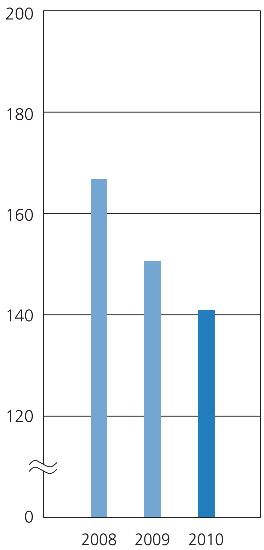
	Millions of Yen and Thousands of U.S. Dollars			
	2010	2009	2008	**2010**
Net sales	**¥ 140,936**	¥ 150,325	¥ 166,588	**$ 1,514,626**
Operating income	**3,010**	1,830	2,896	**32,348**
Ordinary income	**2,819**	1,331	2,613	**30,295**
Net income	**511**	598	791	**5,491**
Net assets	**36,663**	34,562	37,053	**394,013**
Total assets	**123,862**	125,080	132,875	**1,331,133**
	Yen and U.S. Dollars			
Net income per share	**¥ 4.01**	¥ 4.64	¥ 6.07	**$ 0.04**

Note: The translations into U.S. dollars are based on $1= ¥93.05, the approximate exchange rate on March 31, 2010

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

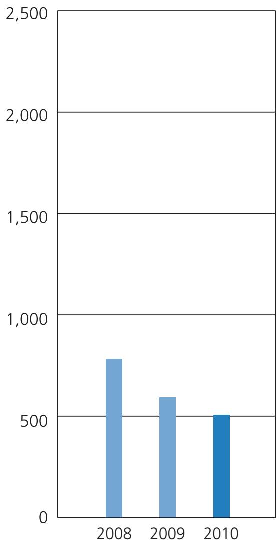
Net sales

(Billions of Yen)



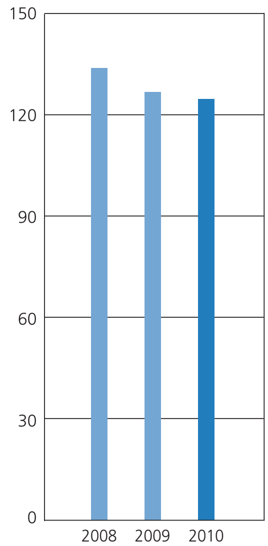
Net income

(Millions of Yen)



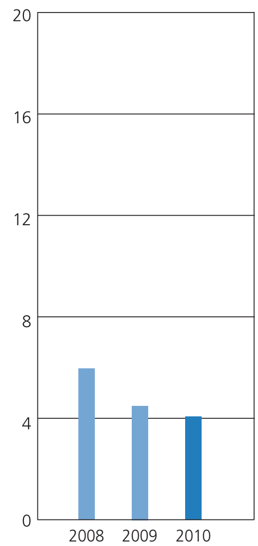
Total assets

(Billions of Yen)



Net income per share

(Yen)



A Message from the President

We herein present our shareholders and persons concerned with a report on the consolidated business results for the Daiken Corporation in fiscal year 2009.

Business Progress and Results

In regard to the consolidated business results for the year in review, we achieved net sales totaling ¥140,936 million (a decrease of 6.2% compared with the previous year), operating income of ¥3,010 million (an increase of 64.4% compared with the previous year), ordinary income of ¥2,819 million (an increase of 111.7% compared with the previous year) and a net income of ¥511 million (a decrease of 14.5% compared with the previous year).

During this fiscal year the Japanese economy showed some signs of a partial recovery, thanks to the economic stimulus packages enacted by the government, but the decline of the global economy has had a significant effect on Japan, leading to stagnation of investment in facilities as well as personal consumption. This, combined with the worsening state of the employment market, means that the future seems unclear and this is a very difficult economic situation that we find ourselves in. With regard to the housing market, regardless of the expansion of the tax reduction on home loans, preferential conditions for superior, long-life housing, the implementation of the housing ecopoint system, etc. fiscal year 2009 was the first time in 45 years that new housing starts, at 775,000, failed to break the 800,000 unit barrier. This represents a decrease of 25.4% on the previous term and shows the extent of the difficulties that we face in this business environment.

