

DAIKEN

Annual Report 2016

For the year ended March 31, 2016

DAIKEN

DAIKEN CORPORATION

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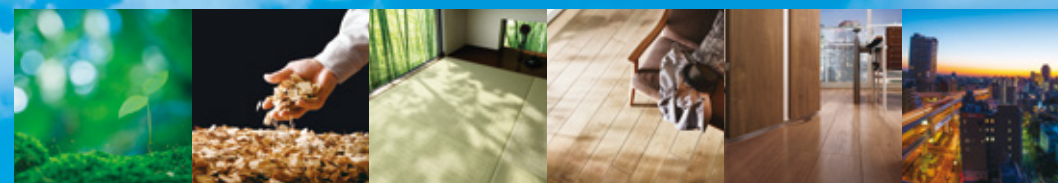
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DAIKEN CORPORATION

Corporate Message

Toward the future going beyond the functions of yesterday

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



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

contents

Corporate Overview

- 02 contents
- 03 Message from the President
- 05 Process of Creating Value
- 07 Financial Indicators and Non-Financial Indicators

Vision and Strategies

- 09 Long-Term Vision GP25 and Medium-Term Management Plan
- 11 Interview with Mr. Masanori Okuda, President
- 15 Feature: Comprehensive Use of Wood —Encouraging the Utilization of Cascaded Wood

Summary by Business

- 17 Residential Space Business
- 19 Ecological based Materials Business
- 21 Engineering Business

CSR

- 23 The Daiken Group's CSR
- 25 Governance
- 30 Commitment to Society
- 33 Environment
- 35 Medium-Term CSR Activity Plan

Financial Section

- 37 10-Year Summary of Consolidated Financial Data
- 39 Consolidated Balance Sheets
- 41 Consolidated Statements of Income
- 42 Consolidated Statements of Comprehensive Income
- 43 Consolidated Statements of Changes in Net Assets
- 44 Consolidated Statements of Cash Flows

Corporate Information

- 45 Corporate Profile / Stock Information/ Directors and *Kansayaku*

[Disclaimer regarding future projections]

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

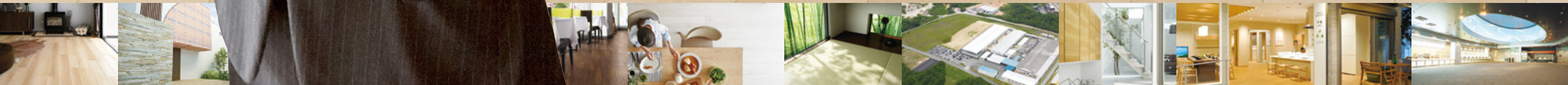


TOP MESSAGE

Working to enhance our corporate value as an all-embracing company for building materials

Last year, Daiken Corporation celebrated the 70th anniversary of its founding. In that milestone year, the Company formulated GP25 (Grow/Glow Plan 25), a long-term vision for its business in 2025. In keeping with this vision, we aim to a housing material manufacturer becomes an all-embracing company for building materials, and to grow and glow as an attractive enterprise that is highly regarded by society. GP25 is also the Daiken Group's promise to its stakeholders. This makes fiscal 2017 all the more important for the Daiken Group, as the year to mark its first step toward realizing its vision of becoming an all-embracing company for building materials. Recent years have seen dramatic changes in economic and social structures, with increasingly intensifying international competition brought about by rapid globalization. Given these circumstances, I am well aware that we have to overcome many difficulties as we move toward the future. Nevertheless, these adverse conditions also provide us with real opportunities to transform ourselves into a company that is one step ahead of the competition. What we need now is to create and offer new values that are made possible only by Daiken, through its strong commitment to "ecology" and "the qualitative improvement of spaces"—the themes we have steadfastly pursued since the Company's founding. We should also respond to changes in society quickly and bring together the power and courage of all individual employees to take on new challenges. The Daiken Group will redouble its efforts to become a corporate group capable of winning trust from all its stakeholders and continuing sustainable growth. I would like to ask your further support in this endeavor.

Masanori Okuda
Representative Director, President
Masanori Okuda



Daiken Group's process of creating value

We believe that the starting point of the Daiken Group's business is to remain steadfastly committed to "ecology" and "qualitative improvement of spaces," thereby offering new value to society. This is also the reason for the existence of the Daiken Group.

By maximizing the technologies that Daiken has developed thus far, its wealth of human resources, as well as the limited resources available, we will address social challenges through our business activities. In so doing, we will realize a sustainable improvement in corporate value.

Daiken's diversified approach to creating spaces, covering from industrial materials, building materials and construction work, has enabled us to offer a unique value to society.

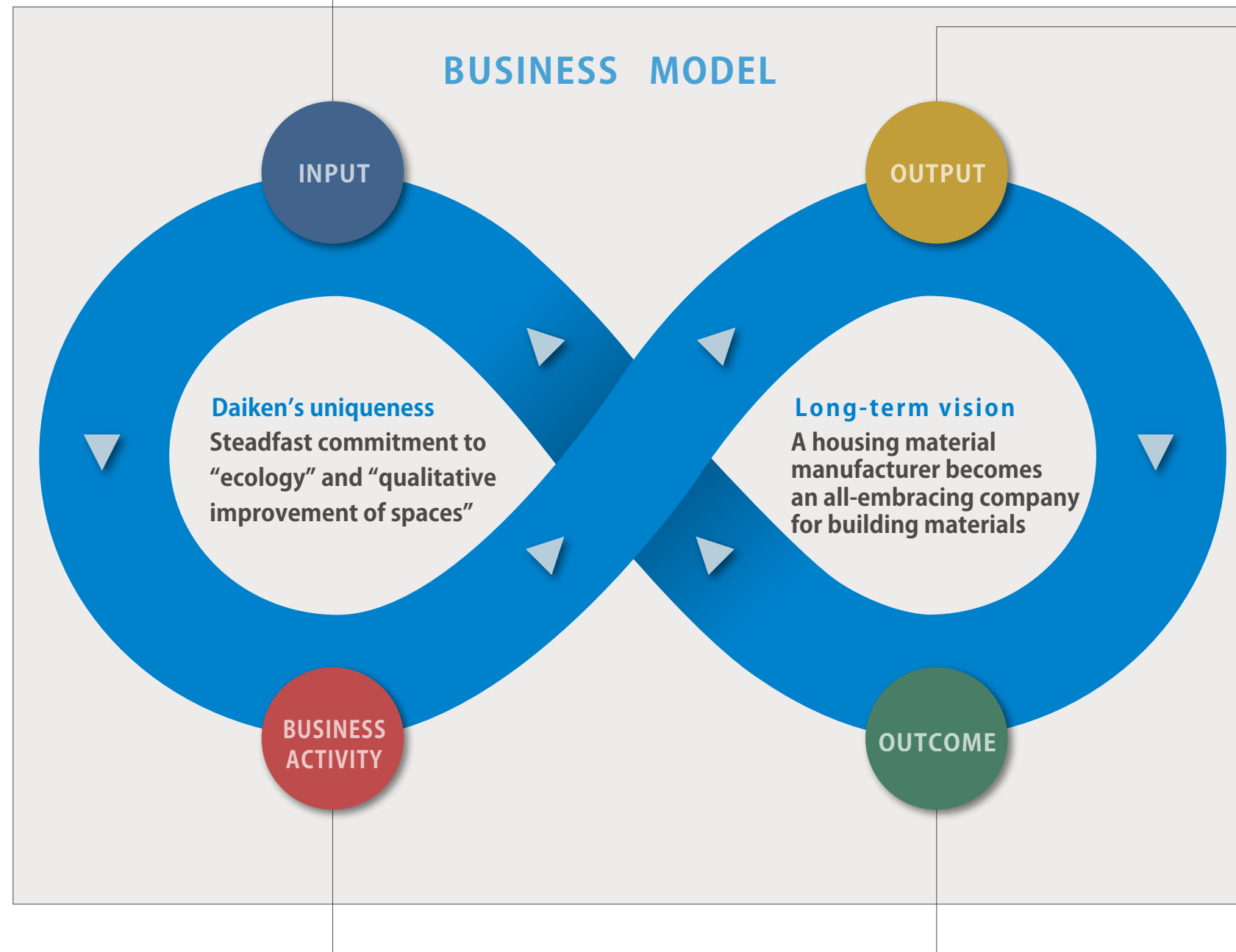
Building materials business	Industrial materials business	Engineering business
<p>Daiken's building materials business supports people's lifestyles.</p> <p>Produces and sells a wide variety of building materials, including flooring materials, wall materials, ceiling materials, doors, cabinets and acoustic products, all of which are indispensable in the construction of private housing and public and commercial facilities.</p>	<p>Daiken's industrial materials business helps shape a better future.</p> <p>Produces and sells various functional industrial materials incorporating nonflammability, earthquake resistance, thermal insulation, sound insulation, humidity conditioning and various other features, by making effective use of wood resources and untapped resources from a sustainable perspective.</p>	<p>Daiken's engineering business provides comfortable living spaces.</p> <p>Receives contracts for construction work to create spaces that maximizes the functions of industrial materials and building materials, primarily in the fields of public and commercial buildings and the condominium market, taking advantage of professional expertise and technologies.</p>

Sources for creating value

- Technological capabilities**
 We have been quick to meet diversifying needs for more than 70 years. Daiken will continue to refine its technologies that have enabled the Company to develop outstanding industrial materials and products as a pioneer in the industry.
- Human resources**
 What supports Daiken is each individual employee. We nurture human resources who will create new values based on their diverse individuality and different ways of thinking.
- Natural resources**
 Daiken promotes the sustainable use of natural resources, while differentiating itself from other companies by exploring how to use renewable wood resources more effectively.

Business activities that harness Daiken's strength

Building materials business	Industrial materials business	Engineering business
<p>State-of-the-art industrial materials and technologies</p> <p>Through highly-motivated research and development activities, Daiken constantly develops state-of-the-art industrial materials and technologies.</p>	<p>Manufacturing that makes effective use of resources while avoiding waste</p> <p>Our manufacturing makes effective use of wood resources as well as untapped resources, while minimizing waste.</p>	<p>Proposing a solution using our tangible and intangible capabilities</p> <p>We propose solutions to customers with our expertise, which integrates our "software" and "hardware" (tangible and intangible) capabilities in industrial materials and building materials.</p>



Our track record

- Co-creation of new values with local communities and governments by utilizing domestic wood**
 In collaboration with people in local communities, we have created new values to make effective use of locally produced wood.
- Efforts focused on new markets and growth fields**
 We have defined the fields of public and commercial buildings and the global market as our prioritized areas, into which we are actively channeling our management resources.
- Carbon fixation by harnessing wood**
 Through cyclic use of wood, we fix the carbon without returning it in the air, thereby contributing to preventing global warming.

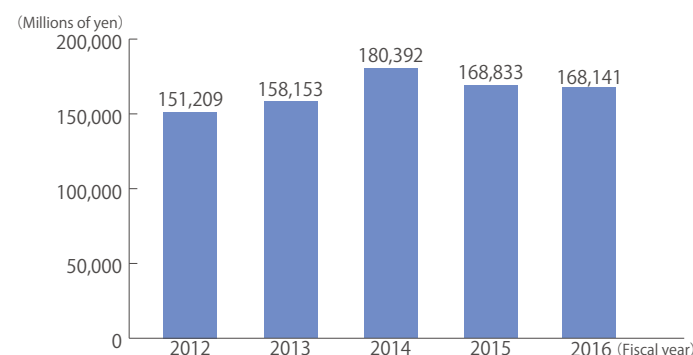
Creating common values with society

- Building a sustainable society**
- Providing secure, safe, and comfortable spaces**
- Comprehensive use of wood building materials and promoting the use of cascading**

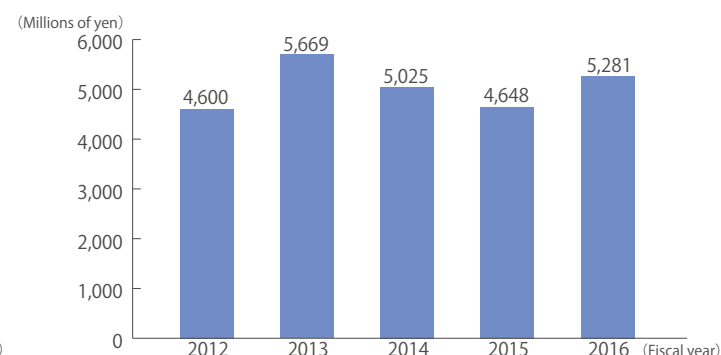
To achieve sustainable corporate growth, the Daiken Group believes that it is essential to conduct business while helping to resolve the challenges that confront society and creating common values with society.

Financial Indicators

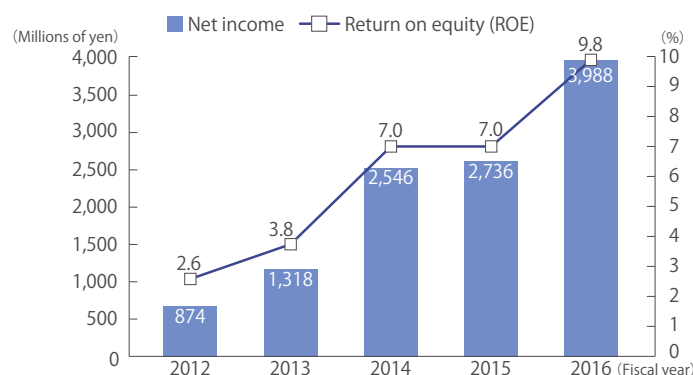
Net sales



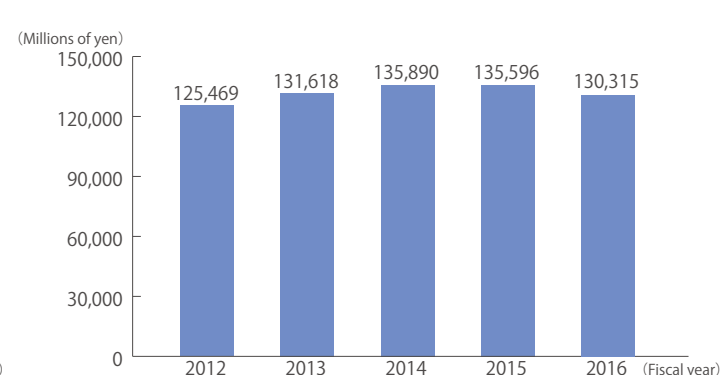
Ordinary income



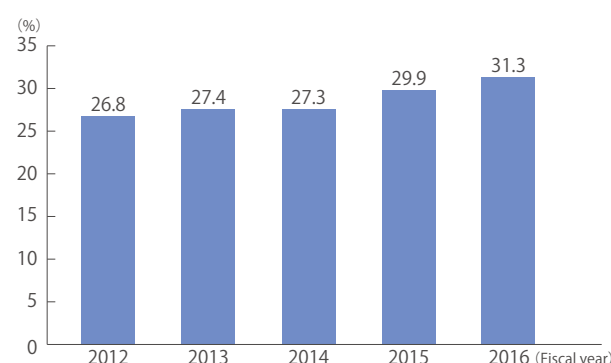
Net income attributable to owners of parent/Return on equity (ROE)



