



Annual Report 2013

For the year ended March 31, 2013



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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Financial Highlights

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2013, 2012, 2011, 2010 and 2009

	<i>Millions of Yen and Thousands of U.S. Dollars</i>					
	2009	2010	2011	2012	2013	2013
Net sales	¥ 150,325	¥ 140,936	¥ 141,506	¥ 151,209	¥ 158,153	\$ 1,682,299
Operating income	1,830	3,010	4,349	4,542	4,703	50,026
Ordinary income	1,331	2,819	4,373	4,600	5,669	60,302
Net income	598	511	1,375	874	1,318	14,019
Net assets	34,562	36,663	36,839	36,949	39,870	424,103
Total assets	125,080	123,862	115,969	125,469	131,618	1,400,042

	<i>Yen and U.S. Dollars</i>					
	2009	2010	2011	2012	2013	2013
Net income per share	¥ 4.64	¥ 4.01	¥ 10.88	¥ 6.97	¥ 10.51	\$ 0.11

Note: The translations into U.S. dollars are based on \$1= ¥94.01, the approximate exchange rate on March 31, 2013

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 in fiscal year 2012 (April 1, 2012 to March 31, 2013).

Business Progress and Results

In regard to the consolidated business results for the year in review, we achieved net sales totaling ¥158,153 million (an increase of 4.6% compared with the previous year), operating income of ¥4,703 million (an increase of 3.6% compared with the previous year), ordinary income of ¥5,669 million (an increase of 23.2% compared with the previous year) and a net income of ¥1,318 million (an increase of 50.8% compared with the previous year).

The outlook for the Japanese economy this fiscal year is positive, despite the slowdown in the global economy. This optimism is underpinned by the rebuilding and reconstruction efforts following the Great East Japan Earthquake and the change in government in the latter half of the fiscal year, which has raised hopes for an economic recovery as well as sending share prices rising.

With regard to the housing market, the market has been supported by the demand from the recovery effort in the Tohoku region as well as the government policy incentives such as preferential interest rates for housing loans, etc. As a result of the impending increase in consumption tax, many more people are considering buying a home and as a result in fiscal 2012 the number of new housing starts, with a total of 893,000 units (an increase of 6.2% on the previous year), is transitioning strongly.

Under these business conditions, the Daiken Group declared a “turnaround and make outstanding progress” policy and has taken a leap forward to actively proceed towards developing areas where growth is predicted, such as the remodeling market, markets overseas, the industrial materials market and the engineering market. With regard to the remodeling market, we opened the TDY Tokyo Collaboration Showroom in conjunction with TOTO Ltd. and

YKK AP Inc., making it more effective for us to propose solutions to our customers. In the overseas market, we opened a new office in Indonesia as well as reinforcing the production line that manufactures a range of door products at our consolidated subsidiary company. We are looking to strengthen our capability to supply Japanese businesses that are establishing themselves overseas. Moreover, in the field of industrial materials, we have worked to ensure a steady supply of our eco-friendly materials, such as MDF and our eco-friendly base plate products (afforested timber plywood combined with special MDF), as well as planning for growth in terms of sales. Moreover, thanks to our business alliance with HOKUSHIN Co., Ltd. we are seeing more efficient manufacturing output. With regard to the engineering market, due to orders related to large-scale construction projects in the Osaka area, our sales increased. In addition to this expansion in sales volume, we are also looking to emphasize profit and as a result we are selectively choosing orders as well as strengthening our management systems at each individual work site, with the aim of prompting a recovery in corporate earnings.

On the other hand, we have been striving to strengthen our corporate constitution as well as working to reduce fixed costs, such as reducing our total personnel expenses as well as looking to reduce our sales, general and administrative expenses, such as our logistics and distribution costs, proceeding with rationalization including withdrawing from underperforming businesses and the integration of our production bases.

Issues and Policies for the Future

Looking to the future, fluctuations in the financial markets, due to the European sovereign debt crisis, etc. as well as the downward swing of the global economy as a whole, means that we have to pay attention to sudden fluctuations in exchange rates, increases in interest rates and the rising cost of raw materials. The direction of the economy requires careful monitoring as we move forward. On the other hand, measures to

stimulate the economy have been implemented by the government and with the economic situation overseas showing some signs of improvement, there is some reason for optimism regarding a recovery in the domestic economy. In particular, the housing market is seeing fully-fledged reconstruction demand for new housing following the Great East Japan Earthquake as well as artificial demand driven by the looming rise in the rate of consumption tax and this sector is expected to transition steadily going forwards.