Under these business conditions, the Daiken Group is developing a business structure that does not rely solely on new housing starts, and further, aims to reform our business structure that will assure profits and growth even in this severe business environment by developing in areas and markets where growth has been predicted as well as changing our corporation into one that can grow and turn a profit in even the most severe economic conditions. By developing growth markets and areas of growth, based on our eco-friendly materials that can be used as plywood substitutes (insulation boards, Dai-Lotone, MDF, Dailite, and hardboard), we are moving forward with developing new uses and new customers, such as the remodeling market, the non-housing market, the industrial materials market and markets overseas. By strengthening our corporate constitution, not only do we plan to reduce our raw material costs and increase productivity, we also reduce our fixed costs, starting with our human resource expenses, across the Daiken Group as a whole. These efforts serve to bring down our break-even point as a business. As a result of these efforts, our profitability for the second half of the fiscal year (October to March) showed a large-scale improvement.

"Our ecology is linked to the materials we choose to build with"— developing our Eco-Materials Business

At present, with environmental issues assuming serious proportions, such as the draining of forest resources and the increase in global warming, there is the demand for corporations to assume corporate social responsibility to an even greater extent in regard to programs and policies placing importance on the environment and resource conservation.

The history of Daiken and eco-materials is one and the same and the source of this vision can be traced back to 1958, when we initiated the production of insulation boards, avoiding unnecessary waste of wood resources through the employment of scrap lumber and the like. Thereafter, the Daiken Group continued to create new categories of eco-materials that can be employed as main raw materials through resource recycling and the use of untapped resources.

The Daiken Group has been involved in the production of eco-materials for half a century and in 2010 our evolution continues with "EcoNext" as we look to the next generation. Through further refinement of our proprietary ecological technologies that support our efforts as a corporation that recycles resources, eco-materials, has grown into the Group's core business field. From the customer's perspective, eco-materials meets their demands for comfortable living and pleasant, healthy resources and we will continue to boldly challenge the limits of development and demand creation in the field of eco-materials in the future.

Issues and Policies for the Future

Looking forward, despite the government's best efforts to stimulate demand in the housing market and our hopes for these initiatives, the future of our economy remains unclear and it can be considered that the number of new housing starts will continue its transition at a low level.

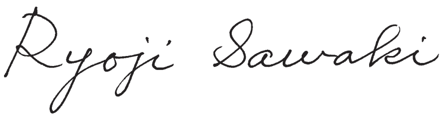
Under these business conditions, while it can be expected that this severe business environment will continue with an increase in the factors causing anxiety, such as an intensification of corporate competition and further increases in the costs of raw materials, etc., the Daiken Group will conduct specific measures aiming for business and profit structure reforms, as we look to strengthen our business structure. Furthermore, our aim is to actively seek growth in new markets and fields based on our eco-materials business, thereby expanding our sales turnover.

With particular regard to the remodeling market, while employing the substantial favorable taxation system measures to their fullest extent, we will promote the new concept of "Green Remodeling" and the realization of high quality residences based on three viewpoints: "durable residences," "the reduction of CO_2," and "health considerations," adopted by the TOTO, DAIKEN, and YKK AP alliance.

Accordingly, for the consolidated business results projected for the fiscal year ending at the end of March 2011, our goal is to achieve net sales totaling ¥144,000 million, an operating income of ¥3,800 million, an ordinary income of ¥3,600 million, and a net income of ¥1,400 million.

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

September 2010



Ryoji Sawaki,
Representative Director, President
Chief Executive Officer

Housing and Building Materials Related Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥124,631 million (a decrease of 4.5% compared with the previous year) and an operating income of ¥3,073 million (an increase of 88.1% compared with the previous year).

With respect to eco-materials, one of the core strategies of Daiken Group, net sales of Dailite were influenced by the decrease in the number of new housing starts, but due to progress in our production technology we were able to make significant improvements in terms of profitability. Sales of insulation boards maintained the levels attained for the previous consolidated fiscal year thanks to other uses being developed for this product. Net sales of Dai-Lotone showed a significant increase on the previous consolidated fiscal year due to improved results for rock wool ceiling materials for buildings and retail stores and as a result Dai-Lotone has developed into one of our main sources of profit. Our three plants overseas, now including Daiken New Zealand Inc., have contributed to the expansion of our MDF business.

With regard to our interior materials business field, which is focused on flooring materials, following on from the consolidation of our production bases, a new production line for our WPC flooring material was opened in June. This has led to improved productivity as well as reducing our fixed costs.

On the product side, our plan was to create a strong product line-up capable of meeting the needs of the marketplace, based on products such as "FORES HARD", an eco-friendly flooring material combining domestic conifer plywood with our special MDF product; "EQUOS ROZZO", our high performance WPC flooring material with a more elaborate design, thanks to the implementation of new technology; and "EQUOS MIRROR".