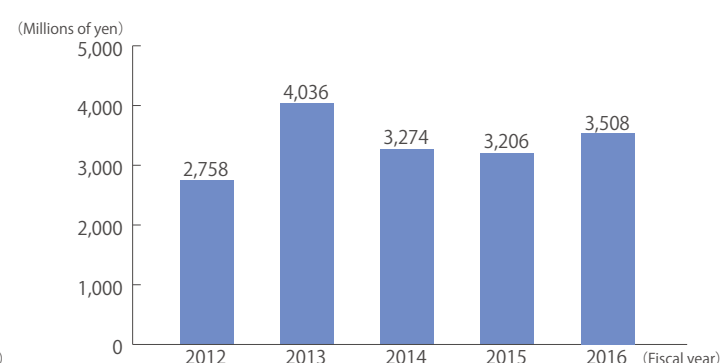
Total assets



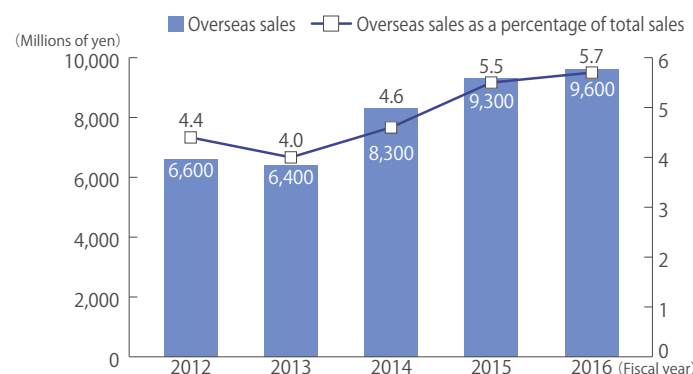
Shareholder equity ratio



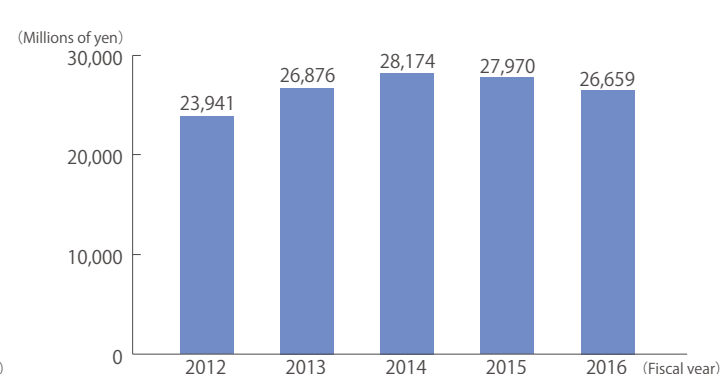
Capital investment



Overseas sales/Overseas sales as a percentage of total sales

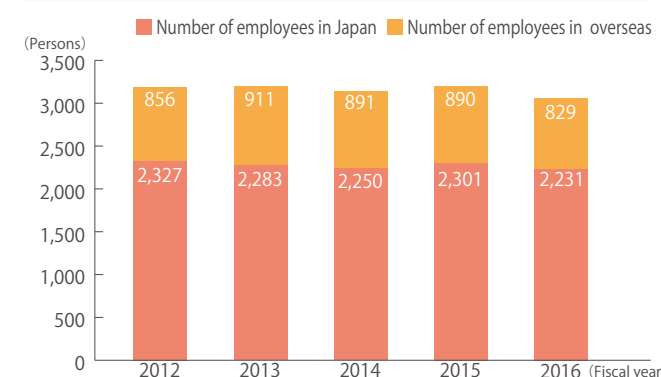


Overseas handling volumes

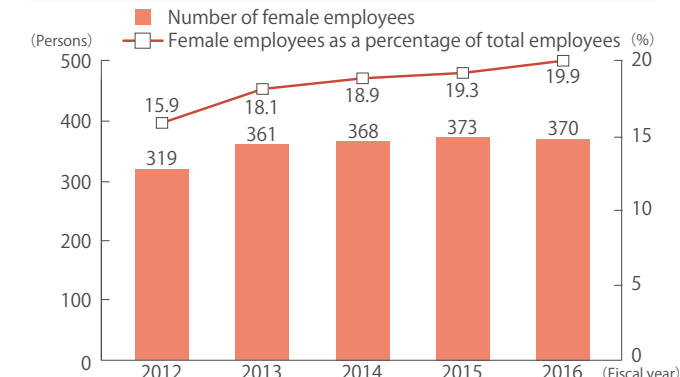


Non-Financial Indicators

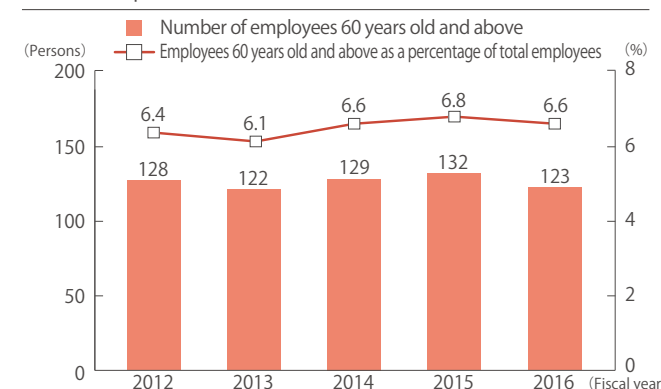
Number of employees in Japan and overseas



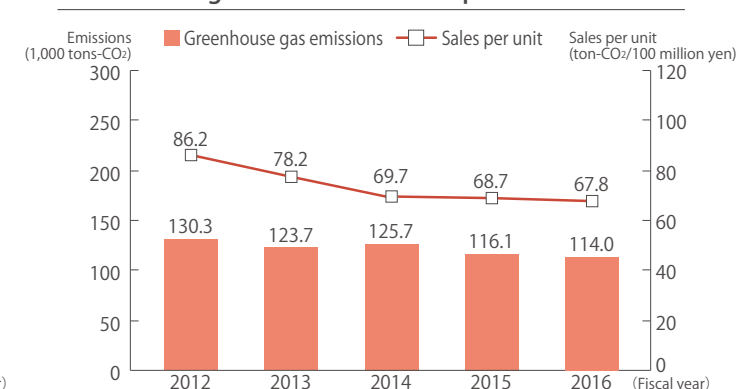
Number of female employees/
Female employees as a percentage of total employees
(Daiken Corporation's non-consolidated basis¹⁾)



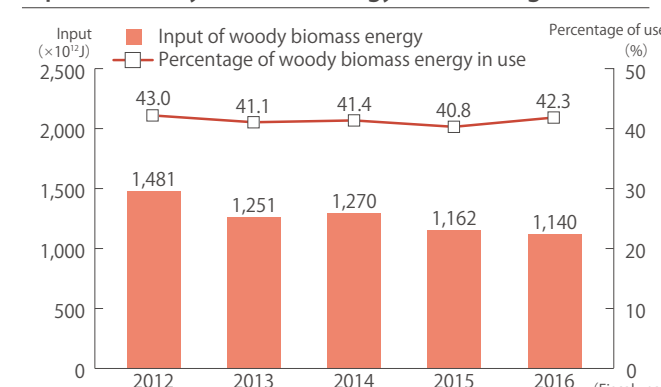
Number of employees 60 years old and above/
Employees 60 years old and above as a percentage of total employees
(Daiken Corporation's non-consolidated basis¹⁾)



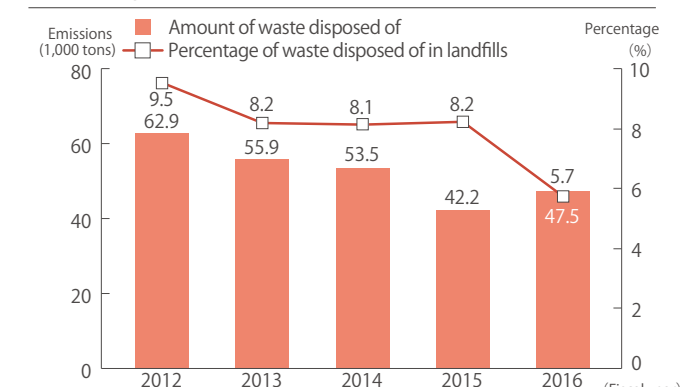
Greenhouse gas emissions²/Sales per unit³



Input of woody biomass energy²/Percentage of use⁴



Amount of waste disposed of²/
Percentage of waste disposed of in landfills⁵



*1: Data for Fiscal 2016 is data after absorbing four subsidiaries. Data for Fiscal 2012 to Fiscal 2015 includes data for four absorbed subsidiaries.

*2: Total value at the Daiken Group's production bases in Japan. CO₂ emissions are calculated in accordance with the Act on the Rational Use of Energy and the Act on the Promotion of Global Warming Countermeasures.

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

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

*5: Waste disposed of in landfills as a percentage of the amount of waste disposed of.

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

Financial Indicators <http://www.daiken.jp/ir/>

Non-Financial Indicators <http://www.daiken.jp/csr/>

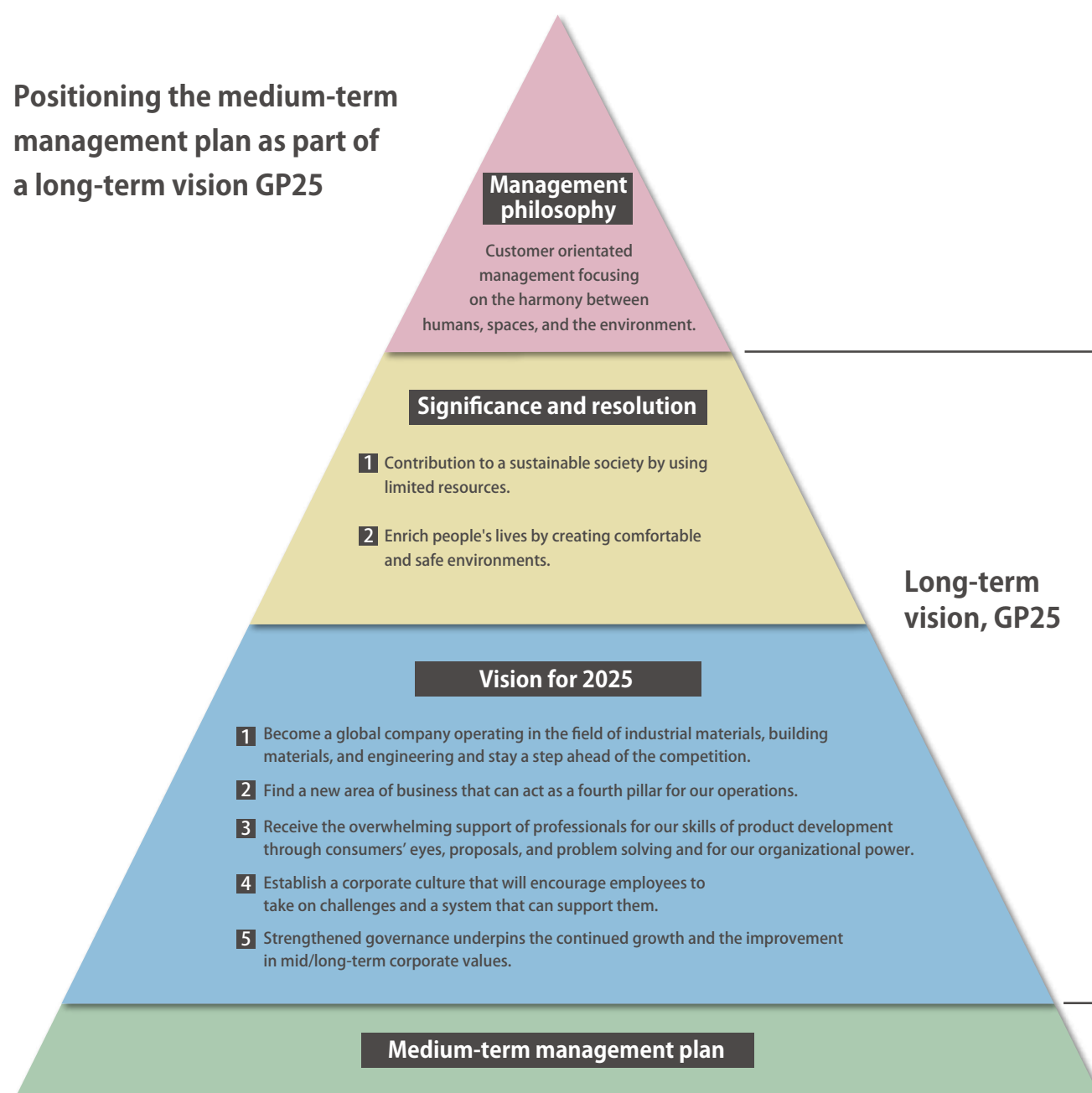
Long-term vision GP25 and medium-term management plan

In 2015, on its 70th anniversary, the Daiken Group formulated GP25 (Grow/Glow Plan 25), a long-term vision for its business in 2025.

In GP25, the Group declares that its aim is to explore further possibilities for expanding its existing businesses and creating new markets and thus transform itself from a housing material manufacturer becomes an all-embracing company for building materials.

As a first step in achieving these objectives, in April 2016 the Daiken Group started to implement its new three-year medium-term management plan as the first stage of GP25. The Group has been working hard to meet its management targets—an ordinary income of 7.0 billion yen on net sales of 180.0 billion yen—by fiscal 2019, the final year in the first stage of the plan.

Positioning the medium-term management plan as part of a long-term vision GP25



Making a long-term vision GP25 a reality

Our vision for the Daiken Group in the long term is of a transformed group; one that not only aims to be profitable, but that is also committed to improving society. We seek to be an enterprise that people rate highly for its attractive working environment and as a place where employees can work positively and enthusiastically. This vision is captured in the following two words: GROW and GLOW.



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

GP25 is also the Daiken Group's promise to its stakeholders. The current business environment has been changing drastically, and the Group regards this as a transitional period for our business. We will work to achieve our objectives by anticipating changes in the business environment and continuing to face the challenge of offering new value to our customers.

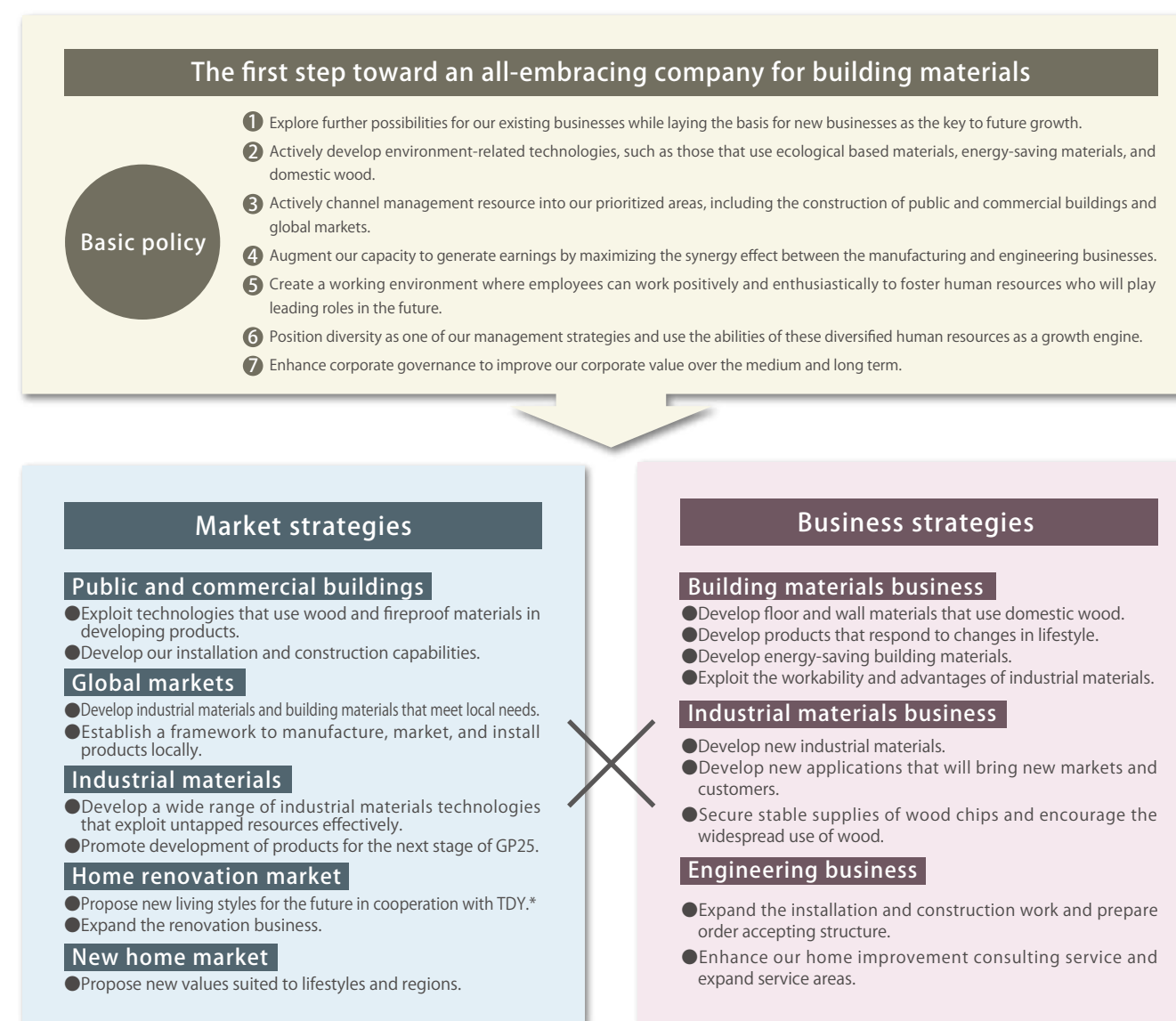


The Group will work to become an enterprise that people rate highly for its attractive working environment and as a place where employees can work positively and enthusiastically.

First stage of GP25—the new three-year medium-term management plan <for fiscal 2017-2019>

The Daiken Group has formulated the first stage of GP25, in its new three-year medium-term management plan, which we regard as a first step in achieving a long-term vision. One of the principal undertakings in the plan is to establish a base from which we can transform ourselves from a housing material manufacturer becomes an all-embracing company for building

materials. As the first step in establishing this base, the Group has completely reviewed its policies and activities, laid out a strategy that includes both a market and a business point of view, and identify major issues and determine resolutions.



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



TOP INTERVIEW

In developing “Ecology” and “Improvements in the quality of space”, our aim is to share our values with society and become an all-embracing company for building materials.

Q Would you comment on the financial results for the Daiken Group for fiscal 2016?

A The Group has been engaged in reform, which included transforming its business structure. As a result, the Group saw a decrease in net sales but an increase in profits over the previous year.

Looking at the Japanese housing market environment in fiscal 2016, housing starts increased to 910,000 units, up about 3.5% year-on-year. However, they remained almost unchanged from the previous year on a floor space basis, because most of the growth was attributable to housing rentals.

In these circumstances, the Daiken Group decided to transform its business structure to make it less vulnerable to changes in the number of domestic housing starts. Specifically, the Group consolidated its four main manufacturing subsidiaries in Japan to enhance their management efficiency, revitalize their organization by rotation of staff to improve skill sets, and unify their development, manufacturing, and sales departments. We have also been working hard to improve profitability in a very difficult environment in which raw material prices soared due to the yen's depreciation, drop in the costs for petroleum products and energy because of a decrease in the price of crude oil. Our

efforts included the sales division revising its sales prices, the manufacturing division streamlining its operations through cost reductions and improvements in productivity, and the staffing division implementing structural reform, including reforms in logistics and procurement.

As a result, the Daiken Group posted net sales of 168,141 million yen (down 0.4% year-on-year), an operating income of 5,586 million yen (up 61.8%), and an ordinary income of 5,281 million yen (up 13.6%) in its 100th business term (April 1, 2015 to March 31, 2016). Unfortunately, although profits increased, net sales decreased.

