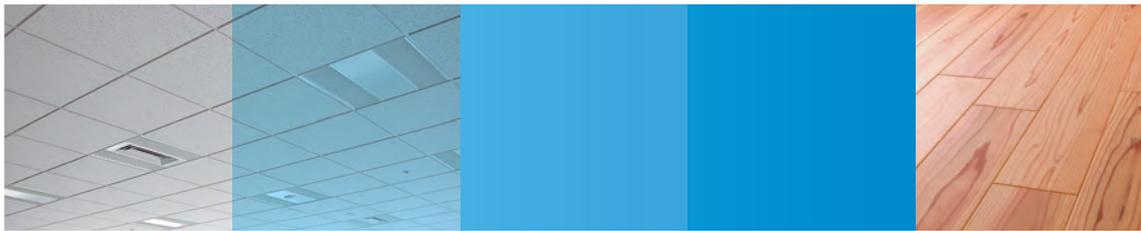




# Annual Report 2015

For the year ended March 31, 2015



DAIKEN CORPORATION

## Company Profile

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

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



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	<i>Millions of Yen and Thousands of U.S. Dollars</i>					
	2011	2012	2013	2014	2015	2015
Net sales .....	¥ 141,506	¥ 151,209	¥ 158,153	¥ 180,392	<b>¥ 168,833</b>	<b>\$ 1,405,185</b>
Operating income .....	4,349	4,542	4,703	3,577	<b>3,452</b>	<b>28,730</b>
Ordinary income .....	4,373	4,600	5,669	5,025	<b>4,648</b>	<b>38,684</b>
Net income .....	1,375	874	1,318	2,546	<b>2,736</b>	<b>22,771</b>
Net assets .....	36,839	36,949	39,870	41,419	<b>44,984</b>	<b>374,398</b>
Total assets .....	115,969	125,469	131,618	135,860	<b>135,596</b>	<b>1,128,555</b>

	<i>Yen and U.S. Dollars</i>					
	2011	2012	2013	2014	2015	2015
Net income per share .....	¥ 10.88	¥ 6.97	¥ 10.51	¥ 20.29	<b>¥ 22.34</b>	<b>\$ 0.19</b>

Note: The translations into U.S. dollars are based on \$1= ¥120.15, the approximate exchange rate on March 31, 2015

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



## A Message from the President

We herein present our shareholders and persons concerned a report on the consolidated business results for the Daiken Corporation Group in fiscal year 2014 (April 1, 2014 to March 31, 2015).

### Business Progress and Results

In regard to the consolidated business results for the year in review, we achieved net sales totaling ¥168,833 million (a decrease of 6.4% compared with the previous year), operating income of ¥3,452 million (a decrease of 3.5% compared with the previous year), ordinary income of ¥4,648 million (a decrease of 7.5% compared with the previous year) and a net income of ¥2,736 million (an increase of 7.5% compared with the previous year).

The outlook for the Japanese economy this fiscal year is positive, with the economy making a gradual recovery and share prices on the rise. Despite this, there was a rush for orders prior to the increase in consumption tax, followed by a dip in demand once the increased rate was applied, which rather highlighted the weakness of the current recovery. Looking to the future, the economic outlook remains unclear.

With regard to the housing market, the rental housing market is holding up comparatively well due to various measures taken by parties set to inherit property assets to alleviate the impact of inheritance taxes. Despite this, there has been an ongoing reaction that translated into a reduction in new housing starts, which at 880,000 units in fiscal 2014 was 10.8% down on the previous fiscal year. The situation remains challenging for the industry.

Under these business conditions, the Daiken Group has been working hard to adapt our business constitution so that we do not rely solely on construction work for new housing starts. Our mid-term management plan is to target four developing markets, namely the remodeling market, markets overseas and the industrial materials market, as well as the engineering market. Combined with this approach, we have also established a new organization with the aim of developing the company's business in markets such as domestic public works and commercial construction projects (i.e. non-housing construction), as well as strengthening our position with regard to tabling proposals.