With regard to our home furnishings and equipment


FORES HARD


EQUOS ROZZO


EQUOS MIRROR


An example of how the new RIII Series Precious Wood Type living room doors can be installed

business, a review of our domestic production bases, a shortening in delivery times with regard to order-made units and special order units as well the addition of the Precious Wood Type to our best-selling RIII series of interior doors and thanks to our improved ability to meet the needs of the marketplace we made efforts to expand sales related to our core products such as doors, storage cabinets, stairs, and other interior materials.

On the sales side, as part of our efforts to allow the end user to experience and feel our products, we launched a new initiative in the metropolitan area, namely the September opening of the DAIKEN Tokyo Showroom (in Akihabara) whilst at the same time opening the TOTO and DAIKEN Collaboration Showroom in Sapporo as part of our alliance with TOTO, Inc. We also put effort into seeking out new demand for our proposed environmentally sensitive Green Remodeling project, a three-way alliance between Daiken, TOTO Inc. and YKK AP that seeks to open up the remodeling market.

Housing and Construction Works Related Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥16,304 million (a decrease of 17.8% compared with the previous year) and an operating loss of ¥63 million (compared with an operating profit of ¥195 million for the previous year).

In the construction works related business field, we increased our operational efficiency and made progress in terms of reducing our costs in addition to striving to develop new demand by securing a number of multiple orders and expanding our sales area. However due to the ongoing long-term slump in the building and condominium market, construction sales fell over the period in review.

On the other hand, in the housing construction related business field, we undertook some organizational restructuring in order to expand in the remodeling business. Our plan is to generate demand for remodeling but overall there was a decrease in orders for custom-built housing, houses in development projects and single-unit homes, resulting in a decrease in construction sales.

An example of a new build home construction

Topics

Topics 1 | DAIKEN opens its Tokyo Showroom in Akihabara

In September 2009 Daiken opened the DAIKEN Tokyo Showroom in the Akihabara district. The showroom has two aims — an opportunity for visitors to experience and touch a comfortable way of life and also to showcase our varied product line-up and it is hoped that the showroom becomes a new locus of business communication for the metropolitan area, as well as a place where Daiken can make contact with its customers.

The showroom features 10 exhibition corners, including areas where Daiken can showcase its product range, soundproof room, eco-materials, products for pets, etc. in addition to a 20 tatami-mat living/dining room and kitchen suite that has been remodeled in line with our concept of green remodeling: kind to your life, kind to the earth. Furthermore, the showroom also features approx. 130 different types of interior doors, flooring, wall and ceiling materials as well as a wide range of other products.

Display corner for interior doors

Showroom bustling with visitors

Topics 2 | Opening of the TDY Osaka Collaboration Showroom, a collaboration between TOTO, DAIKEN and YKK AP

Located in Umeda, Osaka, this showroom is a collaboration between TOTO, DAIKEN and YKK AP and opened to the public in July 2010. The showroom makes the most of the characteristics and unique nature of the three companies involved. By coming together in this way to create a showroom — a space where people come to be moved and amazed — customers can experience first-hand our proposals for living space as well as gaining access to the very latest information related to remodeling. Collaborative showrooms such as this have already been opened in three locations: Hiroshima, Takamatsu and Sapporo, but the Osaka Showroom is the first to open in such a large urban area.

A number of joint events are planned, starting with a collaborative exhibition to promote the new concept of "Green Remodeling" (remodeling proposals that are kind to life and kind to the earth, based on three viewpoints: "durable residences," "the reduction of CO_2," and "health considerations") adopted by the TOTO, DAIKEN, and YKK AP alliance.

Display corner for green remodeling

Topics 3 | Forest Certification: Daiken Awarded PEFC-CoC Certification

The organizations related to flooring materials that make up part of the Daiken Group have been awarded Forest PEFC-CoC Certification. The Forest Certification system uses standards and indicators to confirm that sustainable forestry management practices are in place and a third party organization evaluates and verifies the situation. Daiken promotes "production and manufacturing from the environment" and the award of the Forest Certification, which includes our use of certified materials, reflects our use of eco-materials as base plates for wooden flooring as well as the progress we have made in changing our systems so that we are able to expanding on the ways we can use our eco-materials.

We will take this opportunity to redouble our efforts to disseminate environmentally sensitive wooden materials and to work on having these materials meet the needs of our customers.

Japanese forest thinning timber utilized as a raw material: Conducting a Business Experiment with the Forestry Agency Subsidiary Enterprise

Aiming to create a system whereby timber from forest thinning activities is turned into wood chips that can be used as a raw material for insulation boards, one of our mainstay eco-material products, Daiken is participating in a subsidiary enterprise project under the auspices of the Forestry Agency. Known as "A model for creating a new business for using timber resources*", since November 2009 woodland owned by Daiken and other companies has been used as a testing ground for the project. Our tests are expected to continue with the aim of establishing a business model whereby a stable supply of materials in the form of wood chips can be generated alongside a renewable forestry resource.