Even under such a difficult environment, some of our competitors increased their net sales. We have asked both the manufacturing and sales divisions to analyze the reasons for the decrease in net sales and promptly implement the necessary countermeasures.

Q Could you summarize the key points in the medium-term management plan that will start in fiscal 2017?

A In the first step in becoming an all-embracing company for building materials, the Daiken Group must face the challenge of entering new markets and expanding its business domain.

The Daiken Group has worked out the first stage in achieving the vision of GP25 (Grow/Glow Plan), the long-term vision it formulated in May 2015. This is a three-year medium-term management plan that will run from fiscal 2017 to fiscal 2019.

It is evident that the demand for materials used in new home construction will decrease in the future, since housing starts are forecast to decline with the fall in the population and the subsequent decrease in the number of households. In these circumstances, the Daiken Group must reduce its dependence on the number of housing starts and transform itself from a housing material manufacturer becomes an all-embracing company for building materials. To that end, the Group is committed to facing the challenge presented by entering a new market and a new business.

We believe that it is important for the Daiken Group to seek growth in markets other than the housing market in Japan, such as the public and

commercial buildings market (nonresidential buildings), home improvements market, and global markets, and to expand its engineering business (construction works) sharply.

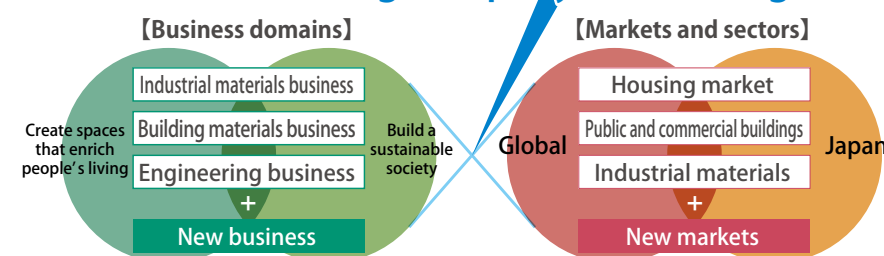
At the same time, the DAIKEN Group has begun a full-scale search for a new business that could become a fourth pillar of the Group's activities. We are inviting anyone in the Group to propose ideas on a new business and are examining if there is any idea that can be materialized as a project. We have introduced a system that will give the Group more opportunity to create new businesses in cooperation with the Product Development Division on manufacturing division, using new seeds generated from the various basic researches conducted uniquely at the Research and Development Center has been conducting.

We will leave the door wide open to the creation of new businesses and will follow up all possibilities.

■ Grow from a housing material manufacturer becomes an all-embracing company for building materials

■ Transition to a new business model

Into an all-embracing company for building materials



- **Prioritized markets:** Public and commercial buildings market, global market
- **Prioritized business:** Engineering business



Q Would you summarize the forecast of financial results for fiscal 2017 and the Daiken Group's strategy?

A Even in this uncertain business environment, the Group will make aggressive capital investments by prioritizing global and public and commercial buildings markets.

In fiscal 2016, the financial results of the main large Japanese exporting companies recovered due to the yen's depreciation and rising stock prices that started in the beginning of 2015. However, in 2016 the tide has completely turned. The yen has appreciated and stock prices declined, making the outlook for the Japanese economy unclear.

With fiscal 2017 starting under such economic conditions, I have to say that it is quite difficult to predict the future. And with the Kumamoto Earthquake of April 2016 was an unprecedented disaster, where the area experienced two big earthquakes with a seismic scale of 7, I suspect that consumers and businesses in Japan as a whole are taking a wait-and-see stance. However, since housing loan interest rates are at a record low, I predict housing starts will stay flat or increase slightly from the previous year.

On the other hand, I think it is important for the Daiken Group to transform its business structure to reduce its dependence on domestic housing starts, and the Group is making public and commercial buildings (nonresidential buildings) and global markets

its priority.

In the public and commercial buildings market, we opened Daiken Akihabara Technical Space in March 2016. Here, the Group intends to show its technologies, industrial materials, and products and develop products that will help to solve problems with the design of nonresidential buildings and satisfy market needs. Looking at the global market, the Group has stated in its long-term vision GP25 that it will expand business mainly in the Southeast Asian region. In Indonesia in particular, where the housing market is expected to progress rapidly on the back of strong economic growth, the Daiken Group has established PT. Daiken Dharma Indonesia, a subsidiary that manufactures interior doors, jointly with local companies including PT. Dharma Satya Nusantara. PT. Daiken Dharma Indonesia is scheduled to begin full-scale operation in August 2016.

As fiscal 2017 is the first year of our medium-term management plan, the Daiken Group will combine forces for a large-scale effort to accomplish its targets.

(Millions of yen)	Fiscal 2016 (results)	Fiscal 2017 (forecast)	Fiscal 2019 Final year of the first stage of GP25
■ Net sales	168,141	172,000	180,000
■ Operating income	5,586	6,000	7,000
■ Ordinary income	5,281	6,300	7,000
■ Profit attributable to owners of parent	3,988	4,000	4,300
■ ROE (%)	9.8%	—	8% or higher

Q Would you comment on the Daiken Group's capital policy and shareholder returns?

A The Group aims to enhance its sustainable corporate value, with a target ROE of 8% or higher and a 30% or higher payout ratio.

Basically, our capital policy is to enhance corporate value by seeking efficient operation with the emphasis on return on equity (ROE) and to optimize the balance between improved returns to shareholders and strategic investment to ensure the soundness of our financial position and medium-and long-term growth. ROE is one of the indexes that measures the profitability of an enterprise and shows the degree of profit earned by an enterprise for its shareholders based on the amount of equity invested by shareholders. Under its medium-term management plan that starts in fiscal 2017, the Daiken Group will work to transform its business structure to maintain a stable ROE at 8% or higher.

Regarding its policy on shareholder returns, the Group aims to maintain its payout ratio at 30% or higher; in other words, it will pay 30% or more of the profit attributable to owners of the parent to its shareholders as a dividend. It will endeavor to continue paying dividends stably, while aiming at returning profits to shareholders in accordance with financial results.

The Daiken Group will carefully judge whether or not to purchase treasury stock after considering its capital position and the stock market environment.

The Group will use its shareholder equity effectively to upgrade production, sales, and construction systems, develop new businesses and cultivate the global market with the aim of achieving medium-and long-term growth and establishing a solid business foundation to support that growth.



Q Finally, would you summarize the Daiken Group's management aims based on its CSR activities and the future outlook for the Group?

A We believe that CSR activities must form the basis of the Group's management structure. The Daiken Group will continue to develop by sharing our values with society.

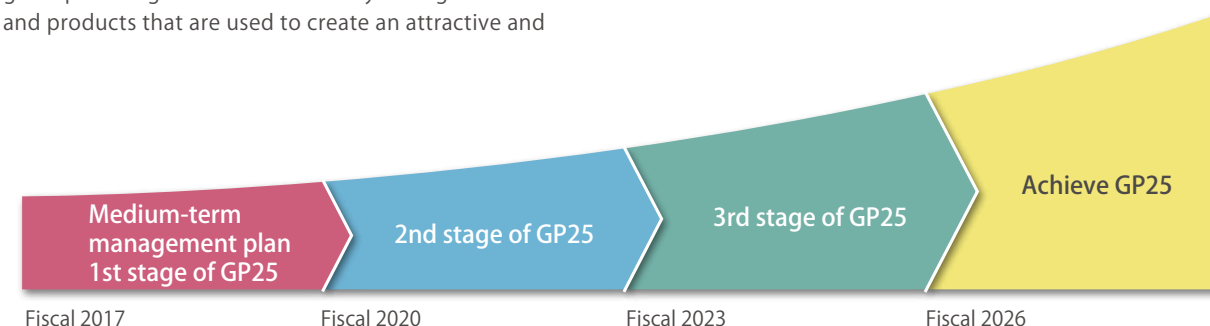
The Group will endeavor to put its management philosophy into practice through its CSR activities. We consider that CSR activities should form the basis of our management. To continue to develop as a company that receives the support of its customers and society, we believe it is important for us to fully understand the aspect of management, society, and the environment in our business activities and promote CSR activities.

Daiken Corporation was founded in September 26, 1945, amidst the devastation and confusion after the end of World War II. Our predecessors started manufacturing various wood products and flooring materials with a strong resolution to "contribute to the reconstruction of Japanese society and people's lives by producing wood and lumber products as materials to rebuild the country." This resolution forms the basis of our CSR activities. Since then, we have been responding to the expectations and needs of society by developing and providing environment-friendly ecological based materials and products that are used to create an attractive and

high-quality living environment.

"In developing "Ecology" and "Improvements in the quality of space", our aim is to create values that are shared with society and contribute to the realization of a sustainable society." This vision, which we have stated as part of our basic CSR activities policy, defines the management stance that the Group has maintained since its foundation—If an enterprise prospers over a long period and creates values for all its stakeholders, it must generate value for society at the same time—and shows the direction the Group should head in. Above all, the important thing is what is contributed by each of our employees.

The Daiken Group will promote CSR activities through all its business processes in a responsible and active way and thus grow with society, fulfilling its social responsibility as it achieves its vision for 2025.



Attempt to expand the use of domestic wood in public facilities with our unique technologies.

The Minato Model adopts WPC flooring materials

Revitalization of the domestic forestry industry is an urgent issue for Japan, where forests cover around 70% of the land. In 2009, the Japanese government formulated its Forest and Forestry Revitalization Plan and announced its intention to raise the wood self-sufficiency rate to 50% or higher by 2020. In 2010, the government passed the Act to Promote the Use of Wood in Public Buildings, etc. to encourage the use of wood in public buildings. Following the enactment, municipalities across Japan actively started to use domestic woods.



Outline of the Minato Model

Under the program, the Minato Ward Office in Tokyo asks builders who wish to construct buildings with a total floor space of 5,000 m² or greater in the ward to use a certain amount of wood produced under an agreement* or legal domestic woods and gives building owners a certificate outlining the amount of CO₂ fixation that corresponds to the amount of wood used in constructing their buildings. The program is designed to contribute to the prevention of global warming by encouraging the use of domestically grown and harvested wood by increasing both the level of CO₂ fixation in the City and the amount of CO₂ absorbed through the increased use of domestic lumber.

* Wood produced under an agreement refers to wood products grown and harvested in municipalities that have signed the agreement for promoting the use of domestic wood logged to thin the forest with Minato Ward Office.

Daiken contributes to the adoption of wood for interior finishing, using its WPC technology with domestic woods.

After World War II, artificial forests were rapidly planted, while the use of wood in buildings was decreased to make buildings more fireproof. After the import of wood products was fully liberalized in 1964, the amount of wood imported from overseas increased sharply. Consequently, the use of domestically grown wood decreased significantly, sending the wood self-sufficiency rate below 30%.

In response to this situation, the Japanese government passed the Act to Promote the Use of Wood in Public Buildings, etc. in 2010, aimed at not only encouraging the use of wood in public buildings (the rate of wooden buildings is very low) but also revitalizing the forestry industry in the regions. Following the Act, municipalities across Japan stepped up their efforts actively to use domestically grown wood. However, in public facilities used by large numbers of the public, products with excellent scratch resistance and easy maintenance are in demand. Most forests in Japan comprise softwood trees, such as Japanese cedar and cypress. The wood from these trees has been widely used as a structural material, but has generally not been

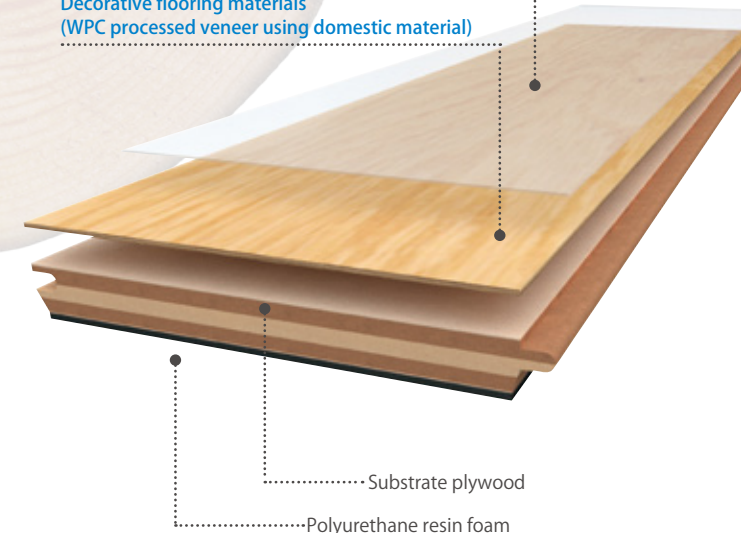
considered suitable for applications that require good surface hardness. This has been a major barrier to the adoption of wood for interior finishing.

We believe that the Group can contribute to the adoption of wood for interior finishing by applying the technology it has developed for its housing-related materials business to turn wood of region into WPC flooring materials and building materials. Daiken's original WPC technology can give softwood trees, such as Japanese cedar and cypress, a surface hardness that is higher than broad-leaved trees, making it possible to use it for decorative flooring materials. The technology has enabled us to provide flooring materials that are excellent in durability, and that have a natural feel and still retain the beauty of wood. Since wood of region could be used more widely in wherever in eyesight use frequently, municipalities and users of public buildings believe the adoption of wood for interior finishing will encourage people to feel an attachment to their region and hence reflect on environmental problems.

WPC flooring materials made from domestic woods

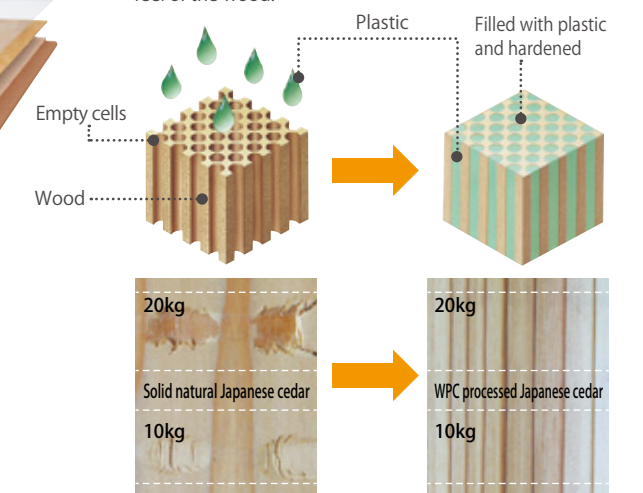
Coated surfaces (UV antibacterial and anti-wear paint)

Decorative flooring materials (WPC processed veneer using domestic material)



Conceptual illustration of WPC

WPC is the acronym for Wood Plastic Combination. WPC is a wood processing technology to reduce problems such as a scratching and marking by injecting plastic into each cell in the grain of the wood to provide wood with a good surface hardness, while retaining the feel of the wood.



Test that reproduces the conditions produced by scraping a table or a chair along the floor

The Daiken Group wants to encourage municipalities to build public facilities using wood grown and harvested in that region.

Influenced by the increase in the adoption of domestic woods by municipalities, Minato Park Shibaura, a multi-purpose public facility in Minato Ward in Tokyo that offers administrative services, life-long education, health promotion programs and the like, adopted Daiken's WPC flooring materials made from domestic woods. The Minato Ward Office in Tokyo has been promoting the Minato Model, a program to encourage the use of wood produced under the agreement or legal domestic woods and issue CO₂ fixation certificates to the building owners. The Group has participated in this program from its early stages with successful results and is working to spread the move to other regions.

In procuring wood from different regions, a mechanism is needed that enables users to purchase the materials they

need from individual forestry associations. Our network helps users procure materials from a particular region and turn them into building materials that can easily be used for the designs they require.

Producing industrial products with wood harvested from the abundant forests in the regions will expand the amount of wood grown and harvested in those regions, one step further towards increasing the use of domestically grown and harvested wood. We will continue with our proposals for building public facilities from wood grown and harvested in the regions and to which people from those regions can feel an attachment.

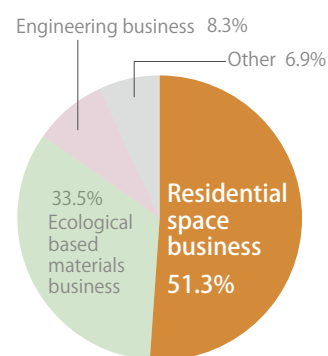
Residential space

“Aspire to the number one share in the industry by creating new markets and developing products from the perspective of the consumer.”

The Daiken Group manufactures and markets flooring, fittings, fixtures, and storage for its residential space business. As housing starts are forecast to decline, demand for these products is expected to decrease in the medium-and long-term period. In addition to cultivating new markets (public and commercial buildings) and developing new products that create new value and satisfy consumer demand, we are committed to strengthening our manufacturing capabilities as we seek to increase our market share and become a leading company in the industry.