Our mid-term management plan started in fiscal year 2011 and based on this plan, we will further commit management resources to actively match expanding and growing markets, as we look to expand the scope of our business operations.

With regard to the domestic market, we plan to expand our sales through developing our business by catching the eye of the consumer through our showrooms. Overseas, we are moving forward with increasing our sales in South-East Asia and China. In the field of industrial materials, we will further strengthen our supply of our eco-friendly materials such as MDF to ensure stability.

Moreover, as part of reinforcing our systems, we have carried out a drastic reform of our logistics and distribution system as well as implementing measures to improve earnings in our engineering business, all with the aim of increasing profits.

Accordingly, for the consolidated business results projected for the fiscal year ending March 31, 2014, our goal is to achieve net sales totaling ¥173,000 million, an operating income of ¥5,700 million, an ordinary income of ¥6,000 million, and a net income of ¥2,600 million.

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

August 2013



Ryoji Sawaki

Ryoji Sawaki,
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 ¥83,192 million (an increase of 3.7% compared with the previous year) and an ordinary income of ¥2,915 million (an increase of 48.8% compared with the previous year).

With regard to our housing business, in order to promote the use of domestically produced timber, we process cedar, etc. using our proprietary technologies to manufacture a new surface material product that was introduced to the market as the Japanese Wood Series. Sales have increased since the product launched.

With regard to the interior materials business field, where our focus is on flooring materials, with the increased adoption of our products in the condominium and rental markets, we have seen an increase in sales for our eco-friendly flooring base materials that utilize our proprietary technology as a flooring material.

Furthermore, we are contributing to the improvement of the housing environment of the areas affected by the Great East Japan Earthquake, as well as helping to stimulate a rapid reconstruction of the local economy, by promoting a

model of local production for local consumption. One example is the Tohoku Support Floor, a new product that we developed using cedar plywood sourced from Iwate and Miyagi Prefectures, which is being used in post-disaster municipal housing construction.

With regard to our home furnishings and equipment business, which focuses mainly on interior doors, storage and home fixtures and fittings, we have worked to reinforce our proposals for architectural design offices and general contractors, centered on our 'Omoiyari Series' of building materials for housing targeted at elderly customers.



We have launched the Japanese Wood Series, the first in the industry to promote the use of domestic timber



The Omoiyari Series — building materials for housing and facilities for the elderly

Eco-Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥47,402 million (an increase of 1.8% compared with the previous year) and an ordinary income of ¥2,596 million (an increase of 4.6% compared with the previous year).

With respect to our eco-business and focusing on MDF, the market for MDF as a flooring material has grown on the back of increased demand as well as increased adoption of this product by kitchen manufacturers, etc. and sales have grown accordingly.

With regard to Dailite, we have implemented our plans to expand sales of this product as an earthquake-resistant material

for remodeling as well as finding new purposes for Dailite, such as a base material for metal panels, etc. With regard to insulation board, in addition to its original use in tatami matting and as a base material for roofs, we have developed a new market for this product as a durable surface material and are currently working to drive sales of this product across the country.

With regard to tatami mat surfaces, we are enjoying positive sales due to the sound reputation and unique characteristics of the raw material, namely washi Japanese paper, such as peace of mind, safety and durability. In May 2012 we added a new



Asedas Earthquake Resistant Board — increase the lifespan of your home with this highly earthquake-resistant board with outstanding moisture permeability

Sukoyaka Omote — multi-purpose tatami surface material made from machined Japanese washi paper



production line at the Aizu Plant, which is run by the Tobu Daiken Corporation (a consolidated subsidiary company) in order to expand our capability to supply this product.

Engineering Business

In regard to the consolidated business results in this field for the fiscal year in review, we achieved net sales totaling ¥18,049 million (an increase of 23.8% compared with the previous year) and an ordinary income of ¥191 million (compared with an ordinary loss for the previous fiscal year of ¥54 million).