The wood chips used as raw materials for our insulation boards are usually made from old timbers recovered from building demolitions, but in recent years the number of building demolitions has fallen and due to mixing with new materials the quality of these wood chips has deteriorated. This, coupled with the fact that chips are being used as fuel for burning, means that not only it is becoming increasing difficult to procure wood chips, the unit cost is also increasing and as a result we are faced with an urgent need to consider an alternative source for this raw material. There is a system in place to take old wood from demolitions and to turn these timbers into wood chips, but because no system exists to convert timber from forest thinning activities into wood chips, this subsidiary enterprise with the Forestry Agency is our opportunity to conduct empirical tests as to whether this is indeed a viable approach for wood chip production.

Furthermore, due to the excellent anti-bacterial and anti-odor characteristics of conifer leaves, once pellets with excellent anti-odor properties have been obtained by forest thinning, a lot of the remaining conifer timber that has been felled is simply left at the forest location. We are conducting tests to see if these timber residues can be used as toilet sawdust for pets.

*With the aim of constructing a business model that brings together the actual process of forest thinning with practical uses for forest thinning timber, "A model for creating a new business for using timber resources", involved organizations selected by public applications with some of the expenses incurred in running these enterprises covered by the project. The aim of the project was to create a new business.


Trying on-site wood chip manufacture


Wood chips made from forest thinning timber


Insulation Board


Toilet sawdust for pets

Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
ASSETS			
Current assets:			
Cash and deposits	**¥ 10,987**	¥ 9,770	**$ 118,076**
Notes and accounts receivable—trade	**28,025**	24,552	**301,182**
Merchandise and finished goods	**10,817**	12,410	**116,249**
Work in process	**1,652**	2,039	**17,753**
Raw materials and supplies	**3,323**	3,749	**35,711**
Partly-finished work	**850**	3,422	**9,134**
Deferred tax assets	**1,024**	1,062	**11,004**
Other	**3,556**	4,631	**38,216**
Allowance for doubtful accounts	**(148)**	(93)	**(1,590)**
Total current assets	**60,090**	61,545	**645,781**
Noncurrent assets:			
Property, plant and equipment			
Buildings and structures, net	**11,665**	11,416	**125,362**
Machinery, equipment and vehicles, net	**11,951**	12,925	**128,436**
Land	**15,505**	15,759	**166,630**
Lease assets, net	**388**	–	**4,169**
Construction in progress	**700**	1,126	**7,522**
Other, net	**1,336**	1,144	**14,357**
Total property, plant and equipment	**41,548**	42,372	**446,512**
Intangible assets			
Goodwill	**1,182**	1,414	**12,702**
Software	**466**	410	**5,008**
Other	**296**	201	**3,181**
Total intangible assets	**1,945**	2,027	**20,902**
Investments and other assets			
Investment securities	**9,698**	8,667	**104,223**
Long-term loans receivable	**2**	287	**21**
Prepaid pension cost	**3,229**	3,681	**34,701**
Deferred tax assets	**5,274**	4,444	**56,679**
Other	**2,897**	2,599	**31,133**
Allowance for doubtful accounts	**(865)**	(598)	**(9,296)**
Total investments and other assets	**20,236**	19,080	**217,474**
Total noncurrent assets	**63,730**	63,480	**684,900**
Deferred assets	**40**	55	**429**
Bond issuance cost	**40**	55	**429**
Total assets	**¥ 123,862**	¥ 125,080	**$ 1,331,133**