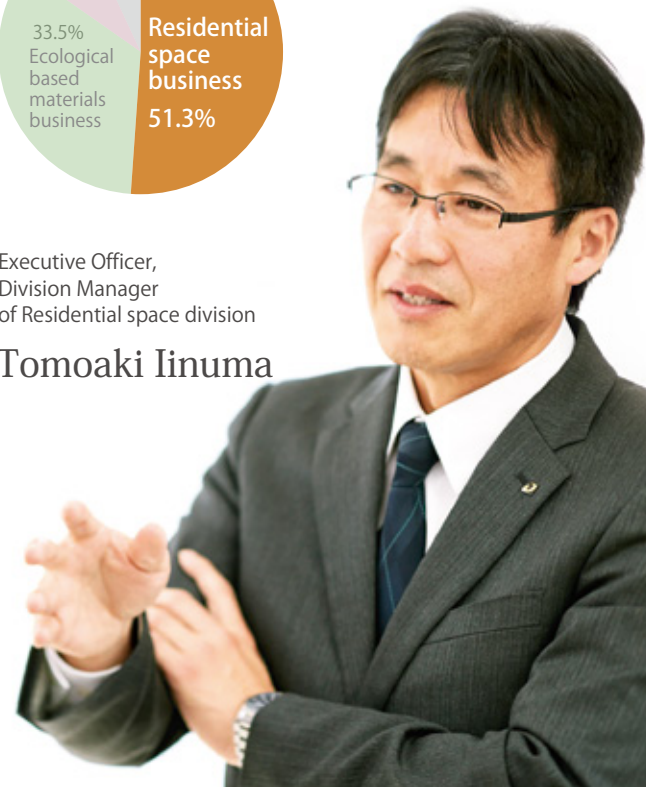
Breakdown of sales by business segment

Fiscal 2016



Executive Officer,
Division Manager
of Residential space division

Tomoaki Iinuma



Summary of business results for fiscal 2016

In fiscal 2016, the residential space business recorded an ordinary income of 4,114 million yen (up 43.9% year-on-year) on net sales of 86,256 million yen (up 0.6%) in a business environment where sales of owner-occupied houses including built-for-sale houses recovered from the slump following the spike in demand ahead of the consumption tax rate hike. We have maintained the leading market share in the flooring materials market, and sales of flooring materials account for about 50% of our residential space business.

As fiscal 2016 marked our 70th anniversary, the Daiken Group actively developed and launched new products. We received high evaluations for our new products, which employ industry-first technologies such as our Trinity series, a high quality flooring materials with a three three-dimensional styling and our Thermoplus series, overlay flooring materials that enable users to easily upgrade to heating floor. We also worked hard to increase our share of the market for new builds and expand sales in the home improvements market by carrying out a drastic revamping of our Hapia series, one of our leading interior finishing products, including improvements to the performance of our surface sheets, and expanding the lineup of our outset products to offset the shortage of craftsmen.

With the growing demand to reduce unwelcome sounds from upstairs or from the neighbors in the rental housing market, the Daiken Group proposed that its customers start to use products featuring sound insulation. In the public and commercial buildings market, the Group proposed using

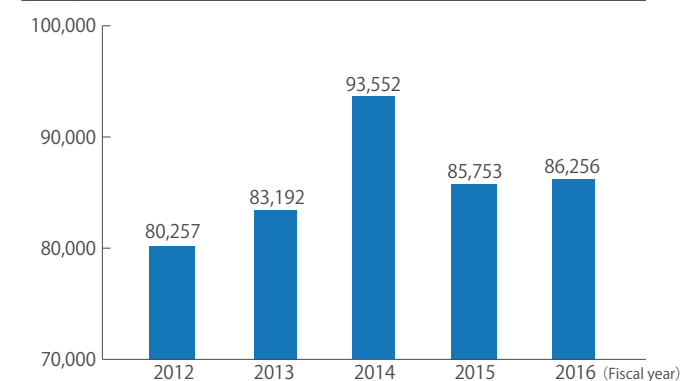
relatively soft wood from trees such as the Japanese cedar, which is hardened using our original WPC technology (hardening wood by injecting plastic into the grain), as flooring materials, enabling people to walk around on the floor with their shoes on. Our efforts to achieve results in this field have contributed to the increased use of domestically grown and harvested wood. It is also possible to expand the products we can offer in this field by expanding our Omoiari (Caring) series lineup, comprising mainly fittings for the aged persons welfare facilities market. We have invested in our plants and facilities to enhance our manufacturing capabilities, increasing productivity for our floor materials, fittings, and storage furniture.

Although raw material costs rose, mainly for imported goods, we improved our profitability by streamlining, increasing the yield, functional procurement including changing base materials, and having customers accept revised sales prices.

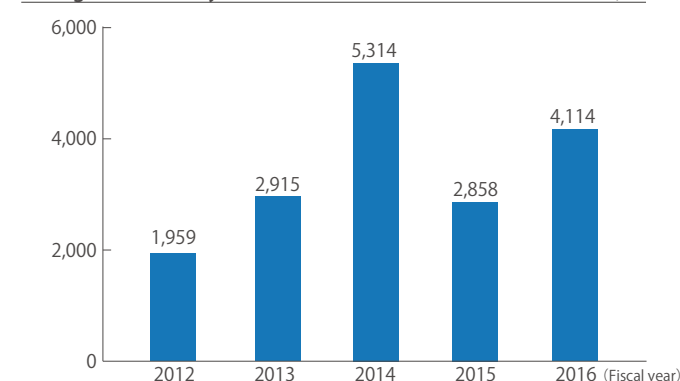


Trinity series of sheet type decorative flooring materials

Changes in net sales (Millions of yen)



Changes in ordinary income (Millions of yen)



Forecast of financial results and strategy for fiscal 2017

In fiscal 2017, the residential space business is forecast to post net sales of 88,050 million yen (up 2.1%). We will explore further possibilities for our existing markets and also actively cultivate new markets.

To strengthen our financial position, we will continue enhancing our capabilities in procurement and manufacturing by reducing raw materials costs and fixed costs and work to transform our plant into the leading factory in the industry.

As we have stated in long-term vision GP25 (policy for the entire Group) and medium-term management plan that started in fiscal 2017, we intend to transform our business structure to make it less vulnerable to changes in the number of housing starts.

Flooring and fittings

In flooring materials and fittings, our mainstay businesses, the Daiken Group will expand the production capacity of its factories and work to increase sales by focusing on offering products for public and commercial buildings. Specifically, in the flooring materials business we will concentrate on the use of domestically grown and harvested wood processed using our WPC technology, while in the fittings business we will work to expand sales to a wider range of markets, including public facilities, educational facilities, and lodging facilities in addition to stepping up our marketing efforts directed at aged welfare facilities.

Wall materials

The Group will work to increase its market share in the wall materials business. To that end, we will introduce a wider range of options in the housing and public and commercial buildings markets by expanding our product lineups through the use of both domestic woods with its high designability and the industrial materials that we have developed ourselves (Dai-Lite and MDF). In particular, since in many cases Dai-Lite is used for the substrates of veneer incombustible wall materials made from domestic woods, we will promote it as one of our best products.

Storage furniture

We believe that there is growing demand for storage furniture, because storage problems always rank high on the list of problems with people who plan to build their own house or carry out home improvements. In the storage furniture business, sales of the MiSEL and Fit Shelf series, both integrated storage furniture ranges, and the Relaclo and Kantana series, storage units for bedrooms or entrances, have been growing steadily. We will enhance the competitiveness of our products, particularly these products, and improve our service by upgrading our installation service and planning software.



MiSEL series, integrated storage furniture



Fit Shelf series, integrated storage furniture

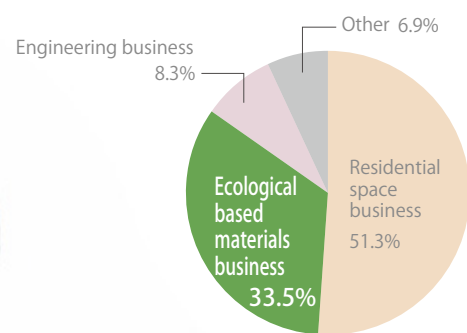
Ecological based materials

“Continue to develop the use of ecological based materials to provide extra value in the new markets and customers.”

The Daiken Group produces a wide assortment of ecological based materials. The Group has commercialized ecological based materials by processing various industrial materials, basically untapped resources, into a fibrous or granular state, and then forming them into boards. We will apply our board manufacturing technology, which has been mainly developed to produce housing-related materials, to the production of construction materials for public and commercial buildings, such as plywood substitutes and lightweight incombustible panel. To help increase the use of domestically grown and harvested wood, we will also extend our target for technological development related to the use of wood fiber to forestry and agriculture and explore further possibilities for ecological based materials.

Breakdown of sales by business segment

Fiscal 2016



Division Manager of Ecological based material division

Masaru Iseda

Summary of business results for fiscal 2016

In fiscal 2016, sales volumes in the ecological based materials business increased due to robust sales of products for industrial applications and in global markets, despite sluggish sales in the domestic housing market because of the slump following the spike in demand ahead of the consumption tax rate hike. The Group focused on developing new products for the next fiscal year and also started to offer existing products for new applications, including public and commercial buildings. Consequently, the ecological based materials business recorded an ordinary income of 812 million yen (down 46.0% year-on-year) on net sales of 56,345 million yen (up 1.2%).

Wood fiberboard—Insulation Board (IB) and Medium Density Fiberboard (MDF)

Insulation boards (IBs), wood fiberboard that is manufactured using woody waste materials from demolished houses and residual wood offcuts discharged from sawmills as the main ingredients, are used in the substrate (base material) of tatami mats and as curing materials for the floors of houses. In Japan, sales volumes of IBs decreased from the previous year due to a decline in the number of Japanese-style rooms caused by changing lifestyles and the effects of the consumption tax rate hike, but sales volumes of various substrates for industrial applications remained unchanged from the previous year. Sales of MDF decreased in Japan. However, overseas sales grew, covering the decrease in domestic sales, because we were able to avoid intensified competition by adopting a high-quality product strategy and meeting our promised delivery dates.

Forecast of financial results and strategy for fiscal 2017

In fiscal 2017, the ecological based materials business is forecasted to post net sales of 58,200 million yen (up 3.3%). As housing starts are expected to decrease in the future, we predict that it will be difficult to expand sales volumes for housing applications. We will focus on transforming our business structure to reduce our dependence on shipments to the domestic housing market by increasing sales of and exploring new applications for new products developed in fiscal 2016 and expanding global sales.

Wood fiberboard—Insulation Board (IB) and Medium Density Fiberboard (MDF)

We will endeavor to increase sales of IB, a wood fiberboard, for new applications such as forestry and agriculture. We will also begin selling Techwood-A, an MDF highly strengthened using residual wood pieces from our planted trees, as a thin plywood substitute. We will also continue to develop high value-added MDF products with the aim of steadily increasing sales of MDF by meeting the demand for plywood and thin plywood for replacement floors, and strengthen sales to the United States, where the economy is estimated to expand.

Dai-Lotone rock wool sound-absorbing board

Sales of Dai-Lotone, a rockwool sound-absorbing board, for housing applications decreased by 5.0% from the previous year. Their sales for ceiling materials used in public and commercial buildings, a main application, did not increase, although new products that were put on the market in the fall sold well. Sales of various substrates for industrial applications other than ceiling materials were flat, while sales volumes in overseas markets grew by 10.0%.

Dai-Lite inorganic panel

Sales volumes of Dai-Lite, an inorganic panel made from rockwool and Shirasu (volcanic soil) for bearing surface members, its main application, decreased from the previous year. We started to offer a new application for the panel as a fireproof outer wall foundation materials for warehouses and stores, with the aim of expanding sales in a new market.

Tatami facing and thin tatami mats

Shipments of tatami facing using machine-made Japanese paper to hotels and Japanese inns increased, but shipments to residential houses decreased. Consequently, sales volumes decreased by 1.0% from the previous year. Sales volumes of thin tatami mats, which had increased every year since their launch, grew by 12.0% from the previous year. This was mainly due to progress in the standardization of installation work for laying mats over the entire surface of the floor.

Dai-Lotone rock wool sound-absorbing board

We plan to expand sales of Dai-Lotone, a sound-absorbing board, mainly for our Daiken hybrid ceilings, which we have been designing and offering for its earthquake resistance and labor-saving installation in the domestic market over the previous year, as a ceiling material for public and commercial buildings.

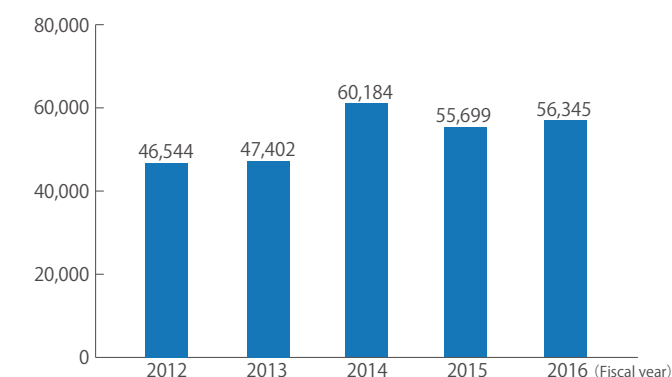
Dai-Lite inorganic panels

We propose to adopt Dai-Lite, an inorganic panel, as a fireproof outer wall foundation materials and incombustible interior substrate for public and commercial buildings using its basic characteristics, including its incombustibility and light weight. We also propose to use the panel as an incombustible decorative board and as an interior material in residential houses and eave soffit board for residential houses, and cultivate demand for the panel as a substrate for industrial applications.

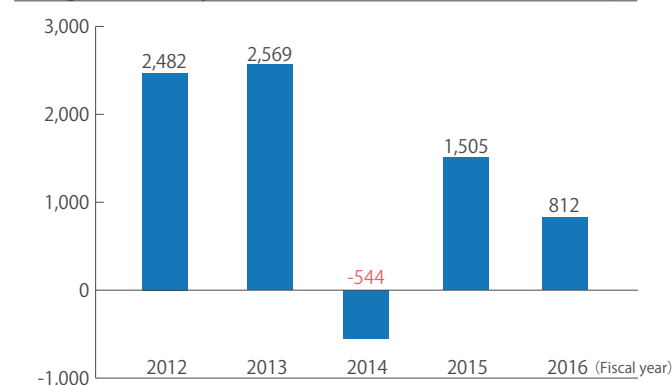
Tatami facing and thin tatami mats

We will continue offering our tatami facing, which we have produced since fiscal 2016, centering on lodging facilities such as hotels and Japanese inns. We will also begin cultivating new applications for machine-made woven paper as an industrial material. We will also strengthen our product lineups of thin tatami mats with new designs and functions and develop new sales channels.

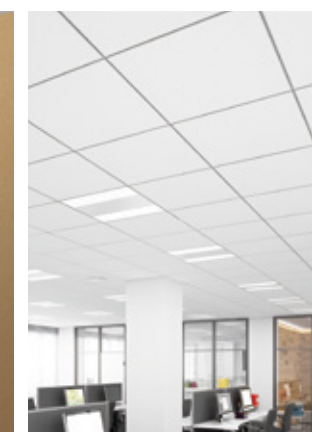
Changes in net sales (Millions of yen)



Changes in ordinary income (Millions of yen)



Techwood-A MDF



Dai-Lotone rockwool sound-absorbing board



Dai-Lite inorganic panel



Zipang Kokochiwaza

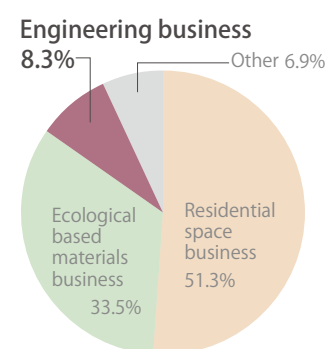
Engineering

“Ensured execution of the two policies will play the role of the Daiken Group’s driving force.”

The engineering business consists of interior work and home improvements. We have been providing our customers with Daiken quality services, offering reliable work through cooperation between the Group’s manufacturing and engineering sections. We announced two policies in fiscal 2017—increasing sales in the metropolitan area and expanding the scope of installation and construction work—and are working to upgrade our human resources and strengthen internal and external collaboration through organizational restructuring. Under our three-year medium-term management plan that started in fiscal 2017 as the first stage of a long-term vision GP25, the Group plans to increase the composition ratio of the engineering business from 8.0% to 12.0%. We are committed to acting as a driving force that provides an opportunity for growth of the Group.

Breakdown of sales by business segment

Fiscal 2016



Director, Managing Executive Officer, General Manager of the Engineering division

Tetsuo Harima



Summary of business results for fiscal 2016

In fiscal 2016, we operated the engineering business under two management policies—increasing sales in the metropolitan area and expanding the scope of installation and construction work.

Consequently, the engineering business recorded an ordinary income of 232 million yen (down 18.7% year-on-year) on net sales of 13,978 million yen (down 15.2%).

Interior work

In fiscal 2016, sales for the interior work business decreased from the previous year due to a decrease in floor space for new non-residential building construction starts. Although we introduced planning for accepting orders for the interior work business to make it easier to generate profits, ordinary income decreased from the previous year. Planning for accepting orders includes sharing information on the operation rate of skilled workers throughout our offices across the nation so that we can place personnel efficiently. To strengthen our business in the metropolitan area (one of our management policies), we transferred personnel to Tokyo and enhanced and extended internal and external collaboration through organizational restructuring. However, we struggled to expand earnings, because the increase in demand for interior work in the Kinki area was less than anticipated.

Forecast of financial results and strategy for fiscal 2017

In fiscal 2016, we were able to expand our business in the metropolitan area as we had laid out in our management policies. In fiscal 2017, we plan to increase sales of the engineering business to 14,400 million yen (up 3.0%) by working to grow our business under the new policies. We will also continue to focus on strengthening internal and external collaboration.

Interior work

People are continuing to flow into the metropolitan area, mainly Tokyo, which will be host to the Summer Olympic Games in 2020. In addition, many large companies in rural areas have relocated their headquarters to Tokyo, which is the center of Japan’s economy and information. As these moves are expected to accelerate the extreme concentration of population in Tokyo in the future, we will work to increase sales for the interior work business by continuing to focus on obtaining more orders in the metropolitan area in fiscal 2017. Our other management policy is to expand the scope of installation and construction work. While growing light steel ceiling and board attaching work, we will work hard at obtaining general contracts for interior work. This should result in us receiving a wide range of orders for products such as floors and fittings, and including installation and construction work.