With regard to the condominium, building and shop market, we have worked to increase sales by strengthening our order-based sales system, which was

previously centered on ceiling orders, to accommodate composite orders involving other interior work. In particular, our sales in this sector have also benefited the large construction project that has recently been completed in the Osaka area.

Moreover, rising costs due to a shortage of construction workers has led us to move from looking to expand our sales to emphasizing profitability, which means that we are working to improve our management systems at each



A large-scale construction project completed in the Osaka Area

work site as well as selectively choosing orders for the company in this regard, thus reversing our losses in this sector.

1

TDY Tokyo Collaboration Showroom Opens

On November 3, 2012 the TDY Tokyo Collaboration Showroom opened in the Shinjuku area of metropolitan Tokyo and this new base will serve to transmit our message of remodeling to our customers.

This flagship showroom is a collaboration between TOTO, DAIKEN and YKK AP and enjoys an excellent location, situated some 4 minutes walk away from the JR Shinjuku Station. This is the largest of these collaboration showrooms located in Japan, with 3,696m² (the Daiken section measures 594m²) of available floor space.

The products provided by the three companies are presented

together in a collaborative space to introduce case studies for remodeling detached homes as well as for remodeling condominiums, a first for a TDY Showroom. Proposals are also presented for creating living spaces that touch on 3 distinct themes: health-conscious, long-lasting housing and reduced CO₂ emissions.



Comfortable living space proposals for customers based on a rich line-up of exhibits

In the Daiken area of the showroom, we are exhibiting the Japanese Wood Series, a beautiful decorative surface material made from domestically-produced timber, which has been well-received by the market, in addition to approx. 190 different types of door and approx. 260 sample flooring designs. Since the showroom opened, an average of over 2000 customers a month are visiting the showroom, where it is "easy to visualize a lifestyle." We plan to employ advisors at the showroom to increase the degree of visitor satisfaction.

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2

Attaining the Highest DBJ BCM Rating – A First for a Building Materials Company

On July 31, 2012, Daiken attained the highest BCM Rating as certified by the Development Bank of Japan, Inc. (DBJ). This rating, awarded after an evaluation, means financing can be extended to Daiken at the most favorable rates. This financing shall be used to fund additional earthquake-proofing measures at our main plants as well as being used to install additional emergency power generators to promote and strengthen our business continuity management going forward.

The DBJ BCM Rating was developed by the DBJ as their own, unique evaluation system in order to identify and evaluate companies

that had put measures in place to prevent disasters and ensure the continuity of their business. The BCM Rating is a direct reflection of this evaluation as well as determining the terms of any financing and is the first rating of its type in the world. Looking at the disaster prevention measures implemented by Daiken, the evaluation recognized the high standards that the company had set, with initiatives such as creating a BCM system across the Daiken Group as a whole and establishing a viable alternative production system in the event of a disaster. The DBJ appreciated the measures implemented by Daiken to prevent disaster and to ensure the

continuity of its business, which in turn led to the company being awarded the highest grade in terms of its BCM Rating. Furthermore, this is the first time that a building material manufacturer has been certified with the highest DBJ BCM Rating.



Receiving certification from the Development Bank of Japan

3

Opening an Office in Indonesia (Jakarta)

In recent years, Indonesia has witnessed startling growth in its economy and as a result in October 2012, Daiken opened its first office in Jakarta Province, Indonesia. The office will research and survey the market for housing construction materials as demand increases as well as creating a product sales and distribution system based on this research.

In Indonesia, steady population growth combined with strong economic growth has seen a rapid increase in housing developments

targeting the high-income bracket and those in the middle classes. With regard to the housing being constructed, there is growing interest in high quality homes with



Employees at work at our Indonesia Office

a sense of design. By supplying the building materials for this market, we are contributing to improving the living environment through the application of our technology and know-how. Going forward, we shall look to develop the housing construction materials market in Indonesia, a country that looks set to continue growing in terms of demand. Our sales target for the Indonesian market for FY 2015 is 5 billion yen.

4

Increasing the Interior Door Manufacturing Output Capabilities of Our Chinese Subsidiary in Zhejiang

In July 2012, Daiken acted to upgrade the manufacturing facilities at the Daiken Industries (Ningbo) Corporation (Yuyao City, Zhejiang Province, China), a subsidiary company that produces interior doors and flooring materials, etc. The plant can now manufacture double the number of interior doors.