Looking at the four developing markets, the June 2014 opening of the TDY Fukuoka Collaboration Showroom – our collaboration with TOTO Ltd. and YKK AP Inc. – we have created another channel in the remodeling market for direct proposals to and feedback from the end user. Furthermore, we are moving forward with the development of our eco-friendly materials, such as MDF, as well as looking for new uses for these products and seeking new customers. With regard to these products, we have been striving to expand our sales in the industrial materials market as well as our markets overseas.

In addition to the measures outlined above, we have been striving to expand our sales in the comparatively healthy rental housing market, but the increase in consumption tax negatively impacted the new housing market as well as the previously solid remodeling market, where the dip in demand was greater than anticipated. Our business has become much more challenging as a result. In terms of

profit, due to rising prices for raw materials, we tried to rationalize various costs as well as passing costs off to the sales side, but we were unable to absorb all of these costs in this manner.

### Issues and Policies for the Future

Looking to the future, we have to pay attention to fluctuations in the financial markets, the downward swing of the global economy and the rising cost of raw materials due to sudden fluctuations in exchange rates, etc.

With regard to the housing market, we expect a steady recovery driven by positive change in the consumer mindset, assisted by government policies designed to support remodelling and house purchases, as well as to anticipate any future rise in material and construction costs.

Under these business conditions, the Daiken Group will engage in further cost rationalization, as well as promoting the use of domestically produced timber to counter the rising cost of raw materials, many of which are imported. Some costs will also be passed off to the sales side as we strive to secure our profits.

Furthermore, based on GP (Grow/Glow Plan) 25, the long-term vision that the Daiken Group established this fiscal year, the company will engineer a significant shift away from conventional attitudes and ways of doing business as it seeks to become a company that is no longer swayed by fluctuations in the new build housing market.

The Daiken Group is looking to reinvent itself – shifting away from its current image as a

manufacturer of building materials for housing. The company wants to become known for more than the manufacture and supply of building materials. Daiken is committed to expand into the provision of raw materials for the manufacture of building materials, as well as actually engaging in construction work using said materials.

The company is also going to move away from solely concentrating on housing and will strive to expand its business in fields such as public and commercial construction as well as industrial materials. Finally, the Daiken Group will also aim to expand beyond the borders of Japan, looking to become a comprehensive corporation for building materials in markets overseas, as well as the domestic market.

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

奥田正則

Masanori Okuda  
Representative Director, President  
Chief Executive Officer



## Housing Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥85,753 million (a decrease of 8.3% compared with the previous year) and an ordinary income of ¥2,858 million (a decrease of 46.2% compared with the previous year).

With regard to the housing business, the reduction in the number of new housing starts has had a significant effect on this sector. Having said that, we have worked to expand our sales turnover in areas such as the rental housing market, which has been relatively solid, along with our aggressive efforts in recent years in areas such as housing and facilities for elderly people.

With regard to the rental housing market, this market has seen a rising demand for products that help prevent sound and noise pollution to lower floors and neighboring properties, and sales have

increased as a result. Looking at the door market, our new series of door products has led to increased market share. With regard to the public and commercial property construction market, we are putting our efforts into developing the market as well as our product line-up. Our fire-resistant wall materials – made from cedar sourced from Toyama Prefecture – have been adopted in the construction of the new Toyama Station for the Hokuriku Shinkansen Bullet Train. Also a government-backed initiative to promote the use of domestic timber has led to our domestically-sourced

timber flooring featuring our proprietary WPC processing technology being chosen for use in public facilities located within Minato Ward, Tokyo. This marks our contribution to this initiative to promote the use of domestic timber – and at the same time we were able to promote our results in this field. On the other hand, in terms of our profits, the rising cost of raw materials has led us to rationalize various items as well as passing costs off to the sales side. However, these measures have not completely ameliorated the effect of these costs on our profits.