Home improvements

As lifestyles have changed and the number of older houses has increased over the recent 20 years, demand for home improvements has increased steadily. The government has been examining a variety of measures to expand the demand for remodeling, mainly through revitalization of the existing housing market including active distribution. Under these circumstances, we have drastically shifted our resources for housing construction from the new house building business to the home improvement business over six years.

In fiscal 2016, in cooperation with the sales division for building materials, we increased the number of personnel, especially in the metropolitan area, through organizational restructuring and concentrated on interior work and sound-proofing, our specialty, of small-and medium-sized non-residential buildings, such as aged welfare facilities and nursery schools. However, we fought an uphill battle, because demand for home improvements recovered slowly, as did housing starts.

Consequently, net sales for the home improvement business in fiscal 2016 decreased from the previous year.

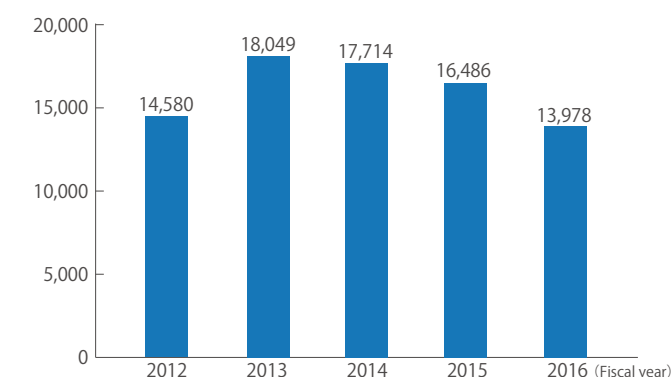
To cope with the shortage of skilled workers for interior work, which is expected to become significant in the future, we will not only work harder to solve the issue of workers with no social insurance, but also consider inviting trainees from overseas. We would like to solve the shortage of craftsmen to expand sales, and to this end, we will increase the number of manageable sites by employing qualified persons or craftsmen who have experience in the field to work as an on-site managers in cooperation with our partner companies.

Home improvements

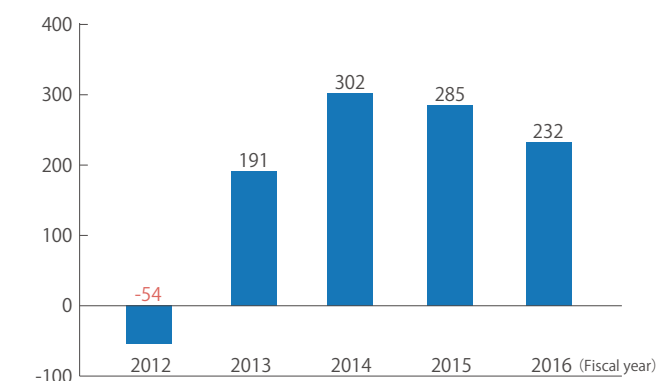
In the home improvements business, we will enhance collaboration among our Group companies and deepen our relationships with house manufacturers, developers, and builders to boost sales across our entire business—sales not only of materials, but also of installation and construction work.

In addition, we will examine both obtaining orders under a new scheme with companies in different industries and renovation (purchase for the purpose of re-sale), two new businesses that have grown sharply in the metropolitan area.

Changes in net sales (Millions of yen)



Changes in ordinary income (Millions of yen)



Recital Hall, Nagano City Arts Center



A lecture room, Ritsumeikan University Osaka Ibaraki Campus

The Daiken Group's CSR

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

We set up the CSR Activity Promotion Subcommittee, which will take the lead in introducing concrete measures to promote CSR, incorporating the concept of creating shared value (CSV) into our conventional CSR initiatives.

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

(See p. 36.)

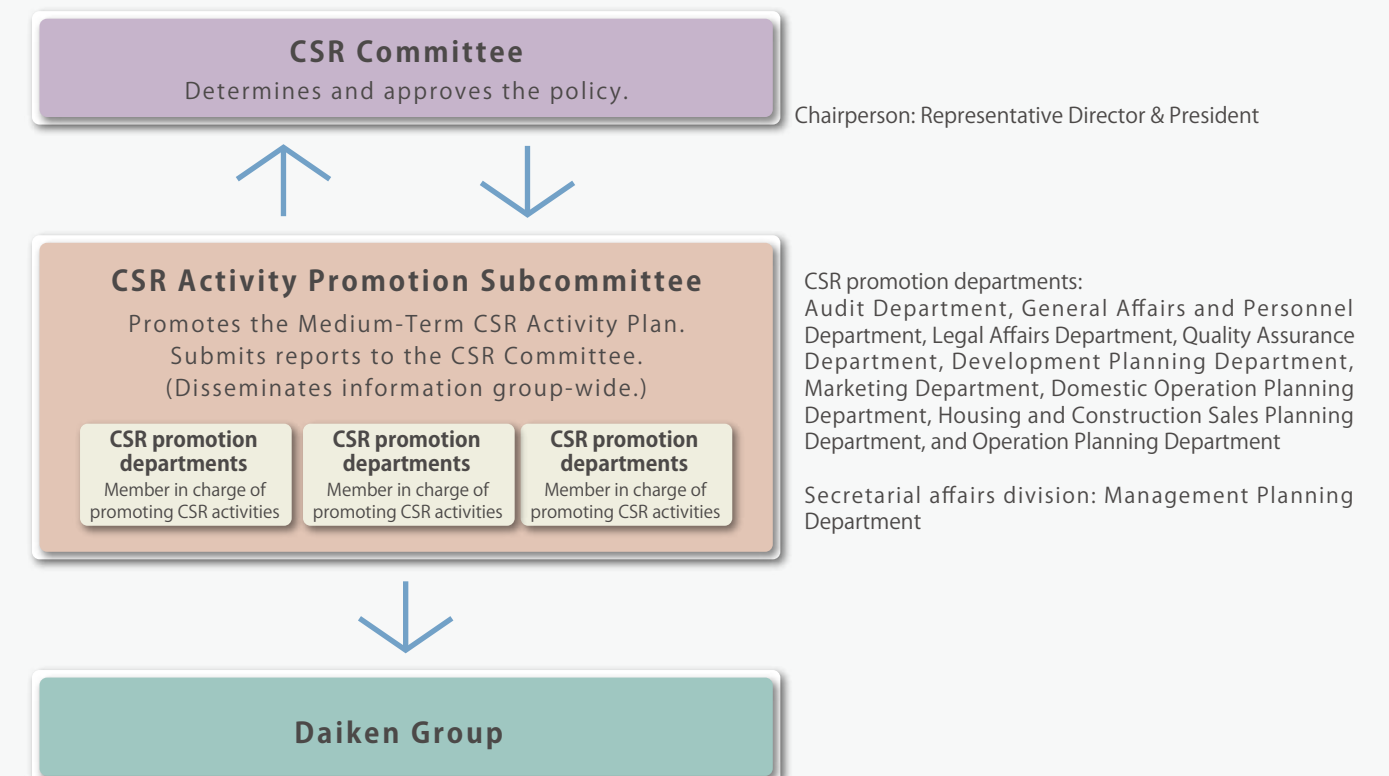
- This action plan stipulates activities to promote compliance and other basic CSR initiatives on a group-wide basis.
- Based on the core subjects of ISO 26000, key items and initiatives to be addressed are extracted for each of the following six themes: ① Organizational governance, ② Human rights, ③ Labor practices, ④ Fair operating practices, ⑤ Consumer issues, and ⑥ Community involvement and development.
- Our flexibility is enhanced by just expressing the medium-term targets in broad and qualitative terms.
- Based on this plan, each CSR promotion department will design and implement its own plan for specific activities.
- A CSR Activity Promotion Subcommittee will be set up, with membership consisting of the persons in charge of CSR activities in the respective promotion departments. The subcommittee will report on progress in CSR activities and hold discussions on related issues and problems, to ensure that effective CSR activities can be implemented.
- In the environmental area, we need to set out more technical and specific contents in an activity plan. We have therefore formulated our Medium-Term Environment Plan separately.

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

(See p. 34)

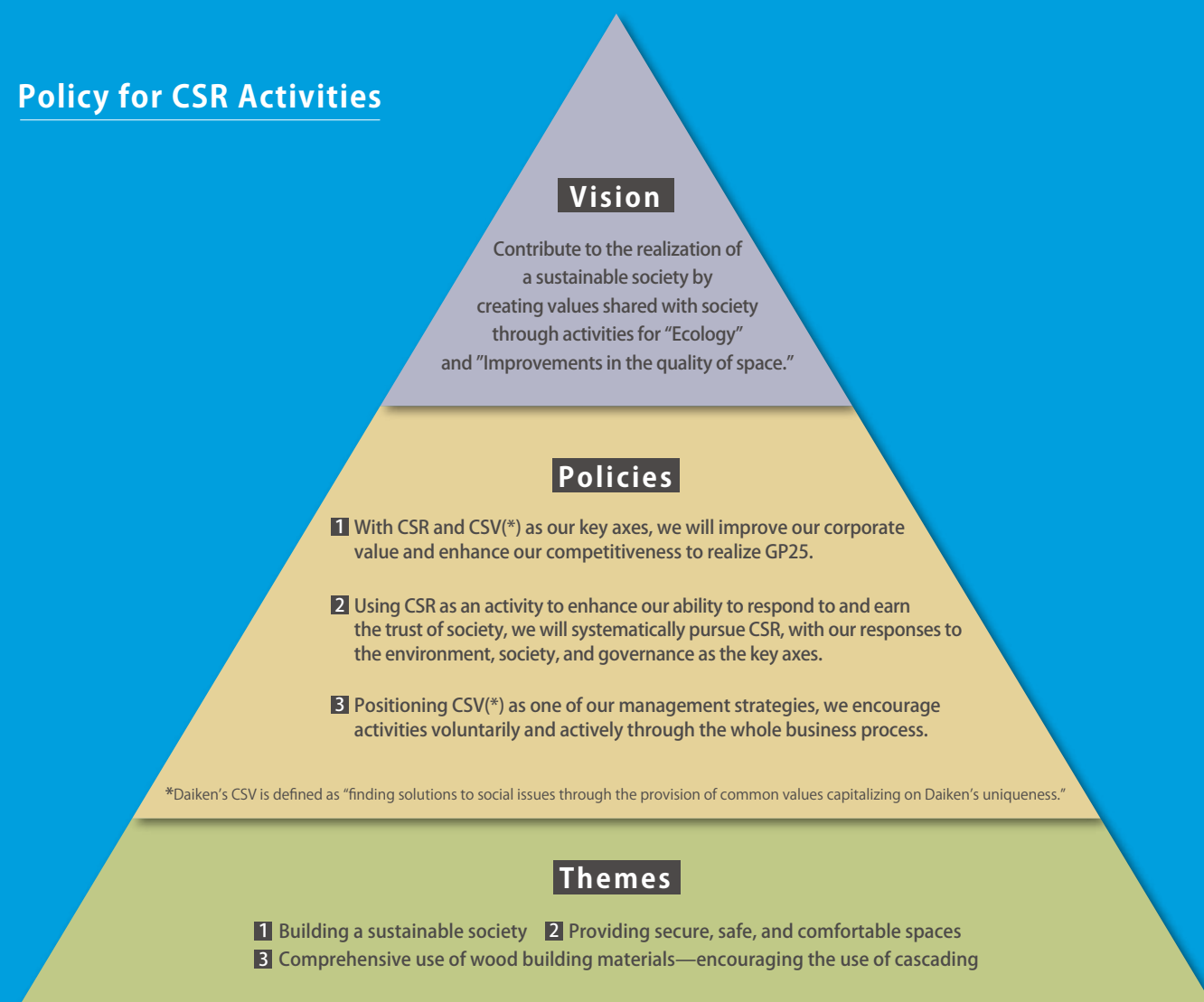
- This activity plan is specifically designed for the environment. The 1st Medium-Term Environment Plan was formulated in 2000.
- Before determining activity themes, their priorities were defined based on the results of evaluating the impact these activities have on the global environment, society and management (risks and opportunities).
- Based on this action plan, each department will establish and implement its own targets and specific plans for each period.

CSR Activity Promotion System



The Daiken Group's CSR

Policy for CSR Activities



Initiatives to increase transparency

In line with its management philosophy—Customer orientated management focusing on the harmony between humans, spaces, and the environment—the aim of the Daiken Group is to enhance its corporate value for all stakeholders in a sustainable way.

Basic approach to corporate governance and initiatives for its reinforcement

In order to achieve efficient, sound and transparent management, we take a basic approach that always seeks to optimize corporate governance and constantly works to improve it. We are committed to developing our management system, organizational structure and internal control system and implementing the measures necessary to achieve this. Our aim is

to strengthen the Group's governance to bring sustainable growth and achieve medium and long-term increases in corporate value, and the measures we are implementing to do this include establishing our Basic Policy on Corporate Governance.

1 Establishing a Basic Policy on Corporate Governance

We have laid down the Company's basic approach in our Basic Policy on Corporate Governance, which summarizes the key items of corporate governance into five categories. This policy statement commits us to pursuing optimal corporate governance that will result in permanent improvements in our corporate value.

Basic Policy on Corporate Governance

〈Five key items〉

1. Securing the Rights and Equal Treatment of Shareholders
2. Safeguarding the interests of our stakeholders and collaborating appropriately with them
3. Ensuring Appropriate Information Disclosure and Transparency
4. Responsibilities of the Board
5. Dialogue with shareholders

* For details, please refer to this page on our website: <http://www.daiken.jp/d/governance/basis/> (Japanese only)

2 Establishing advisory committees

We set up a Corporate Governance Committee under the board to deliberate on matters relating to establishing a framework for corporate governance, and a Nomination and Remuneration Committee to discuss personnel affairs and the remuneration of directors and other executives. Both committees are headed by chairpersons appointed from among the independent directors, with outside executive officers making up a majority of the members of each committee. These committees discuss the selection and remuneration of directors, and the ideal governance system that will ensure continuous improvements in our corporate value objectively from the viewpoint of our stakeholders. The board uses the contents of the reports submitted by these advisory committees in making the required decisions.

3 Improving information communication to outside executive officers and reinforcing cooperation

Currently, Daiken Corporation has two independent directors (quorum for the board: 9), and two independent outside *Kansayaku* (quorum for *Kansayaku* : 4). We will improve information communication to these outside executive officers, and reinforce cooperation between them in order to create an environment that allows executive officers to discuss, raise questions and exchange views in a freer and more constructive manner and to make prompt decisions that are transparent, fair and bold.

and improving information communication to outside executive officers and reinforcing cooperation.

Overview of the governance framework

The measures that the Group has implemented to strengthen its corporate governance include establishing a basic policy, setting up new advisory committees (the Corporate Governance Committee and the Nomination and Remuneration Committee),

The board

The board comprises nine directors (including two outside directors). Its duties and roles are to ensure fair and transparent management by supervising overall management, and to make important decisions on the execution of the Group's business.

The board has established mechanisms (including the Corporate Governance Committee and the Nomination and Remuneration Committee) in which independent directors play central roles. These mechanisms have enhanced the effectiveness with which the Board can supervise the execution of business decisions.

The board makes decisions on the Company's management policies, management strategies, business plans, acquisition and disposal of important assets, and important organizational and personal affairs in compliance with laws and regulations, the Articles of Incorporation, resolutions adopted at general shareholders meetings, the Regulations of the board, the Company's management philosophy and the Code of Corporate Conduct, and supervises the way that Daiken Corporation and its subsidiaries execute business.

Business execution

In June 2002, the Company introduced an executive officer system under *Kansayaku* system to expedite decision-making and improve its efficiency and soundness. The current management system has 20 members, comprising nine directors (including two outside directors and five directors who also serve as executive officers), and eleven executive officers. -Directors, executive officers and employees fulfill their duties in keeping with the Code of Corporate Conduct as well as Daiken's management philosophy, both of which play pivotal roles in compliance management.