	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars 2010
LIABILITIES			
Current liabilities:			
Notes and accounts payable—trade	**¥ 15,187**	¥ 16,656	**$ 163,213**
Short-term loans payable	**14,266**	13,719	**153,315**
Current portion of long-term loans payable	**4,903**	3,765	**52,692**
Lease obligations	**32**	–	**343**
Accounts payable—other	**21,030**	23,470	**226,007**
Income taxes payable	**794**	880	**8,533**
Accrued consumption taxes	**413**	362	**4,438**
Provision for bonuses	**1,552**	1,290	**16,679**
Provision for business structure improvement	**111**	849	**1,192**
Provision for loss on office transfer	**75**	224	**806**
Other	**2,998**	4,328	**32,219**
Total current liabilities	**61,366**	65,547	**659,494**
Noncurrent liabilities:			
Bonds payable	**5,000**	5,000	**53,734**
Long-term loans payable	**14,842**	14,003	**159,505**
Lease obligations	**362**	–	**3,890**
Deferred tax liabilities	**1,510**	1,531	**16,227**
Provision for product warranties	**137**	187	**1,472**
Provision for retirement benefits	**3,163**	3,380	**33,992**
Provision for environmental measures	**161**	161	**1,730**
Negative goodwill	**128**	139	**1,375**
Other	**527**	567	**5,663**
Total noncurrent liabilities	**25,832**	24,970	**277,614**
Total liabilities	**87,199**	90,518	**937,119**
NET ASSETS			
Shareholders' equity:			
Capital stock	**13,150**	13,150	**141,321**
Capital surplus	**11,850**	11,850	**127,350**
Retained earnings	**9,018**	9,093	**96,915**
Treasury stock	**(730)**	(652)	**(7,845)**
Total shareholders' equity	**33,288**	33,441	**357,743**
Valuation and translation adjustments:			
Valuation difference on available-for-sale securities	**125**	(1,254)	**1,343**
Deferred gains or losses on hedges	**(9)**	1	**(96)**
Foreign currency translation adjustment	**(191)**	(668)	**(2,052)**
Total valuation and translation adjustments	**(75)**	(1,921)	**(806)**
Minority interests	**3,449**	3,042	**37,066**
Total net assets	**36,663**	34,562	**394,013**
Total liabilities and net assets	**¥ 123,862**	¥ 125,080	**$ 1,331,133**

Consolidated Statements of Income

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		*Thousands of U.S. Dollars*
	2010	2009	**2010**
Net sales	**¥ 140,936**	¥ 150,325	**$ 1,514,626**
Cost of sales	**104,325**	114,145	**1,121,171**
Gross profit	**36,610**	36,179	**393,444**
Selling, general and administrative expenses	**33,600**	34,349	**361,096**
Operating income	**3,010**	1,830	**32,348**
Non-operating income	**871**	913	**9,360**
Non-operating expenses	**1,062**	1,411	**11,413**
Ordinary income	**2,819**	1,331	**30,295**
Extraordinary income	**150**	1,863	**1,612**
Extraordinary loss	**2,890**	3,868	**31,058**
Income (loss) before income taxes and minority interests	**79**	(672)	**849**
Income taxes	**(461)**	(1,350)	**(4,954)**
Minority interests in income	**29**	78	**311**
Net income	**¥ 511**	¥ 598	**$ 5,491**

Consolidated Statements of Changes in Net Assets

Daiken Corporation and Consolidated Subsidiaries
Year ended March 31, 2010

Millions of Yen

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	**¥ 13,150**	**¥ 11,850**	**¥ 9,093**	**¥ (652)**	**¥ 33,441**	**¥ (1,254)**	**¥ 1**	**¥ (668)**	**¥ (1,921)**	**¥ 3,042**	**¥ 34,562**
Changes of items during the period											
Dividends from surplus			(638)		(638)						(638)
Net income			511		511						511
Purchase of treasury stock				(77)	(77)						(77)
Disposal of treasury stock		0		0	0						0
Change of scope of consolidation			51		51						51
Net changes of items other than shareholders' equity						1,380	(11)	477	1,846	407	2,253
Total changes of items during the period	–	0	(75)	(77)	(153)	1,380	(11)	477	1,846	407	2,100
Balance at March 31, 2010	**¥ 13,150**	**¥ 11,850**	**¥ 9,018**	**¥ (730)**	**¥ 33,288**	**¥ 125**	**¥ (9)**	**¥ (191)**	**¥ (75)**	**¥ 3,449**	**¥ 36,663**

Thousands of U.S. Dollars

	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at March 31, 2009	**$ 141,321**	**$ 127,350**	**$ 97,721**	**$ (7,006)**	**$ 359,387**	**$ (13,476)**	**$ 10**	**$ (7,178)**	**$ (20,644)**	**$ 32,692**	**$ 371,434**
Changes of items during the period											
Dividends from surplus			(6,856)		(6,856)						(6,856)
Net income			5,491		5,491						5,491
Purchase of treasury stock				(827)	(827)						(827)
Disposal of treasury stock		0		0	0						0
Change of scope of consolidation			548		548						548
Net changes of items other than shareholders' equity						14,830	(118)	5,126	19,838	4,373	24,212
Total changes of items during the period	–	0	(806)	(827)	(1,644)	14,830	(118)	5,126	19,838	4,373	22,568
Balance at March 31, 2010	**$ 141,321**	**$ 127,350**	**$ 96,915**	**$ (7,845)**	**$ 357,743**	**$ 1,343**	**$ (96)**	**$ (2,052)**	**$ (806)**	**$ 37,066**	**$ 394,013**