Our wall material installed at a shinkansen bullet train station.



Our flooring material installed in a hotel guest room.



A sliding door with sufficient width to allow for easy access by wheelchair and care workers.

## Eco-Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥55,699 million (a decrease of 7.5% compared with the previous year) and an ordinary income of ¥1,505 million (compared with an ordinary loss of ¥544 million for the previous year).

With respect to our eco-business, looking at MDF, despite the fact that demand for MDF has dropped off due to the decrease in new housing starts, sales of MDF as a flooring material have grown, which means sales of MDF as a whole have come in at the same level as the previous year.

With regard to public and commercial facilities, we have developed a proprietary

earthquake-resistant ceiling method that we call Daiken Hybrid Ceiling, which is both labor-saving and only requires a short period of construction. We have recently started including Daiken Hybrid Ceiling in our proposals to customers.

With regard to tatami mat surfaces, we continue to expand our market share due to our added capabilities on both the sales and manufacturing side. We also launched a new product called ZIPANG Kokochi Waza, an interior tatami product that requires no professional tatami processing technology, in line with our plans to stimulate the tatami market as part of the living environment. Furthermore, during the previous consolidated fiscal year



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

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



Wood chips (left) and rock wool (right) utilized as raw materials in our eco business.

we had to pay out on repairs due to a defective product, which impacted negatively on our earnings for that term, so compared to the previous year our profits have improved.

## Engineering Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥16,486 million (a decrease of 6.9% compared with the previous year) and an ordinary income of ¥285 million (a decrease of 5.7% compared with the previous year).

With regard to our engineering business, looking at interior work centered on the condominium, public and commercial facility market, we managed to increase our orders in important areas such as the Tokyo metropolitan area, but regarding construction work

focused on the remodelling market, our results in this sector suffered due to decreased demand following the increase in consumption tax.

On the other hand, regarding profits, the shortage of skilled manpower has led to higher labor costs, so we have been working to improve our management systems at each work site as well as striving to secure skilled manpower, thus working to increase our profits in this sector.



Our Line Type system ceiling product



Our Grid Type system ceiling product

New product

## Interior Tatami ZIPANG Kokochi Waza – Tatami Surface using Machined Japanese Washi Paper

In June 2014, the company began sales of ZIPANG Kokochi Waza – its tatami surface mat using machined Washi paper for a ‘modern Japanese-style room’ – offering two different types of product: spreading tatami matting, or laying tatami mats for free placement in a room. Both types offer color coordination with modern flooring designs, with six color patterns offered in the initial product line-up.

Machined Washi paper has outstanding characteristics – it is approx. 3 times the strength of *igusa* rush reed, the colors do not fade easily and it is not a hospitable environment for ticks and mould. The standard thickness of tatami mats is 55mm, but ZIPANG Kokochi Waza (spreading type) is 12mm thick, which is the same as conventional flooring,

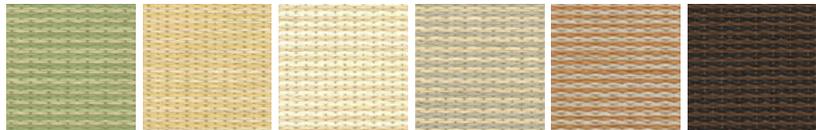
which makes it a simple product to transform a western room into a Japanese-style room.

On the other hand, the laying tatami mats for free placement in a room allow for the creation of a Japanese space simply by placing these mats down. This is an easy and fun way to transform part of a living room into a place to relax

and drink green tea, or a safe and comfortable place for the kids to play.



ZIPANG Kokochi Waza - an installation image.



Six color pattern variations.

New product

## Fit Shelf – Shelf storage that fits for your living space and lifestyle – launched across Japan

In February 2015, Daiken began sales of Fit Shelf, a shelf-based storage system that aims to deliver large volumes of storage using shelves that fit perfectly into any available room space.