The Kansayaku board

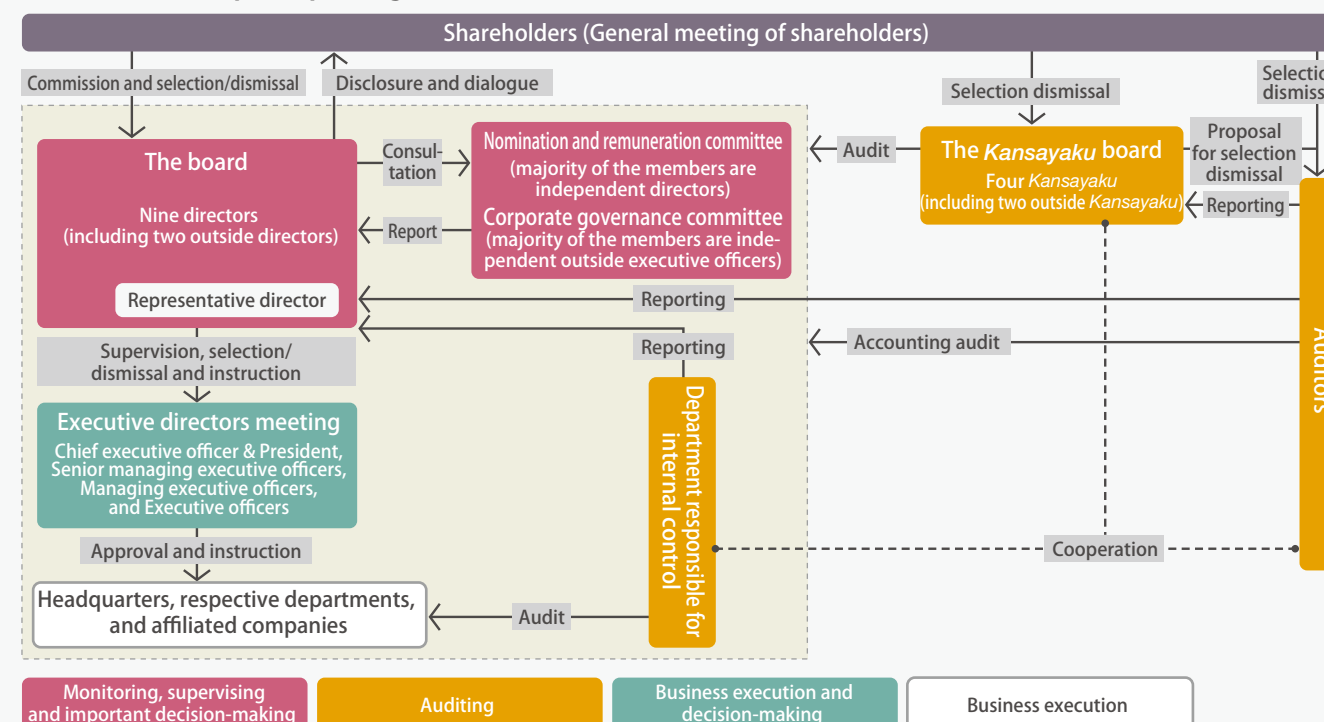
The *Kansayaku* board consists of four *Kansayaku* (including two outside *Kansayaku*). They carry out audits following the audit plan formulated by the *Kansayaku* board. As part of their statutory authority, the Board audits the directors to ensure that they perform their duties appropriately in collaboration with auditors and the department responsible for internal control. The *Kansayaku* board also submits reports on the validity and effectiveness of the Group's business activities as a whole and the status of compliance with laws, regulations and the Articles of Association to the *Kansayaku* board.

In addition, *Kansayaku* exchange views with the Representative Director & President on a regular basis while seeking to improve the quality of audits through attendance at important management meetings and examining important documents.

Nomination and remuneration committee and Corporate governance committee (newly established bodies)

Daiken Corporation has established two voluntary organizations—the Nomination and Remuneration Committee and the Corporate Governance Committee—as advisory bodies to the board. The purpose was to obtain the involvement of and advice from independent outside executive officers in discussing matters of particular importance, including evaluation of the Company's governance framework and the effectiveness of the board, and the nomination and remuneration of executive officers. These new committees have proved effective in supervising business execution by the board. Independent outside executive officers constitute a majority of the membership of both committees, and chairpersons are appointed from among the independent directors.

The Daiken Group's Corporate governance framework



Selection of independent directors

In response to the requirements of the Tokyo Stock Exchange, Daiken Corporation has appointed independent outside executive officers to ensure transparent and fair company management. Based on the independence standards* we have established for judging whether an outside director or *Kansayaku*

is independent or not, we have selected two independent directors (out of a total of nine directors) and two independent outside *Kansayaku* (out of a total of four *Kansayaku*).

* Details of the independence standards are available on the following page of our website:
http://www.daiken.jp/d/governance/independence_standards.html (Japanese only)

Independent outside executive officers and attendance at meetings

Outside executive officer	Name and title(s)	Reason for selection	Activities
Outside directors	Takashi Aihara Professor at the School of Law and Politics and the Law School of Kwansai Gakuin University, and lawyer	We anticipate the broad range of views and high level of expertise he has accumulated as a university professor and as a lawyer being reflected positively in directing our Company's business management.	Number of attendances at meetings of the board 13 / 13
	Koji Mizuno Professor at the Faculty of Management and the Graduate School of Business Administration, Otomon Gakuin University Director of the Venture Business Research Institute, Otomon Gakuin University Strategic Partnerships Advisor at the Organization for Small & Medium Enterprises and Regional Innovation, Japan	We anticipate the broad range of views and high level of expertise he has accumulated as a university professor being positively reflected in promoting our Company's business management.	Number of attendances at meetings of the board 9 / 10
Outside <i>Kansayaku</i>	Akio Hasunuma Corporate advisor to Toto Ltd.	We anticipate the wealth of experience and extensive insight accumulated through his long-term career as a corporate manager being reflected positively in his work as a <i>Kansayaku</i> of our Company.	Number of attendances at meetings of the board 13 / 13 Number of attendances at meetings of the <i>Kansayaku</i> board 14 / 14
	Masafumi Inoue Professor at The University of Tokyo (Asian Natural Environmental Science Center)	In addition to his extensive insight and high level of expertise accumulated as a university professor, we anticipate the broad knowledge he has developed through his experience working as an investigator for the Cabinet Office and as a researcher for the Ministry of Education, Culture, Sports, Science and Technology being reflected positively in his work as a <i>Kansayaku</i> of our Company.	Number of attendances at meetings of the board 10 / 10 Number of attendances at meetings of the <i>Kansayaku</i> board 11 / 11



Outside director Takashi Aihara

I am committed to working towards a healthy company and transparent management as we realize a long-term vision GP25.

The Daiken Group's reason for being and resolution is to "contribute to the realization of a sustainable society through the effective use of limited resources" and to "enrich people's lives by creating more comfortable and safer spaces." We achieve this aim through increasing sales by developing new industrial materials, functions and applications.

The Daiken Group's long-term vision, GP25 (Grow/Glow Plan 25), was drawn up precisely to achieve this aim, making it imperative to establish a governance system that enables transparent, fair, speedy and bold decision-making. The Group's governance is now sound, and I give this a high evaluation.

As an outside director, I am always reflecting on how to protect the interests of all stakeholders of the Daiken Group and improve their trust, and I am known for speaking out when it comes to implementing sound and transparent company management.

Policy for determining executive remuneration

The board has formulated detailed rules for determining the remuneration of executive officers. The Representative Director submits a plan to the Nomination and Remuneration Committee, which examines the plan and make recommendations, based on which results the remuneration is determined.

There are two types of standard remuneration for directors: remuneration reflecting their role as directors based on their individual duties (fixed part), and remuneration for their performance based on the Company's performance and each director's achievements in the field for which they are responsible (variable part). The maximum limit for executive remuneration is decided within the range fixed at the general meeting of shareholders (up to 35 million yen per month for directors, and up to 4 million yen per month for *Kansayaku*). The total remuneration for executive officers is disclosed to the public.

【Executive remuneration】

	Executive remuneration for fiscal 2016 Figures in parentheses indicate the number of amount paid to outside executive officers.	
	Number of persons receiving payments	Amount of payment (million yen)
Directors	11 (2)	233 (10)
<i>Kansayaku</i>	6 (3)	44 (6)

Internal control system

To ensure sustainable improvements in corporate value, the Daiken Group has established a management system, management structure and internal control system.

The department in responsible for internal control, which is under the direct jurisdiction of the Representative Director and President, regularly carries out internal audits and reports the results to the President and *Kansayaku*. Follow-up audits are also conducted to ensure that the appropriate improvements are carried out in response to the findings and advice given during the latest audit. The internal control department also consults with *Kansayaku* on the internal audit plans for each fiscal year. These two parties also hold periodic meetings in which they discuss the audit results and the findings and advice given during

the audit. This cooperation results in a comprehensive exchange of information between the internal control division and *Kansayaku*.

The department responsible for internal control works with the *Kansayaku* from its independent standpoint to monitor business execution and ensure that a timely disclosure system is established and works effectively so that business operations are carried out in compliance with laws. This allows us to maintain and improve an appropriate level of information disclosure.

We hold constant reviews and make continuous improvements as we work to establish a more appropriate and efficient internal control system.

I feel that my responsibility as a *Kansayaku* is to assist the Daiken Group in capitalizing on its corporate culture and strength.

The foundations of governance lie in linking the company's management philosophy and the direction of activities conducted by its executive officers and employees.

To make its management philosophy, "customer orientated management focusing on the harmony between humans, spaces, and the environment," a reality, the corporate activities of the Daiken Group involve producing and providing ecological based materials, and these efforts will be accelerated by the medium-term management plan that begins this fiscal year. Rather than relying on an accumulation of different technologies, we make more effective use of specific technologies, and all members of the Daiken Group are highly motivated and are working in concert to develop technologies and markets to this end. Lively discussions are held at meetings of the board, where decisions on a host of issues are made speedily. Thus expectations are running high for the achievement of our growth strategy.

As an outside executive officer, I will make the most of my own experience and the experience of others in discharging my responsibility to assist the Daiken Group in capitalizing on its corporate culture and strength.



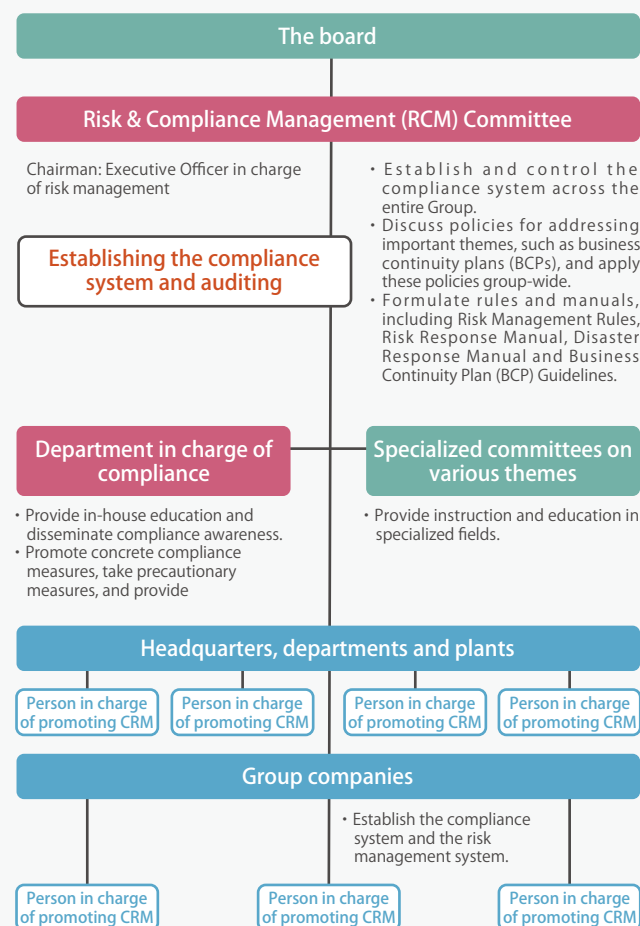
Outside *Kansayaku* Akio Hasunuma

Compliance/Risk management

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

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

Compliance/Risk management

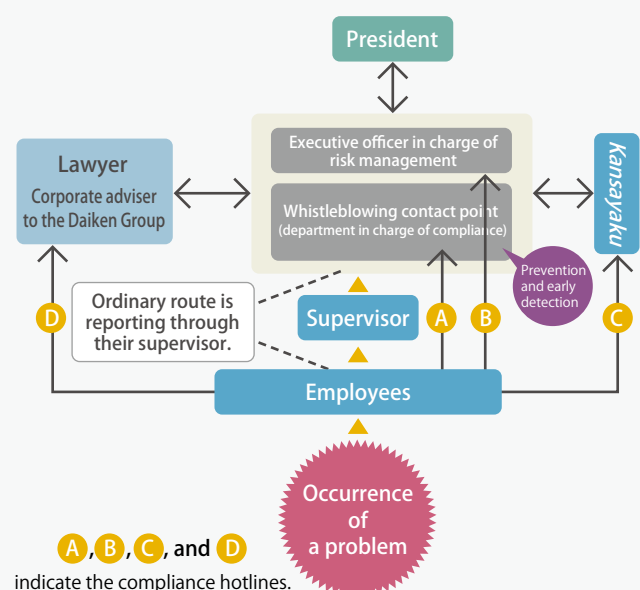


Making the whistleblowing contact points (hotlines) known to all employees

As a way of enabling employees to provide information on suspected compliance issues, we have established a compliance hotline flow to help detect and prevent potential risks at an early stage.

In fiscal 2016, we began to post the direct telephone numbers and the email addresses for the hotlines on the top page of D-Portal, our in-house intranet. The purpose is to ensure that all employees are aware that they can use the hotline as a direct reporting route when they find it difficult to provide information on a suspected problem using the ordinary route, i.e., reporting through their supervisor.

Compliance hotline flow



Improving customer satisfaction

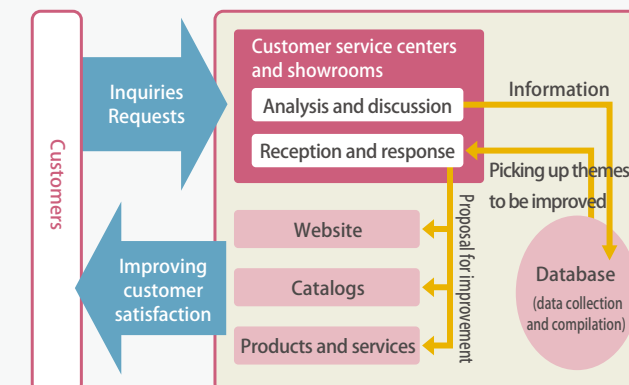
We work to provide products that satisfy our customers and that they can use with peace of mind. To this end, the Daiken Group is committed to not only improving product safety and quality, but also to increasing communication with customers and developing products from a consumer's point of view.

Information utilization system in response to customer voices

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

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

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



Enhancing quality through quality auditing and education

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

In fiscal 2016, we organized three lectures by external experts geared to persons in charge of the design, development and purchasing departments to increase their knowledge of risk avoidance in their daily operations.



Lecture delivered by an external expert

Providing continuous information to customers

Thus far, the Daiken Group has been vigorous in providing information to its customers. Notably, in November of fiscal 2016, a milestone year that marked the 70th anniversary of the Company, we held the Manufacturing Plant Anniversary Fair, which exhibited and showcased all the technologies that the Company has developed throughout its history. Attracting particularly high attention were our raw materials technologies, WPC technologies and our utilization of materials made from local and domestic wood.

Also, Plant Anniversary Fairs were held between October and November 2015 at four plants in Japan. The fairs offered plant tours, exhibition areas where new products released to commemorate the 70th anniversary were shown, and various other events. These programs gave us opportunities to communicate directly with members of the local communities.



Daiken Techno Business Fair

Plant tour (Inami Plant)

Creating a fulfilling work environment

The Daiken Group believes that creating a work environment where each individual employee can exhibit their abilities and work enjoyably with peace of mind will lead to the revitalization of the Company. Based on this idea, we strive to implement various measures, some of which are described below.

Encouraging female employees to play a greater role by cultivating a workplace in which women can work comfortably

We developed our Training and Empowerment Project for Female Employees to maximize the capabilities of female employees and boost the power of the Company. The aim is to increase the ratio of female managers on the administrative track to 20% by 2020, and to that end a number of measures are being put in place to enable female employees to exhibit their capabilities. Chief among these measures are putting the right persons in the right places, giving management training to female employees, and developing various systems to make it easy for female employees to continue working after having and rearing their children.

In January 2016, as a further step towards diversity, a meeting was held for President Okuda to exchange opinions with seven employees (three males and four females) in different age brackets and job categories on the theme "What we need to do to create a work environment where all employees can fulfill their potential."



Round-table talk on diversity between President Okuda and employees

Systems to support female employees with childbirth and childcare

- Maternity leave • Child-rearing leave • Leave for child nursing care
- Shorter working hours for childcare
- Introduction of vouchers for childcare support services

Reducing the accident rate by raising the safety diagnosis level

We are working to maintain a safe work environment free of work-related and traffic accidents and to improve safety, in line with the basic principle, "make safety the first priority." To continuously raise the level of safety diagnosis at our production plants, the Daiken Group Mutual Safety Diagnosis is carried out once a year at four plants and seven Group production companies in Japan, as well as at three overseas subsidiaries.

In fiscal 2016, a night safety diagnosis was conducted at the Inami Plant. During the diagnosis, inspectors used a checklist to identify problems with the working environment at night or with fire precautions, and to monitor the influence of light and sound emitted from the plant on the neighboring area. The issues highlighted by the diagnosis will be shared with all the other plants to make them effective in preventing accidents and achieving a safer workplace.



Safety diagnosis during the night

Mental healthcare

Seminars on Mental Healthcare and Line Care designed for managers were held in Tokyo (in October) and Osaka (in December), attracting 25 and 35 participants respectively, mainly at management level. At the seminars, an industrial physician explained how to treat employees suffering from depression and other mental health disorders and how to prevent these conditions, with a particular focus on line care.



Seminar on Mental Healthcare and Line Care (in Osaka)

Promoting CSR procurement

As part of the efforts under its medium-term management plan, the Daiken Group will "shift up to CSR procurement, aiming for full implementation of green procurement." We have established a Procurement Policy and CSR Procurement Standards, and these will form the base for CSR activities to be implemented throughout the entire supply chain.

