

Message from the President



Masanori Okuda
Representative Director,
President

Aiming to become an all-embracing company for building materials, the Daiken Group is up for the challenge for new markets and business sectors.

General overview of business results and key initiatives for fiscal 2017

Under the Medium-Term Management Plan, GP25 1st Stage, the Group embarked on new challenges in a variety of sectors.

While the house construction sector for fiscal 2017 lost momentum in the second half of the fiscal year, the rental-housing sector sustained strong performance. The owner-occupied houses, including built-for-sale houses, also maintained high-level growth. For the public and commercial buildings, private construction contracts, mainly lodging facilities and retained premises, increased steadily.

Under such business circumstances, our Group embarked on a three-year Medium-Term Management Plan, titled GP25 1st Stage, from 2016, with the goal of achieving the vision for 2025 as a first step toward realizing the long-term vision of GP25.

In the home renovation market, the Daiken Group opened two new showrooms jointly with TOTO Ltd., and YKK AP Inc., to expand the platform for showcasing products, as well as to improve the lineup of renovation products. In addition, the Group entry into the condominium renovation market.

In the public and commercial buildings market, we launched new products that highlight Daiken's strengths of

sound insulation and local Japanese wood, building a track record in the domestic market. As for global markets, the Group expanded distribution of MDF in North America and Southeast Asia. In addition, the interior door plant in Indonesia went into full operation as a supply system for the country and surrounding countries.

To further renew our efforts, Daiken began reviewing the comprehensive commercial use of wood building materials, encouraging the use of cascading. Additionally, the Okayama plant began full-scale operation of a wood biomass boiler, which uses wood chips as fuel. This reduces the environmental load and energy costs while increasing productivity.

Consequently, net sales for fiscal 2017 increased to ¥168,848 million (up 0.4% year-on-year), operating income was ¥8,515 million (up 52.4% year-on-year), and ordinary income was ¥9,021 million (up 70.8% year-on-year) with profit attributable to owners of the parent at ¥5,116 million (up 28.3% year-on-year). The Daiken Group achieved record net profits since consolidation.

Forecast for the market environment and financial results for fiscal 2018

The Daiken Group will capitalize on its unique technologies and expertise to expand profits with high-value added products.

The Japanese housing market in fiscal 2018 is expected to come to a temporary standstill because of the postponement of an increase in the consumption tax and ongoing low-interest mortgage rates, causing consumers no rush into home buying and renovations.

Based on these market environment, the Daiken Group will continue to inject corporate resources into the home renovation market, public and commercial buildings market, and the global markets, which are prioritized in the first stage of GP25. The Group will further promote

initiatives in each sector in order to strengthen management practices and not rely solely on housing starts. The task for the moment is to further promote streamlining and focus on sales of high-value added products by capitalizing on the Group's unique technologies and expertise to increase profits.

As for the forecast of financial results for fiscal 2018, we anticipate net sales of ¥173.0 billion, operating income of ¥8.7 billion, ordinary income of ¥9.2 billion, and the profit attributable to owners of the parent of ¥5.6 billion.

Medium-Term Policy and Strategy

The Daiken Group is transforming its business structure in preparation for decreased domestic housing starts in the future.

In the home renovation market and amidst the increased importance of stock homes, we aim to further strengthen comprehensive proposal services of eight showrooms across the country, which we jointly operate with our business partners, TOTO Ltd. and YKK AP Inc., in the renovation sector. In addition, we will

expand sales of new commercial products designed for easy renovation over existing flooring without nails and adhesive. By maximizing the synergy effect with Mansion Renovation Company, Daiken will develop laborsaving installation products.

In the public and commercial buildings market, Daiken will actively propose our uniquely developed, easy-to-maintain tatami mats with excellent durability to lodging facilities and Japanese restaurants to meet the expansion of domestic demand. For high-end hotels, we propose wooden floors with durability and excellent sound insulation developed to reduce footstep sounds.