Consolidated Statements of Cash Flows

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	**2010**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	**¥ 79**	¥ (672)	**$ 849**
Depreciation and amortization	**4,197**	4,054	**45,104**
Impairment loss	**310**	–	**3,331**
Loss on valuation of land for sale	**–**	1,111	**–**
Loss on valuation of inventories	**–**	501	**–**
Amortization of bond issuance cost	**14**	14	**150**
Loss on retirement of noncurrent assets	**255**	131	**2,740**
Loss (gain) on sales of noncurrent assets	**44**	(1,168)	**472**
Loss (gain) on sales of investment securities	**642**	(478)	**6,899**
Loss (gain) on valuation of investment securities	**349**	564	**3,750**
Loss on valuation of golf club membership	**0**	41	**0**
Amortization of goodwill	**220**	123	**2,364**
Increase (decrease) in allowance for doubtful accounts	**321**	73	**3,449**
Increase (decrease) in provision for bonuses	**226**	(192)	**2,428**
Increase (decrease) in provision for business structure improvement	**(738)**	849	**(7,931)**
Increase (decrease) in provision for loss on office transfer	**(148)**	224	**(1,590)**
Increase (decrease) in provision for environmental measures	**–**	161	**–**
Increase (decrease) in provision for loss on business liquidation	**–**	(60)	**–**
Increase (decrease) in provision for product warranties	**(49)**	(3)	**(526)**
Increase (decrease) in provision for retirement benefits	**234**	(121)	**2,514**
Interest and dividends income	**(187)**	(264)	**(2,009)**
Interest expenses	**682**	608	**7,329**
Foreign exchange losses (gains)	**(35)**	260	**(376)**
Equity in (earnings) losses of affiliates	**(43)**	(43)	**(462)**
Decrease (increase) in notes and accounts receivable-trade	**(3,095)**	4,120	**(33,261)**
Decrease (increase) in inventories	**5,133**	(176)	**55,163**
Decrease (increase) in consumption taxes refund receivable	**(33)**	16	**(354)**
Increase (decrease) in notes and accounts payable-trade	**(3,441)**	(5,645)	**(36,980)**
Increase (decrease) in accrued consumption taxes	**44**	48	**472**
Other, net	**(93)**	(1,333)	**(999)**
Subtotal	**4,891**	2,744	**52,563**
Interest and dividends income received	**190**	263	**2,041**
Interest expenses paid	**(662)**	(595)	**(7,114)**
Income taxes paid	**(1,277)**	(607)	**(13,723)**
Net cash provided by (used in) operating activities	**3,141**	1,805	**33,756**
Net cash provided by (used in) investing activities			
Decrease (increase) in time deposits	**(12)**	2	**(128)**
Purchase of property, plant and equipment	**(3,000)**	(3,743)	**(32,240)**
Proceeds from sales of property, plant and equipment	**31**	1,887	**333**
Purchase of investment securities	**(220)**	(653)	**(2,364)**
Proceeds from sales of investment securities	**51**	624	**548**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**–**	(962)	**–**
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	**–**	(8)	**–**
Other, net	**(135)**	(44)	**(1,450)**
Net cash provided by (used in) investing activities	**(3,286)**	(2,897)	**(35,314)**
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	**463**	54	**4,975**
Proceeds from long-term loans payable	**5,600**	3,752	**60,182**
Repayment of long-term loans payable	**(4,136)**	(4,185)	**(44,449)**
Repayments of finance lease obligations	**(24)**	–	**(257)**
Purchase of treasury stock	**(77)**	(365)	**(827)**
Cash dividends paid	**(638)**	(973)	**(6,856)**
Cash dividends paid to minority shareholders	**(50)**	(75)	**(537)**
Other, net	**0**	0	**0**
Net cash provided by (used in) financing activities	**1,135**	(1,793)	**12,197**
Effect of exchange rate change on cash and cash equivalents	**209**	(31)	**2,246**
Net increase (decrease) in cash and cash equivalents	**1,199**	(2,916)	**12,885**
Cash and cash equivalents at beginning of period	**9,730**	12,058	**104,567**
Increase in cash and cash equivalents from newly consolidated subsidiary	**4**	589	**42**
Cash and cash equivalents at end of period	**¥ 10,935**	¥ 9,730	**$ 117,517**

Notes Related to Consolidated Financial Statements

Summary of significant accounting policies

1.Securities

Held-to-maturity securities are carried and calculated by the amortized cost method (straight-line method).
Marketable securities classified as other securities are carried at fair value, based on market prices on settlement date of accounts, with any changes in unrealized holding gain or loss directly charged to net assets. Cost of securities sold is calculated principally by the moving average method.

Non-marketable securities classified as other securities are carried at cost determined principally by the moving average method.