CSR Procurement Policy and Standards

CSR Procurement Policy (newly established)

- 1 Compliance with laws and regulations
- 2 Fair and even-handed dealings
- 3 Sharing excellent value
- 4 Promotion of green procurement
- 5 Promotion of CSR procurement
- 6 Relationship of trust and co-prosperity

Purchase Control Rules

- 1 Quality
- 2 Prices
- 3 Delivery time
- 4 Capabilities for technological development
- 5 Services
- 6 Management conditions

Green Procurement Standards

- 1 Environmental management system
- 2 Chemical substance management
- 3 Wood from legitimate sources

CSR Procurement Standards (newly established)

- 1 Respect for human rights
- 2 Compliance with laws and regulation
- 3 Occupational safety and health
- 4 Fair transactions
- 5 Information management
- 6 Coexistence with society

Questionnaire on CSR Procurement Standards (newly introduced)

Briefing session for our business partners

In June 2015, we held a joint management policy briefing session at the Grand Pacific Le Daiba (Tokyo), inviting 114 persons from 119 of our business partners and suppliers. President Okuda explained the business climate surrounding the industry and Daiken's future management policy, and the objectives of our new procurement policy and CSR procurement standards. He asked participating business partners and suppliers to continue working together with Daiken to promote CSR activities.

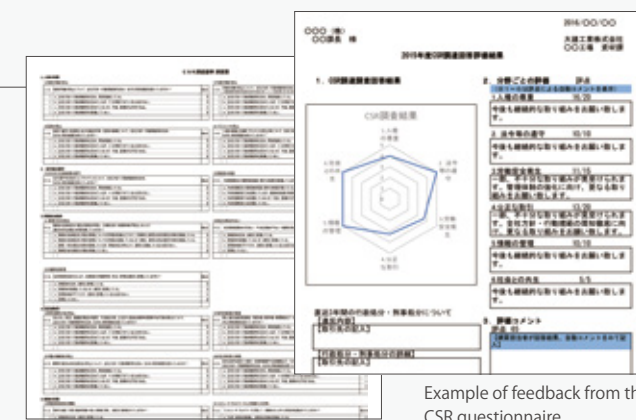


Briefing session geared to Daiken business partners and suppliers

Starting the CSR procurement survey

In March 2016, an online survey was launched on the status of CSR implementation by our business partners and suppliers. As a trial, the questionnaire was distributed to business partners involved in production at our Inami Plant. We then intend to expand the scope of the survey to cover business partners involved in all the production plants in the Daiken Group.

The survey results will be fed back to the respondents. Where necessary, we will request our business partners to correct problems or make necessary improvements as part of our efforts to promote CSR activities.



Sample CSR questionnaire

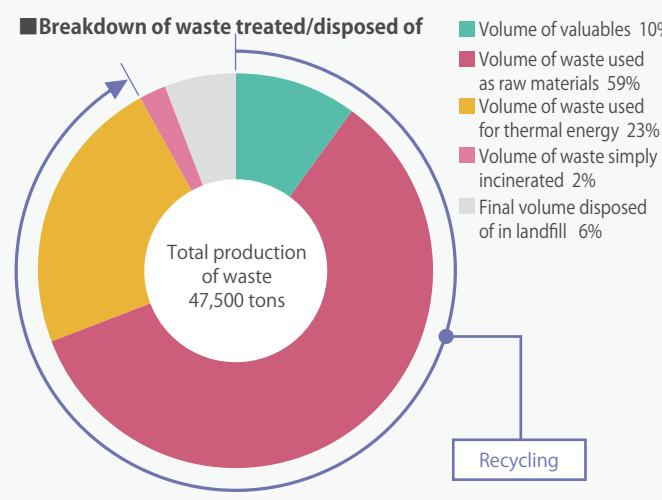
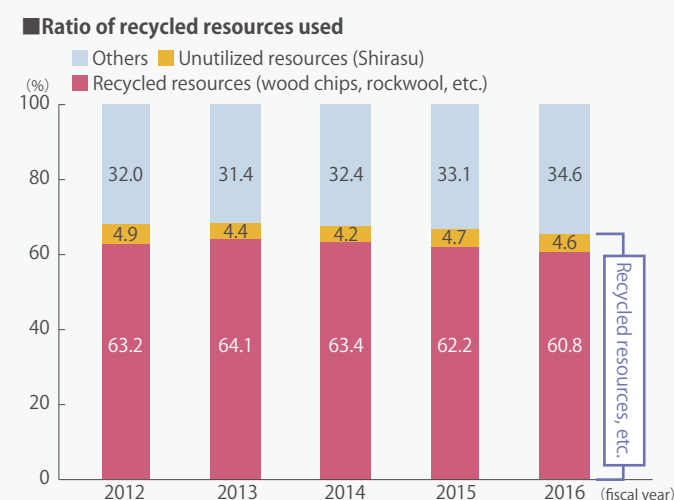
Example of feedback from the CSR questionnaire

Initiatives to protect the environment

The Daiken Group considers environmental management to be one of the key themes in CSR management. Group-wide efforts for environmental preservation and pollution control are currently underway, based on the 5th Medium-Term Environment Plan.

Contributing to creating a recycling-oriented society

As part of its efforts to realize a sustainable society, the Daiken Group is committed to the effective use of recycled materials in producing its products, as well as to reducing waste and recycling.



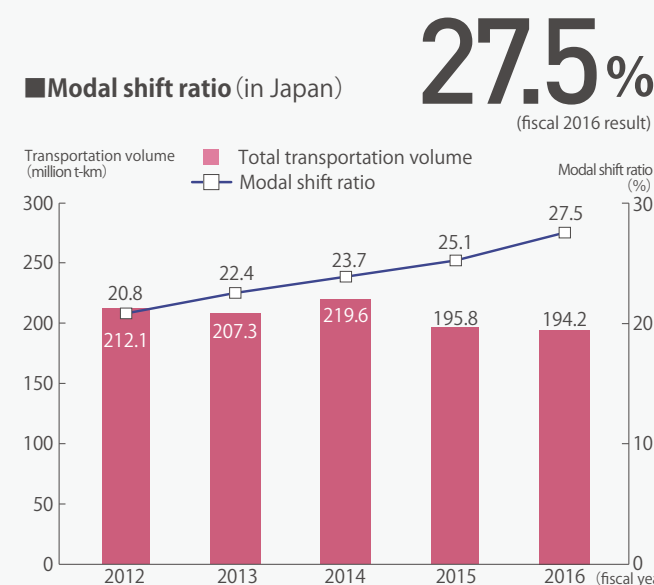
Medium-Term Environmental Plan (for fiscal 2012-2016)

		Fiscal 2016 Targets	Fiscal 2016 results
1. Expand environmentally friendly product lineup	① Develop and promote products using domestic wood	Draft a plan for the active use of domestic wood, including effective use of raw materials from the Shinshu F-Power Project.	Developed a future procurement scheme for unutilized wood in the Takahagi area
2. Reduce environmental impact	① Reduce greenhouse gas emissions	Reduce CO ₂ emissions per unit of transportation volume by at least an average of 1% per year.	Reduced CO ₂ emissions per unit of transportation volume by an average of 6.4% per year
	② Reduce waste production	Reduce the amount of external landfill waste by 30% over fiscal 2011 levels.	Reduced the volume of waste sent to external landfill by 42% compared with fiscal 2011 levels.
	③ Reduce emissions of chemical substances	Reduce the use of methylene chloride to zero by the end of fiscal 2016.	Changed the specifications for three of the five production lines to stop using methylene chloride. Reduced the use of methylene chloride by 48% over fiscal 2011 levels
3. Contribute to biodiversity	① Promote procurement of wood materials to preserve biodiversity	Continue to procure wood from confirmed legitimate sources.	Ongoing
	② Establish Green Purchase Standards	Manage procurement in coordination with the Daiken Procurement Policy.	Formulated new Daiken Procurement Policy and CSR Procurement Standards, and made these policies public
4. Environmental management	① Expand and improve the environmental management system (EMS)	—————	Integrated ISO 14001 certification obtained by individual domestic sites and expanded the application range(completed in February 2013). Obtained ISO 14001 certification at overseas subsidiaries (completed in March 2014)
	② Ensure full compliance with environmental laws and regulations	Comply with fluorocarbon control regulations.	Identified applicable equipment and conducted a simple inspection. (752 units across the Group)
	③ Provide and disseminate environmental education across the Company	Provide employees with education according to their job level and job type.	Held training sessions for new employees and for newly appointed division managers, and implemented e-learning and other educational programs

Contributing to creating a low-carbon society

The Daiken Group is expanding its use of renewable energies and increasing modal shift as it works to promote the efficient use of energy and reduces CO₂ emissions from its production and logistics activities.

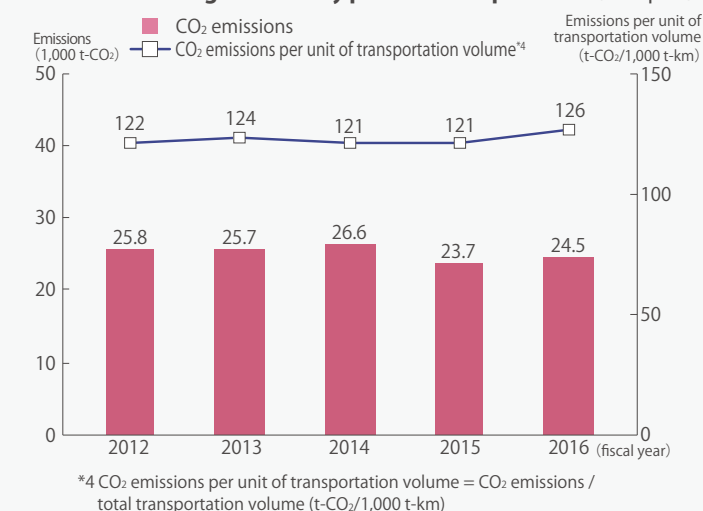
In June 2015, a modal shift program was introduced to change the method used to transport its housing components from trucks to railways along a specific section of track between Kuki City in Saitama Prefecture and Sapporo City in Hokkaido Prefecture. This modal shift program was



implemented by the Daiken Corporation Trunk Line Modal Shift Promotion Council (comprising Daiken Corporation, Senko Co., Ltd., and Nippon Express Co., Ltd.) who use Daiken Corporation as their consignor. In October 2015, the Ministry of Land, Infrastructure and Transport authorized this program as a "modal shift promotion project," in recognition of its contribution to reducing greenhouse gas emissions. This modal shift program improved the modal shift ratio^{*3} of all Daiken Group companies in Japan up to 27.5%.

^{*3} Modal shift ratio = (Ships + railways) transportation volume / total transportation volume × 100 (%)

CO₂ emissions generated by product transportation (in Japan)



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

1. Eco-friendly products	① Expand eco-friendly product lineups and their sales
2. Contribute to building a low-carbon society	① Introduce carbon fixation using wood
	② Reduce CO ₂ emissions from energy sources
3. Contribute to creating a recycling-oriented society	① Promote the 3Rs (Reuse, Reduce, and Recycle) to reduce the volume of waste destined for final disposal
	② Introduce cascading use of wood
4. Contribute to biodiversity	① Procure wood in a way that preserves biodiversity
	② Strengthen cooperation with supply chains
5. Expand eco-friendly product lineups and their sales	① Identify, prevent and minimize environmental risks
	② Improve our ability to satisfy regulations on chemical substances

Status of CSR Initiatives and Key Items addressed under the Medium-Term CSR Activity Plan

The following table shows the major results of CSR activities carried out in fiscal 2016, and the key items to be addressed under the Medium-Term CSR Activity Plan beginning in fiscal 2017.

Medium-Term CSR Activity Plan (for fiscal 2012-2016)

		Theme	Plan for fiscal 2016	Fiscal 2016 results
Management area	Risk management	Promoting business continuity management (BCM)	•Maintain and update BCPs of domestic sites.	•Confirmed that BCPs were operating properly at domestic sites.
		Establishing a risk management system at global sites	•Maintain and update BCPs of global sites.	•Confirmed that BCPs were operating properly at global sites.
	Governance and compliance	Introducing efficient and highly transparent management	•Base our actions on the corporate governance code with appropriate information disclosure.	•Decided on the Company's policy for the corporate governance code, and established a framework to check and manage the operation status.
			•Strengthen and maintain the group governance system, and improve transparency.	•Improved the transparency and fairness of group governance by setting up a Corporate Governance Committee and a Nomination and Remuneration Committee.
Communication with stakeholders	Communicating with stakeholders and society	•Continue to hold presentations for financial results and give in-person explanations to institutional investors. •Disclose business performance data promptly and put essential information on the website when necessary.	•Continued to systematically hold presentations of financial results to investors. •Disclosed 49 items of current information, including hot topics, on the website.	
Social area	Communication with customers and consumers, and customer satisfaction	Quality management	•Raise the level of internal audits.	•Continued to hold training programs for internal auditors.
		Improving quality control ability	•Implement training sessions given by experts.	•Held training on risk prediction during design and development. •Held seminars on the themes "Problems and Points to be Improved Found from Legal Cases" and "Assessing Risk for Chemical Substances."
		Promoting product development from the viewpoint of customers	•Strengthen the provision of information to business departments. •Improve the system (make effective use of the textual information analysis system).	•Shared data for promoting customer-centric product development (about 900 cases in fiscal 2016) within the Company, using the new database on customer feedback.
		Enhancing communication with customers	•Showcase new products in a well-planned way, and promote new products. •Continue to conduct analyses to determine actual conditions and to design a renewal plan.	•Created a website on public and commercial buildings using a design that is easy to use for customers. •Carried out a third-party analysis of the Company's current website.
	Promoting and ensuring fair transactions	Ensuring appropriate transactions	•Continue to conduct document investigations and check the order forms that are actually used. •Hold e-learning training programs for first to fifth-year employees.	•Carried out the document investigations requested by the Japan Fair Trade Commission. Found a minor violation on an order form, and immediately corrected the problem. •Conducted an e-learning program on the Act on Subcontracting. Forty-four trainees participated in the program.
		Protecting intellectual property rights and risk management	•Continue to conduct activities to raise awareness of risks and the protection of intellectual property rights, and hold training sessions for the departments involved. •Continue to hold e-learning training programs regarding protection of intellectual property rights for first to fifth-year employees.	•Continued to conduct these activities.
		Progressing from green procurement to CSR procurement	•Continue to implement Green Purchase Standards and promote CSR procurement.	•Completed the public announcement of our CSR Procurement Policy and the CSR Procurement Standards. •Completed the online survey system, and conducted a survey of 109 companies.
	Developing and protecting human resources and creating a favorable working environment	Promoting work-life balance	•Strictly reinforce the No-Overtime Day.	•Launched the new Work Style Change PJ.
		Diversity	•Encourage employees to take childcare leave. •Achieve the legally required percentage of employees with special needs.	•Implemented an e-learning program on diversity. •Employed male and female employees in equal ratios.
		Human resources development	•Increase the number of employees who take correspondence courses. •Plan and implement work experience programs.	•Announced various correspondence courses on the web and by other means to motivate employees, and 482 employees took these courses. •Organized six work experience courses, in which 71 people participated.
		Occupational safety	•Encourage production sites to raise the level of safety diagnosis.	•Held a seminar on establishing a culture of safety.
		Human rights	•Continue to provide human rights education through e-learning programs, etc.	•Held a training program for newly appointed managers.
	Enhancing exchange with local communities and local contribution activities	Exchanges with the local community	•Hold communication activities with the involvement of local government.	•Held programs of exchange with local governments and local residents, cleanup events, plant tours, etc. in individual regions.
		Earthquake disaster reconstruction	•Continue activities at local offices/production sites to supply goods to disaster victims.	•Supplied goods for disaster recovery housing as planned.
		Forest cultivation and promotion of the forest industry	•Continue tree-planting activities in Malaysia.	•Felled trees (over an area of 285 ha) and implemented a secondary forestation program (185 ha.).
Environmental area	Medium-Term Environmental Plan	(See p.37-38.)		

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

	Key items	
Management area	CSR management	Promote company-wide CSR activities led by the CSR Committee.
	Risk management	Develop, update and manage business continuity plans (BCPs).
	Governance	Establish optimal corporate governance.
	Compliance	Reinforce the compliance system. Further improve compliance education. Develop and implement the whistle-blowing system.
Consumer issues	Improving product quality and ensuring product safety	Reinforce the quality management system based on quality ISO standards. Reinforce the system to reduce quality-related problems and continue taking measures to prevent reoccurrence of similar problems. Strengthen the quality traceability system.
	Providing products and services that give high customer satisfaction	Reinforce our ability to collect information by strengthening contact points with consumers. Strengthen the in-house system to translate consumer information into product development and product and service improvement. Reinforce the system to encourage consumer-centric new product development.
	Enhancing communication with customers	Enhance face-to-face communication with customers at showrooms and exhibitions.
		Enhance communication with customers through sales activities.
		Enhance communication with customers through websites, etc.
Protecting personal information	Enhance communication with shareholders and investors.	
Fair operating practices	Ensuring fair competition and transactions	Ban all transactions with antisocial forces.
	Protecting intellectual property	Continue to provide education on intellectual property.
	Promoting CSR procurement	Develop and implement CSR procurement rules.
Labor practices	Promoting life-work balance	Encourage employees to reduce overwork and cut long working hours.
	Promoting diversity	Implement human resources development programs intended to promote the empowerment of female employees and develop a working environment that meets this purpose.
	Reinforcing human resources development	Develop global human resources. Formulate human resource development programs that facilitate career development and capacity building for employees.
	Improving the safety and health system	Encourage and strengthen efforts to create a safer working environment.
Respect for human rights	Raising awareness of human rights	Continue education to raise awareness of human rights.
Community involvement and development	Community involvement	Participate in local communities.
	Social contribution	Continue tree-planting activities in Malaysia. Promote the comprehensive use of domestic wood.