Fit Shelf features a simple structure that consists of the shelves themselves and the vertical boards that hold the shelves in place. Both the width of the shelves and the height of the

vertical boards can be adjusted to meet the needs of the space in question. One simply chooses the appropriate combination and size of shelves for the space, which are then assembled to form a perfect fit. The advantages of Fit Shelf is the freedom to install these shelves in the way you want to match your lifestyle. Also, due to their simple design, Fit Shelf does not take up large amounts of

space, nor does it take a long time to install – which makes it perfect for remodelling work.



Fit Shelf

## Topics

### The 50th Anniversary of the launch of Rock Wool Decorative Sound-Absorption Board

In September 2014, Daiken marked the 50th anniversary of the launch of the rock wool decorative sound-absorption board (known in Japan as Dai-Lotone and in overseas markets as Exceltone) that was first manufactured and sold by the company 50 years previously. At that time, Japan was undergoing a period of rapid economic growth, and the demand for fire-resistant buildings was increasing. To meet this demand, Daiken began the manufacture and sale of the first wet-type rock wool decorative sound-absorption board in Japan. Since then, the company has developed new manufacturing and processing techniques, as well as new functions for this popular product, which has been adapted to meet a variety of needs over the past 50 years. Over the years, rock wool decorative sound-absorption

board has been a versatile ceiling material in office buildings, whenever a fire-resistant material has been required, as well as contributing to the creation of a safe and comfortable living and working environment.

This rock wool decorative sound-absorption board is defined as a mineral fiberboard, manufactured from a raw material called slag wool, made from slag which is produced as a by-product of steelmaking, and then processed into a fiber. As it is a mineral, it is difficult to burn, as well as being lightweight, making it

ideal for the manufacture of light, fire-resistant boards. Over the years this product has been used as a ceiling material in office buildings, schools and educational facilities, as well as conventional housing. Due to its excellent sound absorption qualities, sound properties in a room are adjusted and in particular, when it comes to general housing, rock wool decorative sound-absorption board is ideal as a ceiling material for housing, due to its ability to absorb and emit moisture in the air, which makes for a pleasant, drier living environment.



From left to right: Dai-Lotone/Exceltone, the slag wool raw material, Dai-Lotone/Exceltone in an office environment and lastly as a ceiling material in residential housing

## Topics

### An outstanding evaluation for our plans and contingencies regarding business continuity management

In March 2015, Daiken implemented a round of capital procurement using the SMBC Business Continuity Evaluation Private Bond System, and as a result the company's BCM (Business Continuity Management) –related activity planning, training and improvement activities received an outstanding evaluation for their content and balanced approach.

#### Areas that were evaluated positively

① In each business division, activity

plans related to BCM are settled and approved, and the current situation is in line with expectations. Corrective measures as applied to said plans have been executed.

② Situations etc. related to BCM are acknowledged and evaluated as part of the safety diagnoses that are regularly undertaken for each division. processes acknowledge and include BCM.

The SMBC Business Continuity Evaluation Private Bond System uses

a proprietary evaluation system based on that developed jointly by InterRisk Research Institute & Consulting, Inc. and Sumitomo Mitsui Banking Corporation. Based on these evaluation standards, the private bond system will evaluate the status of construction, operations, etc. of a company's Business Continuity Plan and its Business Continuity Management System (BCMS). Said company would then be able to raise funds in favorable conditions following positive results of this evaluation.