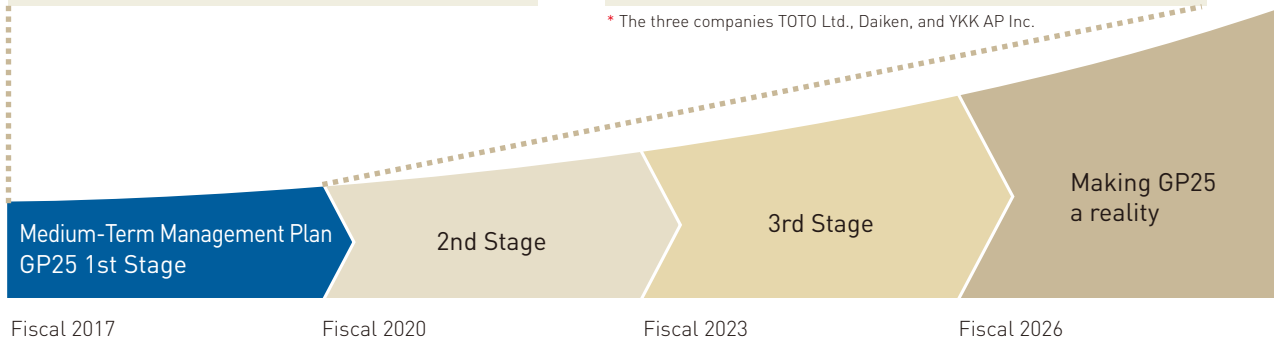
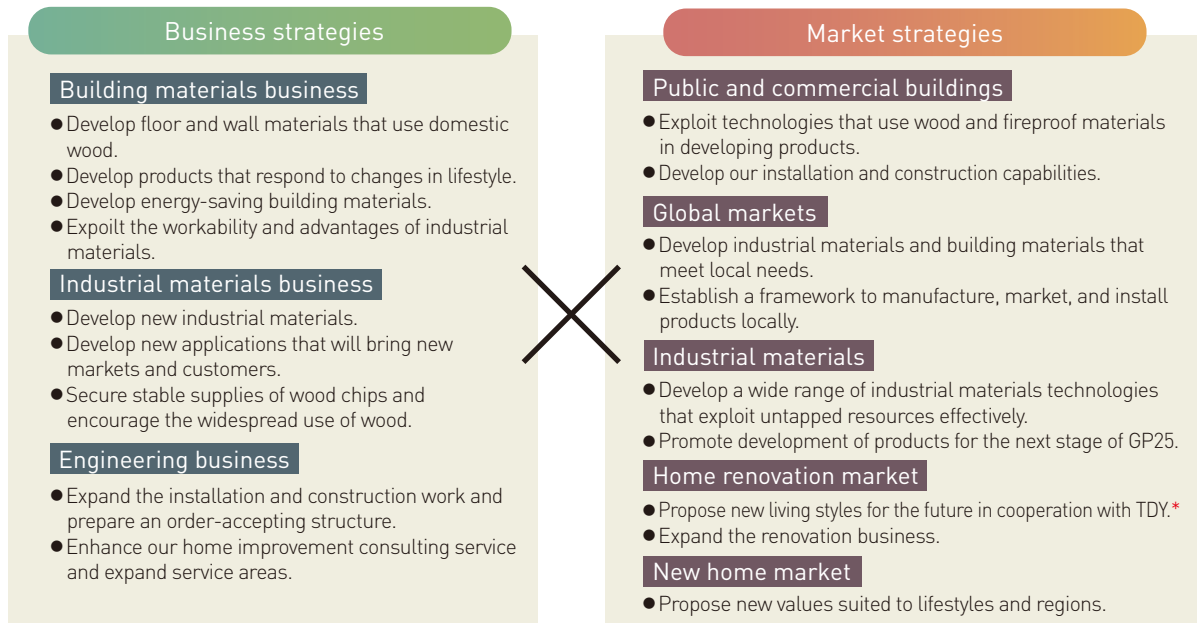
On the other hand, the Daiken Group will promote the use of local domestic wood as part of a national policy and propose the use of domestic wood to local governments to meet their needs. Daiken products made with local domestic wood have been widely introduced at Toyama Station on the Hokuriku Shinkansen Line and Kurobe-Unazuki Onsen Station, as well as libraries and schools in many areas. The application has been expanding across

Management goals of the Medium-Term Management Plan

(¥million)

	Fiscal 2017 (results)	Fiscal 2018 (forecast)	Fiscal 2019 GP25 1st Stage Final year
Sales	168,848	173,000	180,000
Net sales	8,515	8,700	7,000
Operating income	9,021	9,200	7,000
Profit attributable to owners of parent	5,116	5,600	4,300
ROE (%)	11.7%	—	8% or higher

Strategy of the Medium-Term Management Plan, GP25 1st Stage (for fiscal 2017-2019)





the country. The Group set up a supply structure for 29 prefectures with a plan for expansion into more locations.

For global markets, Daiken intends to expand the structure of local production and sales. For the Southeast Asian market with its ongoing economic progress, we will proceed with an expanded production and supply system at a fast pace to meet the needs for

both quantity and quality. For Indonesia, in particular, the installation and sales company established earlier will be enhanced by a Japanese quality production, sales, and installation system in its new interior door plant, which went into full operation in fiscal 2017, with the aim of expanding operations in the country.

Our approach and efforts in CSR

The Daiken Group will enhance its environmental efforts and focus on creating a fulfilling work environment.

The Daiken Group considers CSR as the foundation of business. For Daiken to continuously develop into a corporation supported by customers and society, it is essential to address CSR strategically by comprehensively capturing the aspects of ESG. Through efforts for the basic policy of ecology and qualitative improvement of spaces, Daiken is pledged to create common value with society. As part of the efforts to realize a sustainable society, Daiken is committed to products made from eco-friendly, ecological based materials designed for high-quality space from the viewpoint of consumers to meet social expectations and demand.

Daiken believes that the source of corporate growth is human resources. As part of its corporate responsibility, the basic policy of

the Medium-Term Management Plan includes the creation of a fulfilling work environment and the use of the skills of diverse human resources, including non-Japanese, women, and skilled employees. In particular, Daiken considers the change in workstyles an urgent issue. We will crystalize company-wide measures by centering on the company-wide workstyle change project. In addition, to reduce working hours, each employee needs to become more creative and skillful. To that end, the Daiken Group will grant self-improvement incentives to all employees with a summer bonus for fiscal 2018. Daiken will boost self-investment for each employee by encouraging personal growth for the future.

Message to stakeholders

Under the new group corporate philosophy, the Daiken Group is pledged to improving corporate value with employees as a whole.

The Daiken Group established its group corporate philosophy in April 2017.

With the advancement of globalization and diversifying human resources in recent years, the Daiken Group needs to share a common mission, vision, and values as a corporation to match the direction for further growth. We established the group corporate philosophy by evolving the management philosophy with the wish to making it a reality with all group employees. The Group Corporate philosophy consists of three elements of "Our Mission," "Our Vision," and "Our Values" to indicate the direction of

the Group in the future.

While our long-term vision GP25 is a milestone toward 2025, the group corporate philosophy anticipates the 100th anniversary, of its founding in 30 years later. The Daiken Group will remain an appreciated corporation that contributes to future happiness even after 30 years. Group employees are committed to working as one to make efforts that will result in sustainable improvements in corporate value. Daiken appreciates its stakeholders' continued understanding and support of the Group.

Representative Director, President