10-Year Summary of Consolidated Financial Data

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31

(Millions of Yen)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
FOR THE YEAR:										
Net sales	168,258	166,588	150,325	140,936	141,506	151,209	158,153	180,392	168,833	168,141
Operating income	5,063	2,896	1,830	3,010	4,349	4,542	4,703	3,577	3,452	5,586
Ordinary income	4,771	2,613	1,331	2,819	4,373	4,600	5,669	5,025	4,648	5,281
Net income attributable to owners of parent	△ 4,337	791	598	511	1,375	874	1,318	2,546	2,736	3,988
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Capital expenditures	3,643	4,490	2,934	2,785	3,765	2,758	4,036	3,274	3,206	3,508
Depreciation and amortization	3,258	3,927	4,054	4,197	4,574	4,217	4,107	3,990	4,093	4,068
R&D expenses	1,684	1,657	1,526	1,471	1,464	1,470	1,453	1,342	1,349	1,430
<hr/>										
CASH FLOWS:										
Cash flows from operating activities	7,442	△ 3,776	1,805	3,141	4,438	9,074	2,624	9,663	9,299	6,016
Cash flows from investing activities	△ 4,492	△ 4,566	△ 2,897	△ 3,286	△ 2,618	△ 3,218	△ 2,033	△ 5,168	△ 4,072	△ 5,972
Cash flows from financing activities	△ 1,263	3,699	△ 1,793	1,135	△ 7,095	△ 1,929	224	△ 1,054	△ 2,635	△ 5,486
Free cash flows	2,950	△ 8,343	△ 1,091	△ 145	1,819	5,856	591	4,494	5,227	43
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AT YEAR-END:										
Total assets	144,559	132,875	125,080	123,862	115,969	125,469	131,618	135,890	135,596	130,315
Net assets	41,518	37,053	34,562	36,663	36,839	36,949	39,870	41,419	44,984	43,833
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PER SHARE DATA:										
Net assets (Yen)	298.36	265.86	246.66	260.52	265.42	267.51	286.91	296.09	333.89	338.46
Net income (Yen)	△ 33.16	6.07	4.64	4.01	10.88	6.97	10.51	20.29	22.34	32.93
Cash dividend (Yen)	7.50	7.50	6.25	5.00	6.25	7.50	7.50	7.50	7.50	10.00
Dividend payout ratio (%)	-	123.6	134.8	124.8	57.4	107.7	71.4	37.0	33.6	30.4
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KEY FINANCIAL RATIOS:										
Equity ratio (%)	27.0	26.0	25.2	26.8	28.7	26.8	27.4	27.3	29.9	31.3
Return on equity (%)	△ 10.7	2.2	1.8	1.6	4.1	2.6	3.8	7.0	7.0	9.8
Return on assets (%)	3.4	1.9	1.0	2.3	3.6	3.8	4.4	3.8	3.4	4.0
Operating income ratio (%)	3.0	1.7	1.2	2.1	3.1	3.0	3.0	2.0	2.0	3.3
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Employees (number)	3,330	3,414	3,252	3,255	3,189	3,183	3,194	3,141	3,191	3,060

Consolidated Balance Sheets

Daiken Corporation and Consolidated Subsidiaries
As of March 31, 2016 and 2015

(Millions of Yen)

	2015	2016
Assets		
Current assets		
Cash and deposits	16,774	11,134
Notes and accounts receivable - trade	32,722	37,372
Merchandise and finished goods	9,163	9,018
Work in process	3,153	3,188
Raw materials and supplies	5,061	4,727
Deferred tax assets	2,511	1,953
Other	1,825	2,086
Allowance for doubtful accounts	△ 281	△ 229
Total current assets	70,931	69,252
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	9,454	8,823
Machinery, equipment and vehicles, net	10,338	9,884
Land	15,682	15,621
Leased assets, net	224	180
Construction in progress	844	2,119
Other, net	2,022	1,784
Total property, plant and equipment	38,565	38,413
Intangible assets		
Goodwill	750	12
Software	1,170	2,093
Other	458	326
Total intangible assets	2,378	2,432
Investments and other assets		
Investment securities	15,303	15,286
Net defined benefit asset	3,382	1,373
Deferred tax assets	3,104	1,440
Other	1,905	2,081
Allowance for doubtful accounts	△ 47	△ 46
Total investments and other assets	23,648	20,135
Total non-current assets	64,592	60,980
Deferred assets		
Bond issuance cost	72	82
Total deferred assets	72	82
Total assets	135,596	130,315

(Millions of Yen)

	2015	2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	24,104	23,819
Short-term loans payable	9,267	8,078
Current portion of bonds	5,000	—
Current portion of long-term loans payable	3,013	4,730
Lease obligations	43	41
Accounts payable - other	18,693	17,742
Income taxes payable	406	643
Accrued consumption taxes	738	527
Provision for bonuses	1,869	1,749
Provision for product warranties	1,058	988
Deferred tax liabilities	—	45
Other	3,090	3,010
Total current liabilities	67,286	61,378
Non-current liabilities		
Bonds payable	5,400	10,400
Long-term loans payable	11,266	8,015
Lease obligations	213	172
Deferred tax liabilities	1,890	933
Provision for product warranties	1,384	2,080
Net defined benefit liability	2,910	3,228
Negative goodwill	72	53
Other	186	219
Total non-current liabilities	23,325	25,103
Total liabilities	90,611	86,482
Net assets		
Shareholders' equity		
Capital stock	13,150	13,150
Capital surplus	11,850	11,655
Retained earnings	13,478	15,143
Treasury shares	△ 2,302	△ 1,429
Total shareholders' equity	36,177	38,519
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,158	3,413
Deferred gains or losses on hedges	83	163
Foreign currency translation adjustment	1,303	257
Remeasurements of defined benefit plans	△ 148	△ 1,563
Total accumulated other comprehensive income	4,396	2,269
Non-controlling interests	4,410	3,043
Total net assets	44,984	43,833
Total liabilities and net assets	135,596	130,315

Consolidated Statements of Income

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

(Millions of Yen)

	2015	2016
Net sales	168,833	168,141
Cost of sales	131,657	127,452
Gross profit	37,175	40,689
Selling, general and administrative expenses	33,722	35,102
Operating income	3,452	5,586
Non-operating income		
Interest income	66	64
Dividend income	268	318
Rent income	193	173
Dividend income of life insurance	59	57
Amortization of negative goodwill	10	11
Share of profit of entities accounted for using equity method	41	44
Foreign exchange gains	632	—
Reversal of allowance for doubtful accounts	—	52
Miscellaneous income	640	515
Total non-operating income	1,911	1,239
Non-operating expenses		
Interest expenses	378	351
Sales discounts	159	143
Loss on sales of accounts receivable	76	55
Foreign exchange losses	—	909
Miscellaneous expenses	101	84
Total non-operating expenses	716	1,544
Ordinary income	4,648	5,281
Extraordinary income		
Gain on sales of non-current assets	10	8
Gain on sales of investment securities	5	7
Insurance income	1,000	2,601
Other	—	109
Total extraordinary income	1,016	2,726
Extraordinary losses		
Loss on retirement of non-current assets	401	441
Impairment loss	140	—
Amortization of goodwill	—	686
Loss on business withdrawal	3,559	—
Loss on valuation of golf club membership	5	—
Other	184	4
Total extraordinary losses	4,291	1,133
Profit before income taxes	1,373	6,875
Income taxes - current	520	726
Income taxes - deferred	△ 2,165	2,000
Total income taxes	△ 1,645	2,727
Profit	3,018	4,148
Profit attributable to non-controlling interests	281	159
Profit attributable to owners of parent	2,736	3,988

Consolidated Statements of Comprehensive Income

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

(Millions of Yen)

	2015	2016
Profit	3,018	4,148
Other comprehensive income		
Valuation difference on available-for-sale securities	1,625	254
Deferred gains or losses on hedges	△ 295	111
Foreign currency translation adjustment	344	△ 1,348
Remeasurements of defined benefit plans, net of tax	1,016	△ 1,415
Share of other comprehensive income of entities accounted for using equity method	0	△ 0
Total other comprehensive income	2,691	△ 2,398
Comprehensive income	5,709	1,750
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,477	1,861
Comprehensive income attributable to non-controlling interests	232	△ 111

Consolidated Statements of Changes in Net Assets

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

(Millions of Yen)

	2015	2016
Shareholders' equity		
Capital stock		
Balance at beginning of current period	13,150	13,150
Balance at end of current period	13,150	13,150
Capital surplus		
Balance at beginning of current period	11,850	11,850
Change of scope of consolidation		△ 195
Balance at end of current period	11,850	11,655
Retained earnings		
Balance at beginning of current period	11,679	13,478
Dividends of surplus	△ 929	△ 1,093
Profit attributable to owners of parent	2,736	3,988
Retirement of treasury shares		△ 1,229
Change of scope of consolidation	△ 6	
Balance at end of current period	13,478	15,143
Treasury shares		
Balance at beginning of current period	△ 1,180	△ 2,302
Purchase of treasury shares	△ 1,121	△ 357
Retirement of treasury shares		1,229
Balance at end of current period	△ 2,302	△ 1,429
Total shareholders' equity		
Balance at beginning of current period	35,499	36,177
Dividends of surplus	△ 929	△ 1,093
Profit attributable to owners of parent	2,736	3,988
Purchase of treasury shares	△ 1,121	△ 357
Change of scope of consolidation	△ 6	△ 195
Balance at end of current period	36,177	38,519
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance at beginning of current period	1,524	3,158
Net changes of items other than shareholders' equity	1,634	254
Balance at end of current period	3,158	3,413
Deferred gains or losses on hedges		
Balance at beginning of current period	241	83
Net changes of items other than shareholders' equity	△ 157	80
Balance at end of current period	83	163
Foreign currency translation adjustment		
Balance at beginning of current period	1,055	1,303
Net changes of items other than shareholders' equity	247	△ 1,046
Balance at end of current period	1,303	257
Remeasurements of defined benefit plans		
Balance at beginning of current period	△ 1,165	△ 148
Net changes of items other than shareholders' equity	1,016	△ 1,415
Balance at end of current period	△ 148	△ 1,563
Total accumulated other comprehensive income		
Balance at beginning of current period	1,655	4,396
Net changes of items other than shareholders' equity	2,741	△ 2,126
Balance at end of current period	4,396	2,269
Non-controlling interests		
Balance at beginning of current period	4,264	4,410
Net changes of items other than shareholders' equity	146	△ 1,367
Balance at end of current period	4,410	3,043
Total net assets		
Balance at beginning of current period	41,419	44,984
Dividends of surplus	△ 929	△ 1,093
Profit attributable to owners of parent	2,736	3,988
Purchase of treasury shares	△ 1,121	△ 357
Change of scope of consolidation	△ 6	△ 195
Net changes of items other than shareholders' equity	2,887	△ 3,493
Balance at end of current period	44,984	43,833

Consolidated Statements of Cash Flows

Daiken Corporation and Consolidated Subsidiaries
Years ended March 31, 2016 and 2015

(Millions of Yen)

	2015	2016
Cash flows from operating activities		
Profit before income taxes	1,373	6,875
Depreciation	4,093	4,068
Impairment loss	140	—
Amortization of bond issuance cost	33	31
Loss on retirement of non-current assets	401	441
Loss (gain) on sales of non-current assets	△ 10	△ 8
Loss (gain) on sales of investment securities	△ 5	△ 7
Loss on valuation of golf club memberships	5	—
Amortization of goodwill	75	719
Increase (decrease) in allowance for doubtful accounts	△ 70	△ 53
Increase (decrease) in provision for bonuses	△ 65	△ 112
Increase (decrease) in provision for product warranties	△ 1,627	625
Increase (decrease) in provision for business structure improvement	△ 4	—
Increase (decrease) in net defined benefit liability	△ 1,812	2,327
Interest and dividend income	△ 335	△ 383
Interest expenses	378	351
Foreign exchange losses (gains)	△ 100	219
Share of (profit) loss of entities accounted for using equity method	△ 41	△ 44
Insurance income	△ 1,000	△ 2,601
Decrease (increase) in notes and accounts receivable - trade	4,079	△ 4,814
Decrease (increase) in inventories	3,960	26
Increase (decrease) in notes and accounts payable - trade	△ 2,158	△ 907
Decrease (increase) in consumption taxes refund receivable	6	△ 65
Increase (decrease) in accrued consumption taxes	309	△ 210
Other, net	1,362	△ 2,591
Subtotal	8,987	3,887
Interest and dividend income received	335	383
Interest expenses paid	△ 381	△ 360
Income taxes paid	△ 642	△ 495
Proceeds from insurance income	1,000	2,601
Net cash provided by (used in) operating activities	9,299	6,016
Cash flows from investing activities		
Purchase of property, plant and equipment	△ 3,629	△ 5,453
Proceeds from sales of property, plant and equipment	40	10
Purchase of investment securities	△ 235	△ 191
Proceeds from sales and redemption of investment securities	382	518
Other, net	△ 630	△ 857
Net cash provided by (used in) investing activities	△ 4,072	△ 5,972
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△ 129	△ 966
Proceeds from issuance of bonds	393	4,958
Redemption of bonds	—	△ 5,000
Proceeds from long-term loans payable	2,600	1,500
Repayments of long-term loans payable	△ 3,318	△ 3,033
Repayments of finance lease obligations	△ 43	△ 43
Proceeds from share issuance to non-controlling shareholders	—	234
Purchase of treasury shares	△ 1,121	△ 357
Cash dividends paid	△ 929	△ 1,093
Dividends paid to non-controlling interests	△ 86	△ 42
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	△ 1,642
Net cash provided by (used in) financing activities	△ 2,635	△ 5,486
Effect of exchange rate change on cash and cash equivalents	74	△ 196
Net increase (decrease) in cash and cash equivalents	2,665	△ 5,640
Cash and cash equivalents at beginning of period	14,096	16,774
Increase in cash and cash equivalents from newly consolidated subsidiary	12	—
Cash and cash equivalents at end of period	16,774	11,134

Corporate Profile

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

Registered Head Office and Operational Locations

Registered Head Office

1-1, Inami, Nanto City, Toyama, Japan

Operational Headquarters

6-20, Dojima 1-chome, Kita-ku, Osaka, Japan

Tokyo Office

12-8, Sotokanda 3-chome, Chiyoda-ku, Tokyo, Japan

Major Sales Offices

Sapporo, Sendai, Tokyo, Kanazawa, Nagoya, Osaka, Hiroshima, Fukuoka and Singapore

Production Plants

Mie Plant (Tsu City, Mie Prefecture)

Inami Plant (Nanto City, Toyama Prefecture)

Okayama Plant (Minami-ku, Okayama City)

Takahagi Plant (Takahagi City, Ibaraki Prefecture)

Subsidiaries part of the Group

<In Japan>

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

<Overseas>

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

Directors and *Kansayaku* (as of June 24, 2016)



Masafumi Inoue Outside *Kansayaku* Mutsuhiro Shimada *Kansayaku* Koji Mizuno Outside Director Ken Suzuki Director Takashi Terubayashi Director Tatsuo Shibuya Representative Director, Senior Managing Director Ryoji Sawaki Director, Chairman of the Board

Stock Information

Stock Information (as of March 31, 2016)

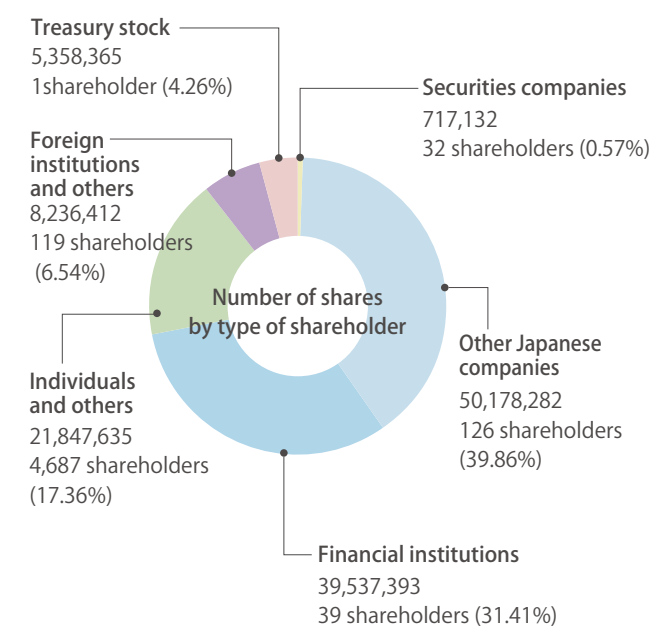
Total number of authorized shares 398,218,000
 Total number of shares issued 125,875,219
 Number of shareholders 5,004

Major shareholders (as of March 31, 2016)

Name	Number of shares	Ownership ratio (%)
ITOCHU Corporation	31,948,000	26.5
Sumitomo Mitsui Banking Corporation	4,934,903	4.1
Sumitomo Life Insurance Company	4,656,000	3.9
Daiken Corporation Trading-Partner Shareholding Association	3,529,000	2.9
Sumitomo Mitsui Trust Bank, Limited	3,440,000	2.9
Sumitomo Forestry Co., Ltd.	3,191,000	2.6
Japan Trustee Services Bank Ltd. (Trust Account)	3,118,000	2.6
Marubeni Corporation	2,821,942	2.3
Nippon Life Insurance Company	2,728,346	2.3
Mitsui Sumitomo Insurance Company, Limited	2,608,000	2.2

(Note) 1. Daiken Corporation is in possession of 5,358,365 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 (as of March 31, 2016)



Number of shares by type of shareholder



Masanori Okuda Representative Director, President Tomoaki Kato Representative Director, Senior Managing Director Tetsuo Harima Director Takashi Aihara Outside Director Kikuo Imamura *Kansayaku* Akio Hasunuma Outside *Kansayaku*