2. Derivatives

Derivatives are carried at fair value.

3.Inventories

In principle, inventories of the Company and its consolidated subsidiaries are calculated as costs, as determined by the moving average method. (The value in the consolidated balance sheets is calculated by the method of reduction in book value based on decline in profitability.) Furthermore, for the real estate for sale, a separate method is applied, calculated as costs. (The value in the consolidated balance sheets is calculated by the method of reduction in book value based on decline in profitability.) For partly finished work, a separate method is applied, calculated as costs.

4.Method of calculating the depreciation of important assets to be amortized

1) Property, plant and equipment (excluding leased assets)
At Daiken Corporation and its domestic consolidated subsidiaries, the depreciation is primarily computed by the declining-balance method, with the exception of buildings (excluding attached fittings and structures) acquired on or after April 1, 1998, the depreciation of which is computed by the straight-line method. The foreign consolidated subsidiaries use the straight-line method to calculate depreciation.
The principal estimated useful lives are as follows:

Buildings and structures	mainly 3 to 60 years
Machinery, equipment and vehicles	mainly 4 to 15 years

2) Intangible assets (excluding leased assets)
At Daiken Corporation and its domestic consolidated subsidiaries, the depreciation of intangible assets is computed by the straight-line method. The foreign consolidated subsidiaries use the straight-line method to calculate depreciation in conformity with the accounting principles generally accepted in their corresponding countries.
Expenditures related to computer software for internal use are amortized by the straight-line method over their estimated useful lives in the company, a 5-year period.

3) Leased assets
The depreciation of leased assets is computed by the straight-line method, with the lease period as the useful life period and the remaining value at the end of the lease period is taken as zero. Finance leases, other than those for which the ownership of the leased asset will be transferred to the lessee, commenced on or before March 31, 2008, are accounted for by a method similar to that applicable to ordinary operating leases.

4) Deferred assets
The amortization of bond issuance cost is computed using the straight-line method for the 5-year period until redemption.

5.Provisions and allowances

1) Allowance for doubtful accounts
In order to prepare irrecoverable accounts such as accounts and loans receivable, provisions for doubtful accounts are generally made on the basis of historical default rates. Claims whose possibility of collection is deemed doubtful are provided for in the expected uncollectible amounts, giving due consideration to the specific circumstances.

2) Provision for bonuses
In order to prepare primarily for the payment of bonuses to employees, provisions are based on the expected amounts of payment.

3) Provision for business structure improvements
In order to prepare for the payment of expenses expected to occur for business structure improvements, provisions are made for estimated improvement expenses at the end of the term under review.

4) Provision for loss on office transfer
In order to prepare for the payment of expenses expected to occur for office transfer, provisions are made for estimated transfer expenses.

5) Provision for product warranties
In order to prepare primarily for the payment of expenses expected to occur after the delivery of products, provisions for estimated repairing costs during the term of warranty are made.

6) Provision for retirement benefits
Provisions for employees' retirement benefits are made in the amount deemed necessary at the term end, based on estimated retirement obligations and plan assets. (Regarding the company pension plan, a prepaid pension expense has been appropriated, as the value of the pension plan assets exceeds the amount of the retirement benefit obligation as adjusted for unrecognized prior service cost and net unrecognized actuarial gain or loss.)
Net unrecognized actuarial gain or loss is amortized commencing the fiscal year following the consolidated fiscal year in which the gain or loss was recognized by the straight-line method over the estimated average remaining years of service of the eligible employees (mainly 10 years).

7) Provision of environmental measures
In order to prepare primarily for the payment of expenses expected to occur for environmental measures, provisions are made for estimated expenses.

6. Criteria for appropriating important incomes and expenses

Criteria for appropriating the amounts and costs of completed work:

1) Work confirmed as certain to be progressed partly by the end of the current fiscal term: The criterion is the progress of said work. (The rate of progress is estimated using the cost proportion method.)
2) Other work: The criterion is the completion of said work.

7. Criteria of translations into Japanese yen amounts of important assets or liabilities denominated in foreign currencies

The monetary credits and debts denominated in foreign currencies are translated into Japanese yen at the current exchange rate on the consolidated settling date and translation difference is treated as gain or loss. The assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at the current exchange rate on the settling date of subsidiaries, and gain or loss is also translated into Japanese yen at the current exchange rate on the subsidiaries' settling date. Any translation differences are included in the translation adjustment account and minority interests in the net assets section.

8. Important methods of hedge accounting

1) Method of hedge accounting
The deferred method of hedge accounting is adopted. As for foreign exchange forward contracts and foreign currency option contracts, the allotment process is adopted if the required conditions are satisfied. As for interest rate swap contracts, the exception process is adopted if the required conditions for this process are satisfied.