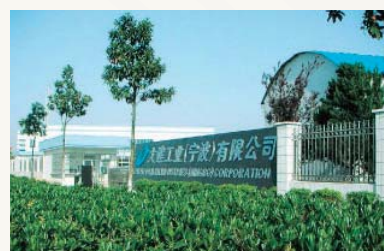
The Ningbo Plant manufactures interior doors, storage unit and flooring materials, etc. for the Japanese market as well as the Chinese domestic market. Daiken is aiming to increase sales and to achieve this aim the company has invested approx. 100 million yen in order to strengthen the capability of the plant to supply mainly the Chinese domestic market with interior doors.

The Ningbo Plant was capable of manufacturing 95,000 interior

doors a year, but after Daiken invested in increasing its production capacity, the plant can now output 180,000 interior doors a year. In particular, the output capacity for the high-end *Kamachigumi* doors that are currently so popular in China has been drastically increased. Daiken is looking to target the wealthier sections of Chinese society and therefore expand its sales.

Furthermore, Daiken is aiming to strengthen the ability of the company to react to the market by implementing more efficient manufacturing processes,

which will reduce current delivery times by two thirds.



Daiken Industries (Ningbo) Corporation Manufactured items: flooring materials, doors, stairs



Various types of door design manufactured in China

Consolidated Financial Statements

Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries
March 31, 2013 and 2012

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2012	2013	2013
ASSETS			
Current assets	¥ 66,961	¥ 71,889	\$ 764,695
Noncurrent assets:			
Property, plant and equipment	38,427	38,549	410,052
Intangible assets	1,962	2,192	23,316
Investments and other assets	18,051	18,853	200,542
Total noncurrent assets	58,440	59,596	633,932
Deferred assets.....	67	132	1,404
Total assets.....	¥ 125,469	¥ 131,618	\$ 1,400,042
LIABILITIES			
Current liabilities	70,065	64,904	690,394
Noncurrent liabilities	18,454	26,843	285,533
Total liabilities.....	88,519	91,747	975,928
NET ASSETS			
Shareholders' equity.....	33,512	33,894	360,536
Accumulated other comprehensive income	56	2,107	22,412
Minority interests	3,380	3,868	41,144
Total net assets.....	36,949	39,870	424,103
Total liabilities and net assets	¥ 125,469	¥ 131,618	\$ 1,400,042

Consolidated Statements of Income

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Net sales.....	¥ 151,209	¥ 158,153	\$ 1,682,299
Cost of sales.....	113,189	119,121	1,267,109
Gross profit	38,020	39,031	415,179
Selling, general and administrative expenses	33,477	34,327	365,142
Operating income.....	4,542	4,703	50,026
Non-operating income	1,045	1,834	19,508
Non-operating expenses.....	987	869	9,243
Ordinary income	4,600	5,669	60,302
Extraordinary income	261	2,091	22,242
Extraordinary loss	2,968	5,387	57,302
Income before income taxes and minority interests	1,893	2,373	25,241
Total Income taxes	741	487	5,180
Income before minority interests	1,151	1,885	20,051
Minority interests in income	277	566	6,020
Net income.....	¥ 874	¥ 1,318	\$ 14,019

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Consolidated Statements of Cash Flows

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2013	2013
Net cash provided by (used in) operating activities	¥ 9,074	¥ 2,624	\$ 27,911
Net cash provided by (used in) investing activities.....	(3,218)	(2,033)	(21,625)
Net cash provided by (used in) financing activities	(1,929)	224	2,382
Effect of exchange rate change on cash and cash equivalents	(12)	75	797
Net increase (decrease) in cash and cash equivalents	3,914	891	9,477
Cash and cash equivalents at beginning of period.....	5,716	9,630	102,435
Increase in cash and cash equivalents from newly consolidated subsidiary.....	–	74	787
Cash and cash equivalents at end of period	¥ 9,630	¥ 10,596	\$ 112,711

DAIKEN CORPORATION

Registered Head Office:

1-1, Inami, Nanto City, Toyama 932-0298, Japan
Phone: +81-763-82-5850

Operational Headquarters:

22F, Dojima Avanza
6-20, Dojima 1-chome Kita-ku, Osaka 530-8210, Japan
Phone: +81-6-6452-6000



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