# Consolidated Financial Statements

## Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries  
March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
<b>ASSETS</b>			
Current assets .....	¥ 75,652	¥ <b>70,931</b>	\$ <b>590,353</b>
Noncurrent assets:			
Property, plant and equipment .....	38,451	<b>38,565</b>	<b>320,973</b>
Intangible assets .....	2,345	<b>2,378</b>	<b>19,791</b>
Investments and other assets .....	19,342	<b>23,648</b>	<b>196,820</b>
Total noncurrent assets .....	60,139	<b>64,592</b>	<b>537,594</b>
Deferred assets.....	99	<b>72</b>	<b>599</b>
Total assets.....	¥ 135,890	¥ <b>135,596</b>	\$ <b>1,128,555</b>
<b>LIABILITIES</b>			
Current liabilities .....	64,978	<b>67,286</b>	<b>560,016</b>
Noncurrent liabilities .....	29,492	<b>23,325</b>	<b>194,132</b>
Total liabilities.....	94,471	<b>90,611</b>	<b>754,148</b>
<b>NET ASSETS</b>			
Shareholders' equity.....	35,499	<b>36,177</b>	<b>301,098</b>
Accumulated other comprehensive income.....	1,655	<b>4,396</b>	<b>36,587</b>
Minority interests .....	4,264	<b>4,410</b>	<b>36,704</b>
Total net assets.....	41,419	<b>44,984</b>	<b>374,398</b>
Total liabilities and net assets .....	¥ 135,890	¥ <b>135,596</b>	\$ <b>1,128,555</b>

Note: The translations into U.S. dollars are based on \$1= ¥120.15, the approximate exchange rate on March 31, 2015

## Consolidated Statements of Income

Daiken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Net sales.....	¥ 180,392	¥ <b>168,833</b>	<b>\$ 1,405,185</b>
Cost of sales.....	137,693	<b>131,657</b>	<b>1,095,771</b>
Gross profit .....	42,699	<b>37,175</b>	<b>309,404</b>
Selling, general and administrative expenses.....	39,121	<b>33,722</b>	<b>280,665</b>
Operating income.....	3,577	<b>3,452</b>	<b>28,730</b>
Non-operating income .....	2,193	<b>1,911</b>	<b>15,905</b>
Non-operating expenses.....	745	<b>716</b>	<b>5,959</b>
Ordinary income.....	5,025	<b>4,648</b>	<b>38,684</b>
Extraordinary income .....	106	<b>1,016</b>	<b>8,456</b>
Extraordinary loss.....	514	<b>4,291</b>	<b>35,713</b>
Income before income taxes and minority interests .....	4,617	<b>1,373</b>	<b>11,427</b>
Total Income taxes .....	1,699	<b>(1,645)</b>	<b>(13,691)</b>
Income before minority interests .....	2,917	<b>3,018</b>	<b>25,118</b>
Minority interests in income .....	371	<b>281</b>	<b>2,338</b>
Net income.....	¥ 2,546	¥ <b>2,736</b>	<b>\$ 22,771</b>

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## Consolidated Statements of Cash Flows

Daiken Corporation and Consolidated Subsidiaries  
Years ended March 31, 2015 and 2014

	Millions of Yen		Thousands of U.S. Dollars
	2014	2015	2015
Net cash provided by (used in) operating activities .....	¥ 9,663	¥ <b>9,299</b>	<b>\$ 77,394</b>
Net cash provided by (used in) investing activities.....	(5,168)	<b>(4,072)</b>	<b>(33,890)</b>
Net cash provided by (used in) financing activities .....	(1,054)	<b>(2,635)</b>	<b>(21,930)</b>
Effect of exchange rate change on cash and cash equivalents.....	60	<b>74</b>	<b>615</b>
Net increase (decrease) in cash and cash equivalents.....	3,500	<b>2,665</b>	<b>22,180</b>
Cash and cash equivalents at beginning of period.....	10,596	<b>14,096</b>	<b>117,320</b>
Increase in cash and cash equivalents from newly consolidated subsidiary.....	—	<b>12</b>	<b>99</b>
Cash and cash equivalents at end of period .....	¥ 14,096	¥ <b>16,774</b>	<b>\$ 139,608</b>

## DAIKEN CORPORATION

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