2) Hedging measures and objectives
Hedging measures are foreign exchange forward contracts and foreign currency option contracts. The objectives are accounts receivable and payable and anticipated transactions denominated in foreign currencies. Interest rate swap contracts are other measures, the objectives of which are loans and debts.
3) Hedging policy
In accordance with our internal "Risk Management Policy," we hedge against foreign exchange rate fluctuation risks.
4) Method of evaluating the efficiency of hedging
Accumulations of cash flow fluctuations of hedging objectives or exchange rate fluctuations are compared with accumulations of cash flow fluctuations of hedging measures or exchange rate fluctuations for every half term. The efficiency of hedging is evaluated on the basis of both these fluctuated values. However, for interest rate swap contracts using the exception process, we omit this evaluation of efficiency.

9. Transaction of consumption tax

Consumption taxes and local consumption taxes withheld and/or paid are not included in the accompanying statements of operations.

Notes Related to Consolidated Balance Sheets

1. Accumulated depreciation of property, plant and equipment

¥ 56,926 million

2. Items for non-consolidated subsidiaries and affiliates are as follows:

Investment securities (stocks)	¥	817	million

3. Assets pledged as collateral

Buildings and structures	¥	1,358	million
Machinery, equipment and vehicles	¥	2,456	million
Land	¥	2,765	million
Other current assets	¥	868	million
Other noncurrent assets	¥	193	million
Total	¥	7,641	million

Loans corresponding to the above			
Short-term loans payable	¥	2,188	million
Current portion of long-term loans payable	¥	304	million
Long-term loans payable	¥	1,092	million

Besides the above, investment securities amounting to ¥49 million are held as a deposit relating to our housing land and building agency registration.

4. Guarantee obligations

Guarantees are provided for bank loans assumed by the companies mentioned below, as follows:

For purchasers of houses from our consolidated subsidiaries (Bridge loans for housing loans)	¥	19	million

5. Contingent liabilities

Liability for redemption following liquidation of credit	¥	1,533	million

6. In order to efficiently raise working capital, the Company concluded overdraft contracts and loan commitment contracts with four of our financial institutions.
The unexecuted loan balances related to such overdraft contracts and loan commitment contracts at the term end are as follows:

Maximum overdraft amount and the total amount of loan commitment	¥	13,200	million
Executed loan amounts		–	
Total	¥	13,200	million

7. Condensed book value deducted from the acquisition cost of property, plant and equipment by the acceptance of government subsidy:

Machinery, equipment and vehicles	¥	47	million

Notes Related to Consolidated Statements of Income

1. Primary selling, general and administrative expenses

Transportation and storage expenses	¥	10,779	million
Transfer to allowance for doubtful accounts	¥	35	million
Salaries and allowances	¥	7,622	million
Transfer to provision for bonuses	¥	1,048	million
Expenses for retirement benefits	¥	1,627	million

2. Research and development costs

Research and development costs are included in the cost of general and administrative expenses and the cost of production for the year ended March 31, 2010, totaling ¥1,471 million.

3. Contents of gain on sales of noncurrent assets

Machinery, equipment and vehicles	¥	0	million
Land	¥	6	million
Total	¥	7	million

4. Contents of loss on sales of noncurrent assets

Land	¥	52	million

5. Contents of loss on retirement of noncurrent assets

Buildings and structures	¥	33	million
Machinery, equipment and vehicles	¥	152	million
Other	¥	68	million
Total	¥	255	million

6. Impairment loss

Our group has reckoned up impairment losses in the following assets groups for the consolidated fiscal year under review:

Location	Category	Sort
Naruto City, Tokushima Pref.	Forest	Land

Our group made grouping business assets, primarily for each plant, on the basis of managerial accounting classification, and grouping idle assets individually.

For the consolidated fiscal year under review, the book value of assets groups among unused idle assets not for business purpose, the market values of which decreased significantly, was decreased to the collectible limit, and the decreased amount, ¥310 million, was reckoned up as impairment loss, i.e. a special loss in the Statements of Income.

The abovementioned collectible limit amount was measured by the net sold amount, and the net sold amount was calculated on the basis of official estimation for fixed property by a third party.

7. The depreciation amount of goodwill is of the depreciated goodwill related to the Aizu Daiken Corporation, on the basis of "Practical Guidelines Regarding Capital Consolida-tion Procedures in Consolidated Financial Statements" (Report of Accounting System Committee No.7), Clause 32.

8. Loss on valuation of golf club memberships includes ¥0 million of the transfer to allowance for doubtful accounts.

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